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ROLE OF CAPACITY BUILDING IN MICRO FINANCE – "A MODEL OF EFFECTIVE CAPACITY BUILDING"

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1. PRELUDE

Micro Finance has emerged as a very effective tool for alleviating poverty in the recent past. The concept of microfinance is basically lending money to poor or helping them some other way to help them start or establish a small business or to improve their living conditions. It includes micro loans, insurance, health cover etc. Micro Credit is the most common type of microfinance. It is a small loan given to poor to help them increase their income base. Microfinance is also used by poor people to come out of some other problems such as illness, expensive loans, unhygienic living conditions etc. There are various microfinance models[2] implemented in the world and day by day it is gaining popularity. Experts now consider it the most effective tool for poverty reduction or even poverty alleviation. It really became popular in the world after the success of Grameen Bank of Bangladesh model got enormous success. Dr. Muhammad Yunus, a noble laureate started it on a small scale but it developed very fast and thousands and thousands of families and individuals were benefited. Their lives changed and they became independent. The model was then highly appreciated and is followed by many others in the world with some variations. In Pakistan, the government and NGOs are using this tool quite effectively. International donors and local philanthropists are contributing towards the funds created for microfinance, although the contribution of international donors is very large but as this concept is becoming popular more philanthropists are also donating money to microfinance institutions.

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[2] Simple variations can change a model drastically, such as individual or group lending, lending only to women, lending to house holds, getting peer guarantees, providing personal guarantees etc

2. MICROFINANCE AS A POVERTY REDUCTION TOOL

The main idea behind microfinance is to give a small loan to a person and guide him to start a small business. The other forms of microfinance are its extension where the quality of life is somehow improved. In very small businesses the items sold are of very little value and are sold in very small quantity, so it is possible to get much higher price than the market. For example, it is possible to sell cigarettes in singles to people on resorts at much higher price than the usual shelf price, in Pakistan one cigarette that usually cost Re. 1 may be sold for Rs. 5. Mainly in micro businesses it is not only the fund that earns revenue it is also the skill and effort of an individual that makes the real profit. Such high profit margin businesses are only possible at micro level, so micro loans are very effective in increasing the income of poor people. The loans are very widely used by women to earn revenue and there is no infrastructure needed and also there are no overheads as they can work at home. This is one reason that most of the microfinance institutions have primarily targeted women. The other reason to give microfinance to women is that in countries like Pakistan women generally do household and do not participate in earnings for the house, microfinance helps them to take some time out and contribute in the total earnings of the family while fulfilling their other responsibilities.

The profit margins are adequate not only to improve the monthly income but also to repay the principal amount. A Microfinance Institution – MFI is one which is involved in providing microfinance. In case of some microfinance institutions interest rates are low and some cases rate are high but certainly not as high as that of professional money lenders (Banks and financial institutions are not considered as they do not give loans to poor who cannot give any security or collaterals). Some people who get caught in the vicious claw of professional money lenders use micro finance to pay off their expensive loans therefore they increase their monthly consumable income by paying much lesser amount of interest per month.

Microfinance in the form of health and medical insurance improves the living standard of poor by providing better living conditions. Microfinance can also be provided to a community to improve their sanitation, water and other living conditions.

3. MICRO FINANCE CAPACITY BUILDING

Microfinance Capacity Building process involves steps and measures taken by organizations and governments to improve the institutional capacity in terms of human resource and systems, which results into more effective microfinance operations in terms utilization of funds. Capacity building is actually to enhance the output of both i.e. the microfinance organizations and individual borrowers. It is very important not only to achieve the objective of poverty eradication but also to keep Microfinance Institutions – MFIs financially sustainable. Operational and financial both efficiencies are linked to capacity building.

4. AREAS OF MICROFINANCE CAPACITY BUILDING

- Training Employees in Areas of Work
- Designing and Developing Systems for Better and Improved Performance
- Educating People and Guiding them to make best use of Funds
- Improving Organizational Structures and Working Relationships
- Identification of Best Practices and Implementation of these Best Practices in other similar Organizations
- Technical Development
- Strategic Planning
- Demographic Studies and Analysis
- Accounting, Financial Management, Auditing and Appraisal processes
- Communication Skills and Research Methodologies, and

