CHANGING DYNAMICS IN MICROFINANCE AND ITS IMPACT ON GLOBAL FINANCIAL INCLUSION

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Why Microfinance?

The Global Financial Development Report of the World Bank on financial inclusion states that the global financial inclusion is only around 50% of the adult population of the world . The financial inclusion is the percentage of people in the world or in a particular country who have access to financial services from the formal financial sector. According to this report nearly 50% of the adult world population does not have a relationship with a formal financial institution or they do not have an account with a financial institution. This means that half of the world population is excluded from any kind of financial services from the formal financial sector. Poverty is the main reason that prevents poor people from accessing financial services from the formal financial sector. One of the challenges faced by bankers today is to increase the global banking outreach by bringing in this huge number of unbanked people under financial inclusion. The future growth and the expansion of the banking industry will depend on the ability of financial institutions to bring the unbanked into financial inclusion. Accessing financial services is essential to improve the income generating capacities of the poor and without some level of income the poor could not access finance from banks. As such the poor is caught in a vicious cycle. Almost half of the world population amounting to around 3.5 bn people live below the poverty line of less than US$ 2.50 per day. The situation is worst in Asia and Pacific and Sub -Saharan Africa .

The governments of developing countries and other global development agencies tried several instruments such as land reform, labour reform and social welfare programs to remedy the world poverty and help poor people to work their way out of poverty without much success. The breakthrough came in 1970s in the form of microfinance. The term " microfinance" refers to a range of financial services for the poor that support income generating business activities, build assets, stabilize consumption and protect against certain risks. These services include microcredit, savings, insurance, money transfers and counseling. Several types of players are engaged in the provision of microfinance . These microfinance players include government owned microfinance programs, government owned Micro Banks , privately owned Microfinance Institutions (MFIs), Non-Government Organizations (NGOs),Village Banking/Self

Help Groups(SHGs), Credit Unions and Co-operatives. MFIs owned by private parties are the main player among these microfinance service providers. Microcredit is the main activity of any provider of microfinance services generating over 80% of their operational income and accounting for more than 95% of their assets. Microcredit are loans used to set up or to grow micro businesses. The most effective way of bringing this huge number of people excluded from the "financial inclusion" is to get them involved in microfinance. A wide variety of institutional types and business models are engaged in providing microfinance services to the unbanked. Microfinance, particularly microcredit, became an internationally accepted economic tool to help poor to work their way out of poverty. Through microfinance, it is believed that global banking outreach could be expanded. During the last two decades, the world witnessed a rapid increase in the global banking outreach and also a reduction in the global poverty attributed mainly to microfinance. This increasing trend in the global banking outreach experienced a setback during the last few years of the first decade of the 21st century. This changing dynamics in the microfinance sector will have far reaching repercussions on the overall banking sector and on the global banking outreach.

Transformation of MFIs

The pioneering practitioners of microfinance created the sector with the only aspiration of improving the lives of the poor. The main objective of the pioneers of the microfinance sector was social and not business. In the early stage of microfinance most MFIs were non-profit NGOs and the funding for their operations was sourced through donations, grants and subsidized loans from respective governments, international development agencies and social investors. The early practitioners work towards a single bottom line represented by the achievement of social goals such as breadth of outreach and depth of outreach. The usage of private commercial money envisaging a return was almost non-existent. During the1980s and 1990s the sector grew very fast and the number of MFIs in operation increased tremendously. The sector required additional funding but the supply of funds from the traditional sources such as grants, donations and subsidized loans from governments and international development agencies was limited and this created a huge gap between the demand for funds by MFIs to facilitate their rapid growth and the supply of funds from the traditional sources. This gradually compelled MFIs to resort to funds from the private sector in the form of loans and equity. The high growth, low delinquency, steady profits resulting from strong margins, high return on equity and scalability have made MFIs attractive to domestic and international private individual and institutional investors. With this change in the sources of funds, the form of MFIs changed gradually from non-profit NGOs to for-profit companies. With this change in the ownership and the form, the MFIs were compelled to seek a financial return to the providers of capital and owners of MFIs . MFIs were compelled to work towards not only the social bottom line but also towards the financial bottom line which is known as "double bottom line" approach. For some time, it seemed that microfinance could accomplish social and financial goals simultaneously and without frictions. The number of people gaining access to services offered by MFIs, particularly microcredit, increased steadily with a large number of for- profit privately owned MFIs coming in to the scene and MFIs became increasingly commercialized. Some providers of funds to MFIs and private owners of MFIs started gradually to view microfinance primarily as an investment opportunity with reducing poverty as a secondary goal. The mission drift was very visible and financial bottom line became the primary goal for many privately owned MFIs, At present a major share of the microfinance market is dominated by for-profit privately owned MFIs. Most of these MFIs are gradually ignoring the social bottom line and concentrating more on the financial bottom line. The changing dynamics in the microfinance sector will have an adverse impact on the whole banking sector and the global banking outreach. Increasing the global banking outreach is one of the strong challenges faced by banks in the developing world where the majority of poor live.