- Capacity Building of Borrowers

5. NEED OF CAPACITY BUILDING IN MICRO FINANCE

Microfinance has become popular in the recent past, particularly in countries where it is needed the most. The terms such as microfinance, microcredit and small loans are now very commonly used in many developing and underdeveloped countries. Government and Non-government Organizations – NGOs are using microfinance as an effective tool to alleviate poverty. Some people are of the opinion that microfinance has done wonders and has changed the lives of hundreds of thousands of families. On the contrary others have the view that microfinance has a lot more potential than what has been explored yet and this tool can be used much more effectively to achieve the desired result of poverty alleviation. Dr. Malcolm Harper[1], who is an international expert of microfinance and has written several books on microfinance including a book on what is wrong with micro finance, says that the best model of microfinance is probably yet to be developed. He himself is doing extensive research on the topic and has traveled in various parts of world including Pakistan to explore what we can call the best model and best practices. What is the best model is something debatable as the best model needs to be the most effective one and at the same time the most effective model has to be the most profitable model. As this area is new and has emerged in the East so it still requires more research. It is also true that one model, which is very effective at one place in one country may not be as successful in another country because of the cultural barriers, demographic hurdles, political setup etc. So we can say that there may not be one best model of microfinance most suitable for the whole world but best practices can be developed and followed considering the constraints in each area of operations. In this scenario what is more important is to find out the weaknesses and remove them to make every MFI successful, efficient and effective. In this regard the most important task is capacity building; capacity building of MFIs as well as of the borrowers.

[1] Harper has done a lot of research on microfinance particularly in India. To collect data for his recent book "What is wrong with microfinance" he visited Pakistan and studied Akhuwat, a microfinance institution. In one of his speeches he put forward this view.

Every organization involved in microfinance does not have the best, most suitable and perfectly trained personnel. Similarly every individual, group or family does not have the adequate skills, knowledge or even the potential to be an entrepreneur, hence many micro loans are wasted and the money is never returned and even if money is recovered the purpose is not fulfilled. This does not only reduce the fund base but also hurts the reputation of MFIs specifically and of microfinance in general. Therefore this instead of solving the problem creates even a greater one i.e. the borrowers then have to make their living and also have to arrange the repayment of loan, which actually did not contribute in their income generating capacity. The use of microfinance to alleviate poverty can only be effective if the borrowers are able to utilize their loans in a profitable manner and the profit is enough not only to pay back the interest and principal amount of loan but also to give them some extra income i.e. they are able to generate enough to pay back the loan as well as increase their earnings. This can be done by equipping the borrowers with the tools needed to effectively utilize the funds. This leads to the concept of capacity building of the lenders, supporters and borrowers. Some people do not have the temperament or the attitude to run a business and hence are not successful but those who fail due to inadequate skills are the ones who should be initially targeted. Lending money not to an individual but to a family also solves this problem to some extent as there is someone in the family who has the required aptitude and can be trained to operate a business profitably.

This article mainly focuses on the key areas where capacity building is required and it focuses on the training, education, development of systems and controls that can bring significant change in the performance of microfinance.

6. CAPACITY BUILDING NEED ASSESSMENT - CBNA

Capacity Building Need Assessment – CBNA is a process of finding out the areas of weakness and the areas where people need to be trained, systems need to be developed and controls need to be exercised. CBNA when applied to microfinance covers the training of people and development of all those areas, which are important for the effective and more efficient use of funds available to microfinance institutions. A need assessment always proves fruitful for better utilization of funds.

7. EACEFC – MODEL OF EFFECTIVE CAPACITY BUILDING[1]

EACEFC model is developed by the author keeping in mind the requirements of microfinance and the most important point that the prime objective is to benefit the poor. This capacity building model is a six step model in which only the last is related to the borrowers and the first five are related to MFIs. It is certainly very important for every MFI to be equipped with all necessary tools and manpower needed to make microfinance effective before they go into operations. Those who are not fully equipped need to follow this as early as possible so that the effectiveness can be increased. The following are the areas of capacity building in this model:

1. Evaluation of current performance
    a. Asset Utilization Ration
    b. Benefit Ratio
    c. Cost of Lending Ratio
    d. Rate of Interest Ratio
    e. Asset Base Ratio
    f. Equity Competence Ratio
    g. Self Reliance Ratio
    h. Recovery Rate
    i. Liquidity Ratio
    j. Social Effectiveness Ratio
    k. Economic Effectiveness

[1] This is new model developed by the author to have effective capacity building in microfinance

2. Assessment of need of capacity building
    a. Training
    b. Systems Development
    c. Resource Requirement
    d. Resource Allocation
    e. Implementation
3. Capacity building
    a. Training
    b. Systems Development
    c. Resource Requirement
    d. Resource Allocation
    e. Implementation
4. Evaluation of performance after capacity building
    a. Asset Utilization Ration
    b. Benefit Ratio
    c. Cost of Lending Ratio
    d. Rate of Interest Ratio
    e. Asset Base Ratio
    f. Equity Competence Ratio
    g. Self Reliance Ratio
    h. Recovery Rate
    i. Liquidity Ratio
    j. Social Effectiveness Ratio
    k. Economic Effectiveness

5. Feedback and determination of loop holes
6. Capacity building of borrowers
    a. Skills needed
    b. Identification of projects
    c. Demographic factors
    d. Systems development

7.1. Evaluation of current performance

To evaluate the performance of MFIs following ratios are developed. These ratios are helpful to find out the performance of MFIs in various areas of operations. Ratio analysis is effective we it is comparative i.e. several years' ratios are compared to see the trends of improvement or deterioration. On the basis of improving or declining trends decision can be made regarding the steps to be taken to improve the performance.

7.1.1. Asset utilization ratio.

$$\frac{\text{Amount given as loan}}{\text{Total assets}}$$

Asset Utilization Ratio will help to determine the percentage of total assets effectively utilized in microfinance. More is this ratio, the better is the performance. This ratio will always be less than one as some part of the assets will be used for operations of MFIs. Closer is this ratio to "One" better it is in terms of effective utilization of funds. To achieve a high ratio MFIs need to operate with minimum operating cost and infrastructure. In this regard in Pakistan Akhuwat[1] is a role model, which has reduced its operating cost to about 7%. Benchmarking can be done for this ratio in a country, or areas of similar nature, to compare the performance of individual MFIs.

7.1.2. Benefit ratio.

$$\frac{\text{Total Number of Poor}}{\text{Total Number of Loans}}$$

[1] Akhuwat is microfinance NGO which has set new trends in microfinance and has proved many of the generally accepted norms of microfinance wrong. This is a rapidly growing and effective organization.

or

$$\frac{\text{Actual Amount of Microfinance}}{\text{Total Micro Finance Required}}$$

Benefit Ratio analysis will help to find out the beneficiaries of microfinance in terms of number of people and in terms of amount i.e. the total dollar value or loans. It is important for the reason of international comparison that when we look at the loans given by NGOs in Pakistan the beneficiaries are about 45% in terms of numbers but in terms of amount lent out it is only 8.5%. The effectiveness and the scope both can be seen through these ratios. We may say the first ratio is Number of People Benefit Ratio and the second form is Amount Benefit Ratio.

7.1.3. Cost of iending Ratio.

$$\frac{\text{Operating Cost}}{\text{Amount Lent}}$$

or

$$\frac{\text{Operating Cost} + \text{Financial Cost}}{\text{Amount Lent}}$$

In microfinance institutions the pool of funds is made from donations and loans. Donations have no cost but loans have interest. This pool of money is then turned over to benefit a large number of people. Every time when it is turned over i.e. when loan is given it requires processing and there is a cost attached to it called the processing cost or service cost. This cost will also include the financial cost i.e. interest cost if any amount in the pool is borrowed. If money will be lent at zero percent interest rate, these borrowing and service costs of MFIs will reduce the fund pool by the percentage with which these costs are incurred. Therefore it becomes essential for a MFI to charge at least that much of interest which will make up the decrease in the pool of money.

Now the important point is that if the cost of processing or the cost of borrowing of a MFI is high the micro credit will be very expensive and the poor will have to find such businesses where the margin of profit is very high. A good MFI should try to make up the pool not from loans but from donations and financial support. This should be from the society and it is at zero cost. MFIs, at the same time, try to keep its processing cost at minimum. In this way just by charging the processing cost from the borrower they will be able to effectively operate microfinance operations. In other words it is true that microfinance can be most effective if MFIs are developed in each area by the community and funds are provided through the community participation with no cost of borrowing.

Cost of Lending Ratio is helpful to find out the cost of lending money and this cost can be used as the benchmark for charging interest on micro loans. If the cost of lending i.e. inclusive of the financial cost of funds is equal to the interest rate charged the MFI will be sustainable.