"Irresponsible finance" by MFIs

The emergence and the rapid growth of the for-profit MFIs have spurred the overall growth of the industry. However, this success created a crisis situation in the industry in many countries as this pro-profit model led to a MFI mission drift with a shareholder/investor focus overshadowing poverty eradication focus. Private sector investors always attempt to maximize profits and this is applicable even to the privately owned MFIs. Shareholders of privately owned MFIs in India and Latin America walked away with billions of Rupees or Dollars or Pesos made through Initial Public Offerings (IPOs) of MFIs which were making super profits at the cost of poor borrowers.. Good examples are huge amounts of money made by the promoters of MFIs through IPOs in India (SKS Microfinance in 2010) and in Mexico (Compartamos in 2007)). These IPOs sparked hyper commercialization of MFIs creating a crisis situation in the industry which resulted in a public outcry against microfinance. The crisis situation which was visible in many countries in South Asia and Latin America arose due to the fact that these for-profit MFIs in search of high profits have forsaken their social mission in order to quickly increase their clientele among poor borrowers. During the process of increasing their clientele and the lending portfolios they had followed aggressive and sometimes unethical methods to acquire new clients and new loans leading poor households to over-indebtedness. When over-indebted borrowers were finding it difficult to service loans forced on them, MFIs used abusive and coercive collection practices. Some MFIs in their search for higher profits adopted some of the following (and many other) unhealthy and unethical practices:

- Multiple loans to clients of other MFIs
- Ghost borrowers
- "Ever-greening" of loans
- Inflated loans and unnecessary top-ups to its own clients
- Poaching in to others' territories
- Making borrowers over indebted beyond their capacity to repay
- Charging of very high rates of interest and lack of transparency in pricing
- Hidden charges without disclosing to clients
- Outsourcing some activities to third parties effecting lender borrower relationship

- Abusive debt collection

Due to the adoption of aggressive and unethical methods to grow their lending portfolios expecting super profits and the use of abusive and coercive methods in loan recoveries a crisis situation arose in India in 2010. India is the largest microfinance market in the world with nearly 450 million poor. This crisis had adverse implications on the entire microfinance market in India as well as global microfinance market. The Indian crisis started in Andra Pradesh where some borrowers were compelled to commit suicide due to their inability to service loans which were forced on them by target driven loan officers and also due to abusive collection methods used by MFIs. The sensational news paper reports on these suicides created a public outcry against microfinance in India. The politicians and the Reserve Bank of India (RBI) had to intervene. Some politicians urged microfinance borrowers not to repay loans and with that the whole microfinance industry in India was faced with very high level of defaults. The RBI appointed a committee headed by Mr Y. H. Malegam (a deputy governor of RBI) ' to come up with recommendations to remedy the crisis situation. The committee came up with recommendations to prevent MFIs undertaking irresponsible finance and to compel them to engage in responsible finance.

According to Word Bank statistics nearly 23% of the population in Sri Lanka live below the poverty line of US$ 2.50 per day and that around 32% of the adult population is excluded from the formal financial sector. This means that 32% of the adult population has no access to financial services from the formal banking sector. The financial exclusion in Sri Lanka is relatively low , although the number is substantial when compared with other countries in South Asia. The percentage of the population excluded from the formal financial sector is 65% in India and 60% in Bangladesh. The MFIs play an important and effective role in bringing financially excluded people under financial inclusion. One of the challenges faced by banks in Sri Lanka today is to bring this unbanked huge number under financial inclusion. Any crisis in the microfinance sector will adversely affect the process of increasing financial inclusion. The crisis in Andra Pradesh adversely affected financial inclusion in India and the Reserve Bank of India (RBI) had to intervene to remedy the crisis faced by the sector. The MFIs and the government owned microfinance programs like Samurdhi played an important role in improving financial inclusion in Sri Lanka during the last two decades. However, the change in the objectives of MFIs and drifting away from social goals and becoming more profit oriented has created signs of a crisis situation in Sri Lanka, similar to the situation that prevailed in India during 2010-2011. These signs are more visible in the Northern and Eastern Provinces where several MFIs are highly active . Over indebtedness of borrowers in these areas has become a problem and this trend appears to be spreading to other areas in Sri Lanka.