7.1.4. Rate of interest ratio.

$$\frac{\text{Interest Earned}}{\text{Amount Lent}}$$

Rate of Interest Ratio is related to the interest charged from the borrower of micro loans. This interest rate should match the cost of funds and the operating expenses of MFIs. In Pakistan as per the USAID Report[1] very low interest is charged and the difference between the cost of lending money inclusive of financial cost and the interest rate is about 18% i.e. interest charged to borrowers is 18% less than the sum of cost of funds and service cost. This ratio can be used by MFIs to have a comparison with the "Cost of Lending Ratio" in order to check the performance of MFIs in terms of microfinance utilization.

7.1.5. Asset Base Ratio.

$$\frac{\text{Current Value of Total Assets}}{\text{Last Year's Value of Total Assets}}$$

The last two ratios, discussed above, actually assess the change in the asset base of MFIs i.e. if lending cost is more than the interest rate charged the asset base will reduce. Asset Base Ratio shows that whether the asset base is increasing or not. Important point is that the change in the asset base ratio may be due to the injection of additional funds so it is important to see the element of external financing in the last year and previous years to check the operational performance of an MFI in terms of lending cost and interest income. To

[1] USAID Report of 2005

eliminate the element of external financing and to check the pure effect of lending cost and interest income the ratio can be used with the following variation:

$$\frac{\text{Current Value of Total Assets} - \text{External Financing in last Year}}{\text{Last Year's Value of Total Assets}}$$

(The second version of this ratio is Asset Base Ratio without effect of external financing)

7.1.6. Equity Competence Ratio.

$$\frac{\text{Capital (Equity)}}{\text{Total Assets}}$$

Equity Competence Ratio tells us that what is the amount of funds available to a company, which are neither returnable nor have any financing cost. These are the funds if circulated at the rate of operating cost a MFI remains sustainable to the extent of these funds. This ratio can have a maximum value of one in case a MFI has no debt. In the presence of any debt this ratio will be less than one. The percentage less than one will determine the debt component in the MFI and this is the component of total assets which has a cost of borrowing. The cost of borrowing actually increases the requirement of profitability as interest is to be paid to the lenders on the amount borrowed. In an ideal situation a MFI may have this ratio equal to "one" if all additions in the fund base are in the form of equity. This ratio is also important for MFIs working in strict monetary framework, where they are not allowed to let their equity go below a certain level.

A good level of this ratio may be obtained by considering the overall profitability and the cost of borrowing. In order to check the sustainability of a MFI the following formula is developed:

AAK – Capital Structure Model for MFIs[1]

The formula gives us the maximum amount of debt with which an MFI will remain sustainable.

[1] This is a unique formula developed by the author to determine the sustainable amount of debt.

(Amount of Debt x Rate of Debt) – (Amount of Debt x Rate of Profit) = (Equity x Rate of Profit) – (Equity x Rate of Operating Cost)[1]

7.1.7. Self reliance ratio.

$$\frac{\text{NInterest Income}}{\text{Operating Expenses}}$$

Self Reliance Ratio actually shows the cover that a MFI has to meet its operating expenses. The regular recurring income of a micro finance lending institution is the interest or the return from the borrowers. This is not only used to cover the operating expenses but also to meet the cost of funds. The cost of funds for NGOs and small MFIs is not very low and so they need to have sufficient income to meet both. If "Total Expenses" include both operating cost and cost of funds then to keep the asset base i.e. the fund base at the existing level this ratio has to be one. If it is more than one the asset base will start increasing and if it falls short of one the difference will be the percentage with which the asset base will reduce in that year. If it is consistently less than one ratio, say 0.8 than it means that unless funds are externally provided this MFI will have zero fund-base after five year. Less than one ratio, even if the funds are externally generated is not suitable as it raises the issue of sustainability.