Most privately owned MFIs in Sri Lanka have become hyper commercialized and owners are divesting part of their shareholding in these MFIs with massive profits. Borrowers who became victims of the hyper commercialization of MFIs are complaining to the relevant authorities. Like in Andra Pradesh ,some borrowers in the Northern Province have committed suicide. The victims have made representations to the President and the Governor of the Central Bank and they have commented on this unhealthy situation sympathetically. They have also indicated the need for remedial action. A senior Minister in the Government was talking about a "microfinance mafia". The changing dynamics in the microfinance sector which has been contributing immensely towards increasing financial inclusion, will have an adverse impact on the overall banking sector. The irresponsible behaviour of some MFIs and other providers of microfinance services and their attempts to make super profits capitalizing on the misery of poor microfinance customers have compelled relevant authorities to introduce legislation to regulate MFIs. These Regulations were introduced in June 2017 and the Central Bank of Sri Lanka is taking steps to regulate MFIs. We are yet to see how these regulations would compel the irresponsible MFIs to be responsible financiers.

Need for responsible Finance

This "irresponsible finance" by MFIs threatens the very survival of the microfinance industry in countries like India, home for nearly 450 million poor people, the potential market segment for MFIs. There was a strong need to safeguard the industry taking corrective measures and all stakeholders of the industry started discussion about "responsible finance". What is "responsible finance" in microfinance?. Consultative Group to Assist the Poor (CGAP) of the World Bank Group which is the apex body for policy making for microfinance industry in its Focus Note 73 on "Responsible Finance" published in September 2011 defines responsible finance as follows:

"In a financial world characterized by responsible finance, clients' benefits would be balanced carefully with the providers' long-term viability and client protection is built into the design and business at every level. Product is thoughtfully designed to offer reasonable value for money, and minimize potential harm, such as over-indebtedness. Delivery practices are respectful; do not rely on aggressive sales, coercive collections, or other inappropriate behavior. Clients receive clear, comprehensible information so they can make informed and careful choices about financial products and providers. When problems or misunderstandings arise, customers have accessible and effective mechanisms for solving them."

It can be seen from the above definition that many MFIs today are engaged in irresponsible finance or they were not practicing responsible finance. If the microfinance sector is to effectively serve the 870 million poor people living in many countries of the world, it is imperative that MFIs should follow the practice of responsible finance striking a balance between profit goals and social goals. Striking a correct balance between these two goals is the key to responsible finance in microfinance. Responsible finance is not the responsibility of only MFIs, although they are primarily responsible for it. All stakeholders of microfinance should play a role in compelling or in incentivizing MFIs to provide responsible finance to microfinance customers particularly micro borrowers. The stakeholders who should play an active role to ensure responsible finance can be grouped in to following 4 categories.

i) MFIs
ii) Social investors and lenders
iii) Respective Governments

iv) International Support Agencies

Each of the above stakeholders has an important role in creating an environment for MFIs to provide responsible finance to their poor customers to work their way out of poverty and improve their living standard.

Role of MFIs in responsible finance

The irresponsible finance in microfinance occurred due MFIs paying more attention to profits than effectively serving the poor. In order to generate more wealth for themselves and their owners, MFIs adopted some aggressive and unhealthy practices to acquire new clients and to do recoveries, some of which are not ethical and not in the best interest of poor borrowers. At the end, these practices resulted in over burdening borrowers beyond their debt servicing capacity. The normal process of client acquisition adopted by early MFIs through "greenfield" methods where MFIs labouriously promoted their own customer groups and nurtured them and painstakingly created a culture of credit discipline and high repayment based on mutual trust was later dropped by many MFIs. This was done by some MFIs due to their urgency to grow fast .They placed an undue emphasis on quicker identification of clients and faster processing of loan applications ignoring basic issues such as properly checking clients' background and their capacity to service debt. Most MFIs by-passed and ignored the "greenfield" client acquisition strategy which was an important component of the traditional Grameen Model. Some MFIs, especially in India outsourced some of their activities such as client acquisition and recoveries to middlemen (Agent Brokers) who had no respect for client's dignity, completely ignored the essence of the lender borrower relationship. For them it was only a business to make money without any responsibility. The Andhra Pradesh crisis is a direct result of this approach.

This irresponsible behaviour of some MFIs which adversely affected the reputation of the entire industry and the rights of the poor clients compelled concerned stakeholders representing MFIs, National Microfinance Associations and International Networks to discuss this issue widely and come up with internationally accepted client protection principles to ensure responsible finance in microfinance. This exercise was spearheaded by SMART Campaign (a global network set up by industry leaders in 2008 to develop client protection principles) . There is consensus among the players in the sector that all providers of microfinance services to poor clients should adhere to core principles described below:

i) Appropriate product design and delivery: The products and services offered by MFIs to their customers should suit customer requirements and fulfil their needs for which the assistance of the MFI is sought. In designing products and services, the provider should take in to account the characteristics of the client and his real needs. Some MFIs designed products to suit their growth and profit maximizing strategies and used aggressive marketing to sell them. When delivering well designed products and services, the provider should carefully take into account convenience and the cost to the customer .Product design and delivery should always be client centered and should not be harmful to the customer in any way.

ii) Prevention of over-indebtedness: Borrowing by a client more than what he can service comfortably with his income is considered as over-indebtedness. Providers should take adequate care in all stages of the credit granting process to determine that the client has the capacity to service the loan with his income comfortably. Borrowing by client beyond his repayment capacity is a risk to himself as well as to the lender. Risk for the client means risk to the lender. Existence of a large number of informal lenders, lack of credit information bureaus, aggressive marketing by MFIs who are in pursuit of higher market share, inflated loans which are much higher than the actual need of the borrower are the main reasons for over-indebtedness. Providers of microcredit should implement and monitor internal systems that support prevention of over-indebtedness and should foster efforts to improve market level credit risk management through sharing of information with other players. Preventing over-indebtedness is the responsibility of MFI and steps to prevent same should be built into each and every step in the lending process.

iii) Transparency: In most of the cases micro borrowers are unaware or misunderstand the terms and conditions under which they borrow. They are required to sign documents without any explanation or clarification. Some of these borrowers are illiterate. In their eagerness to take money they are willing to sign any document. MFIs are required to communicate clear, sufficient and timely information in a manner and language clients can understand. All terms and conditions of the loan including pricing and guarantees should be explained to clients before documents are signed.

iv) Pricing: In fixing prices on microcredit, MFIs should take in to account essence in both Transparent Pricing and Responsible Pricing. In transparent pricing MFIs should adequately disclose in a form understanble to clients the actual rate of interest, whether it is flat or on reducing balance basis, penalties for delayed payments, the actual amount on which the interest is calculated, the amount deducted from the approved loan on account of compulsory savings, insurance premium, loan processing fees and all other fees. Responsible Pricing means that the rate to be charged from the client should be fair and it should be fixed in a way that is affordable to the client and sustainable to the MFI in the long run. However, still there is no consensus on a standard definition of fair pricing. However there is an understanding among all stakeholders that some sort of a control is required on pricing of micro credit to avoid excessive profit making by some MFIs .Different MFIs use different methods in fixing prices on micro credit. Some of these different pricing methods are:-

a) Interest rate caps: Many countries have introduced legislation to cap the rate of interest charged by MFIs. So far, nearly 30 countries in the developing world have introduced interest rate caps. The Malegam Committee appointed to examine the reasons for the crisis in the Indian microfinance sector has recommended the introduction of interest rate cap. This approach of fixing rate is simple and easy to understand and monitor. The same rate is applicable to all MFIs in the country. However, this approach does not take into account the location of the MFI and the types of clients it served, size of loans and tenor of loans. This type of interest rate caps some times harms the poor rather than helping them. This maximum rate does not also take into account the cost of funds to the MFI.