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[1] Amount of Debt	?
Rate of Debt (Cost of Borrowing)	30%
Rate of Profit (Profitability of MFI)	20%
Equity of MFI	$ 100,000
Percentage of Operating Cost (percentage of Equity)	10%

(? x 30%) – (? X 20%) = (100,000 x 20%) – (100,000 x 10%)
? (30% - 20%) = 20,000 – 10,000
? (10%) = 10,000
? = 10,000 / 10%
? = 100,000
So the maximum amount of debt this MFI can have to be sustainable is $100,000. If the amount of debt will exceed $100,000 it will start loosing its equity and its fund base will be reduced. If we change the values let us see that what comes out to be the amount of maximum debt a MFI can have. The following is the data:

Amount of Debt	?
Rate of Debt (Cost of Borrowing)	18%
Rate of Profit (Profitability of MFI)	11%
Equity of MFI	$ 200,000
Percentage of Operating Cost (percentage of Equity)	16%

(? x 18%) – (? X 11%) = (200,000 x 11%) – (100,000 x 16%)
? (18% - 11%) = 22,000 – 16,000
? (7%) = 6,000
? = 6,000 / 7%
? = 85,714
Hence the maximum amount of debt is $85,714

The cost of additional funds will further increase the total expenses and so even in future the MFI will not be sustainable.

7.1.8. Recovery rate. Bad loans are at the minimum level in microfinance institutions as the borrowers are easily accessible and are not very influential. The percentage of collection in many cases is above 95%. It means very little percentage of micro loans forwarded by MFIs is lost due to non payment or as bad debts. Although the percentage of bad debts is very low even then it is a part of the cost of operations and is to be covered by the revenues generated. To find out the rate with which bad debts reduce the asset base of MFIs is checked with Delinquency Ratios.[1]

$$\text{Loan Outstanding Ratio} = \frac{\text{Outstanding Balance of Micro Loans}}{\text{Initial Amounts of Current Micro Loans}}$$

$$\text{Loan Recovered Ratio} = \frac{\text{Recovered Amount of Micro Loans (current loans)}}{\text{Initial Amounts of Current Micro Loans}}$$

$$\text{Bad Loans Rati} = \frac{\text{Recoverable Amount} - \text{Recovered Amount}}{\text{Amount of Micro Loans}}$$

7.1.9. Liquidity ratio.

$$\frac{\text{NLiquid assets}}{\text{Total Assets}}$$

For the smooth operations of every organization it is very important that liquid funds are adequately available. A microfinance organization has its main objective of helping the poor so at any given time maximum amount should be with the borrowers and is used for the fulfillment of the objective. As the lending procedure takes some time and so is the screening process therefore funds are always left with MFIs i.e. the undistributed funds. This is also due to the regular repayment of loan installments. Good liquidity management leads to only required amount of liquid assets in hand and not more than that as the unused funds improve

[1] Initial Amount of Current Micro Loans $ 500,000
Outstanding Balance of Micro Loans $ 280,000
Recovered Amount of Micro Loans (Current Loans) $ 210,000
Recoverable Amount of Micro Loans $ 220,000
Loan Outstanding Ratio = 280,000 / 500,000 = 56%
Loan Recovered Ratio = 210,000 / 500,000 = 42%
Bad Loans Ratio = 220,000 – 210,000 / 500,000 = 2%

the liquidity by reducing the profitability. The unused funds do not get any return to a MFI and so the earnings of the organization are affected.

7.1.10. Social effectiveness ratio.

$$\frac{\text{Number of Persons Using Microfinance}}{\text{Total Number of Poor in the Community}}$$

Social Effectiveness Ratio is developed to find out the effectiveness of microfinance program in a community. On the basis of the results of this ratio awareness campaigns can be launched to make poor people understand the utility and effectiveness of microfinance. A data base needs to be developed regarding the income of people living in the community, which can be helpful to draw a more realistic poverty line.

7.1.11. Economic effectiveness ratio.

$$\frac{\text{Average per Person Income of Micro Loan Borrowers}}{\text{Average per Person Income of Poor}}$$

Economic Effectiveness Ratio is developed to see the economic growth of an individual or a family using microfinance. This ratio tells us the economic effectiveness of microfinance in a community. If this ratio is more than one it can be said that microfinance's effectiveness is established. The excess value of this ratio that is more than one will be the extra income of micro finance users in percentage.

7.2. Assessment of Need of Capacity Building

The process related to Assessment of Need of Capacity Building is essential to utilize the available resources for capacity building. The areas of deficiency can be highlighted and most effective utilization can be done. The need assessment can indicate the human or system deficiencies, which can then be tackled accordingly. The people involved in the Capacity Building Need Analysis should keep the best practices[1] in mind as well as the

[1] The best practices are related to the following areas and are in the process of development:

- legal form an purpose
- Ownership
- Control by owners
- Minimum capital
- Capital adequacy

demographic limitations and trends. This need analysis gives a time frame over which capacity building should be done. Need assessment does not only save time but also saves cost. The following are the areas where need analysis should be done for capacity building.

7.2.1. Training

Employees of MFIs are generally hired like any other organization i.e. by considering the qualification, skills, experience etc. Even after considering all these factors it is seen that there are some deficiencies that remain and with the passage of time some improvements are required. These improvements may be due to changing trends or new research and development in the area of operations or change in the lifestyles. Microfinance is a new concept and a lot of research work is going on in the world and best practices are in the process of development. Therefore it is extremely important for the staff of MFIs to abreast themselves with these new developments to make their MFIs more effective and efficient.

In this regard learning modules can be developed for the staff considering their area of work. These trainings may be related to Accounting, Auditing, Marketing, Administration, Financial Management, Research and Development etc. Research work needs to be done with respect to specific areas of MFIs to pinpoint the type of training that is most appropriate and when it is needed.

7.2.2. Systems development

The process of developing systems is time consuming but very important. As most of the MFIs work in underdeveloped countries where systems are weak or do not exist, so the

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- Credit concentration
- Permitted operations
- Distribution of dividends

Best practices related to supervising MFIs are as under:

- Organization of supervisory agency
- Role of microfinance specialists
- Licensing of MFIs
- Off-site supervision
- On-site supervision
- Sanctions
- Accounting standards

task practically becomes very important and time consuming. Another factor is to make the MFIs' management realize the importance of having good and effective systems. Proper systems do not only save time but also reduce cost as the work is completed in relatively lesser time. Systems also lead to proper and improved control on the various operations of MFIs. This leads to transparency and good governance.

Systems can be developed in all the areas of operations starting from funds arrangement to final lending of funds to the poor. Proper accounting system and good internal auditing system are essential to see the true picture of MFIs' operational performance and to see its financial position. Management Information Systems – MIS, which are now termed as Enterprise Resource Planning – ERP need to be effectively in place as good and timely decision making is totally dependent on it. Systems also need to be developed for the purpose of screening, processing and disbursement of micro loans and other microfinance facilities.

Need assessment is essential with respect to every MFI regarding the development or improvement of systems in place. Efforts should first be made to evaluate the systems in practice before designing new systems or suggesting any improvement in the current systems.

7.2.3. Resource requirement – ***assessing resource requirement and arranging resources.*** Assessing Resource Requirement is a regular process and it continues as one of the operations of MFIs. Arranging resources and effectively managing them is what is the key to a MFI's success. Special qualifications and then training is needed in the area of finance to handle these tasks. Need analysis in this area would identify that how many persons in the staff have related qualifications and are equipped with the tools used in the area of operations and what training or systems development will be needed in the future.

The pertinent issues are the following:

1. Identification of amount of funds
2. The time period for which funds are needed
3. Identification of the most suitable source of funds

4. Calculation of cost of funds
5. The cost to arranging funds
6. Comparison of cost of funds and interest income rate

7.2.4. Resource allocation. Effectiveness of microfinance is very much dependent on the allocation of the funds available. If funds are misused or given to those who do not qualify to obtain these loans then the task of poverty alleviation will not be accomplished. The screening process should be transparent and convenient for two reasons i.e. on one hand it is proper utilization of funds and second is refraining staff from being biased. Capacity building in this area will be useful to ensure that the money is going to the right persons and that it will be returned. In this area the process of analyzing every applicant is developed and actual procedure is compared with the best practice to improve the performance.

7.2.5. Implementation. The need of capacity building in the implementation process is assessed through the analysis of jobs to be executed. When procedures are finalized all detailed tasks are highlighted and jobs are specifically assigned. Some of the tasks are technical in nature and require training, whereas some tasks simply require repetitive performance to learn the steps involved.

7.3. Capacity Building

Actual process of capacity building starts once the need of capacity building is properly assessed. The whole program including the staff needed, experts required, cost of capacity building, infrastructure required and time duration of the whole process all is then finalized. This process can also be phased out as at times it is not possible to spend more than a certain level of time and resources on capacity building. All five steps which are discussed in the need analysis of capacity building are followed here and the job is actually executed.

7.4. Evaluation of Performance after Capacity Building

Once the capacity building is completed or a phase of the process is completed we go through the evaluation process once again and try to find out the areas of improvement by using the ratios and other tools discussed in the first part of this process.

The performance can be measured and the change can be quantitatively measured i.e. by comparing the indicated ratio at the start with the results once the capacity building is done. Benchmarks can be set to see the improvement in the performance of an MFI i.e. whether the desired results are achieved or not. These benchmarks can be set for a region or for a group of MFIs considering the state of affairs and the level of capacity building.

7.5. Feedback and Determination of Loop Holes

In every process feedback is extremely important as it helps us to find out the shortcomings of a program. Capacity building in the process of collecting feedback from various tiers of an organization is essential as the feed back process may be misleading and organizations may change their policies and strategies on the basis of this information. Informal feed back may also be used but the element of bias and exaggeration can not be ignored in it. A formal and continuous feed back system is what needs to be implemented. Questionnaires, structured interviews, surveys, focus groups or other similar techniques can be used to obtain feed back from the people working in MFIs and people who are some how related to those MFIs. A good feed back should be transparent and unbiased. To confirm the authenticity of feed back, information from various sources can be matched. Cross matching of information from various sources at different levels generally proves the authenticity.

The scenario that develops when some policies are implemented at times can not be foreseen. In this regard the practical problems faced by many people who are the borrowers of funds are discovered and with the help of proper feed back system can be pinpointed and ultimately eliminated.

7.6. Capacity Building of Borrowers

Along with the capacity building of MFIs capacity building of borrowers is equally important. The success of any microfinance program is dependent on the success of borrowers. More are the successful borrowers more is the return of MFIs. Therefore it is essential that users of microfinance are provided adequate training and guidance to effectively utilize microfinance. Some of the areas where capacity building is important and is likely to enhance the success rate of borrowers are discussed here.

7.6.1. Skills needed. To perform every business some skills are essential and to acquire those skills some training is vital. In case of capacity building of borrowers at the first step, in every geographic area where microfinance is to be provided, survey should be done to find out the most profitable micro businesses. People of the geographic area who borrow money should be educated to learn the potential businesses and trained to opt those businesses, which are more profitable. Trainers can be hired from the practical world, who may be paid-trainers or volunteers.

To perform micro businesses people need to have some marketing and administrative skills. In addition to this they also need to have a basic understanding of managing the small amount that they borrow so that they know the cost and the revenue and the amount of profit they make every month. This should be the starting point of any capacity building process for the microfinance borrowers.

7.6.2. Identification of projects. All businesses are not possible at micro level. There are a few businesses that can be done with a small amount of money. In these businesses all are not that profitable i.e. sufficient profit can not be earned to meet the interest charges, repayment of loan and profit for the borrowers themselves. Therefore it is enormously important to identify those businesses which are possible with a micro loan and are profitable enough. A part of this job is done by MFIs who after surveys and other methods identify such businesses for the people but the borrowers are also to be educated and trained to opt for those businesses and do them successfully in a particular area or region.

7.6.3. Demographic factors. Identification and selection of projects according to the profitability is something that is very much affected by the demographic factors. Capacity building is important to understand the limitations and opportunities of a particular area. This should to be done at both ends i.e. MFIs and borrowers. Religious matters, cultural barriers, social hurdles etc are the issues which may lead to success or failure of any microfinance project.

7.6.4. Systems development. Although it is not possible to have proper systems in a micro business but still it is imperative that some set of rules are applied and the people doing these businesses are educated regarding these rules. This will not only help them manage their businesses in a proper manner but will also help the MFIs to deal with them in an efficient manner.

CONCLUSION

Capacity building is certainly necessary for the sustainability of any microfinance institution but what is important is to see the level enhancement with every attempt of capacity building. The tool which is developed here is likely to provide a good measure to evaluate a microfinance institution before and after any attempt of capacity building.

In my humble opinion this model is applicable to all microfinance institution working in any part of world. It will be the practical application of this model that will determine its applicability in different environments.

It is actually better utilization of funds and assets, which can make microfinance more and more useful. A comparison with the past and with each other is an excellent method to see the progress. In this article an attempt is made to make this comparison more scientific and useful for the microfinance providers. Microfinance Institutions will be able to judge themselves in the areas of contribution in society, they will be able to find out the what more needs to be done and at the micro level in their own institutions what are the areas of improvement and what change this improvement in the areas of weakness in a MFI will bring.

The EACEFC model is an attempt to analyze, improve and set benchmarks for those who are in the field of microfinance. If applied properly it will prove to be an effective tool of performance measurement.

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