b) Margin caps: Under this approach, MFIs are allowed a maximum margin above its cost of funds. The margin is fixed to all MFIs in the country and cost of funds will vary from institution to institution. Malegam report recommends a maximum margin of 12% to cover all operational cost and the profit margin. Professor Mohammed Yunus recommends a margin of 10% for poverty focus MFIs. According to him any MFI keeping a margin of above 15% is a loan shark and not acceptable in responsible microfinance.

c) Return on Equity (ROE): Another way to determine a price on microcredit, many MFIs use is the expected minimum Return on Equity (ROE).What is the reasonable ROE for a financial institution which follows a Socio-commercial approach to serve the poor?. The question is how much is too much. By fixing a reasonable ROE target, MFIs can minimize the friction between institutional profitability and the institutional mission. Different MFIs have different ROE targets. For example, ProCredit (a group consisting of 21 growing microfinance banks operating in transition economies in Eastern Europe, Latin America and Africa) has a ROE target of 15% while Equitas (a leading for-profit MFI in India) has a ROE target of 25%.A reasonable ROE can be determined based on a risk free rate of interest (say treasury bill rate) plus risk premium of 3-5%. In my personal view for Sri Lanka 18% may be an appropriate ROE. The MFIs which make excessive profits as reflected in their respective ROEs should reduce the rate and pass the benefit to their poor customers.

d) Comparative transparency: This method is still not widely used. Under this approach authorities are required to publicly list the prices of all products in a country using a common method for defining the price. The MicroFinance Transparency (an international network established in 2008 to promote the welfare of micro entrepreneurs and protect the integrity of microfinance) who introduced this method collect data from around 170 countries on microcredit and savings and calculate the Annual Percentage of Rate (APR) and Effective Interest Rate (EIR) on all microfinance products and post them on their website. MFIs can make use of these data to decide on a responsible rate of interest which will generate a reasonable and fair ROE.

v) Fair and respectful treatment of clients: MFIs and their agents should always treat their existing and potential customers with honesty, fairness and respect and ensure that those measures are in place to detect and correct corruption and abuses particularly during the credit sale and collection process. MFIs should not discriminate against clients based on personal characteristics such as gender, race or disability Disrespect for clients mainly occurs during the collection process. It is natural that some clients experience difficulties in debt servicing during some periods .When this happens, lending officers should be sympathetic towards such clients (not the willful defaulters) and should help them to come out of the situation. Instead of helping clients some lending officers visit the work place or the residence of the defaulting client and use bullying and physical threats (through hired outside individuals) bringing shame to the client both in his home and community. These inappropriate collection tactics could have consequences that leave the customer in a worst position than before he took the loan. In order to avoid disrespectful treatment of clients MFIs are encouraged to have code of ethics defining clear standards of ethical behaviour the staff should uphold. Many critics say the origin of the Andhra Pradesh microfinance crisis is the use of abusive collection practices." Collection with dignity " should be the approach.

vi) Privacy of client data: MFIs collect data from individual customers at the time of loan processing. The privacy of individual loan data should be respected by all of the respective MFIs in accordance with the laws and regulations of the individual jurisdictions. Such data should be used only for internal purposes. Staff at all levels should be given clear guidelines how to use client data and appropriate training should be provided to them on this. Disclosure of client data to third parties should be allowed only if it is permitted by law or with the express permission of the client.

vii) Mechanism for complaint resolution: All MFIs should have in place processes for receiving and handling of complaints and grievances of customers. The process should be known to all staff as well as the customers. The staff of MFIs should be provided with appropriate training on how to handle customer complaints. This process should be used not only for client complaint resolution but also to improve products and services and service quality of the organization.

Role of external investors and lenders in promoting responsible finance

The funds provided by the promoter shareholders of MFIs and also in some cases through domestic IPOs are highly inadequate to meet the rapidly increasing demand for funds from MFIs. As such, many MFIs resort to sourcing funds in the form of equity or loans from external sources such as domestic and foreign commercial banks, international development agencies, social investors including private foundations. These institutions could play an important role in influencing MFIs to follow customer protection principle to provide responsible finance to their poor client and not to engage in practices which are harmful to the customer interest. CGAP and other international microfinance support networks have developed guidelines for external institutional funders to ensure that funding from them will be available only to MFIs who are engaged in responsible finance. Some of the main features of these guidelines for external funders are;

a) Funders to incorporate 7 client protection principles introduced by Smart Campaign in their investment policies;

b) Seek material evidence during the due diligence process to ensure MFIs are implementing the client protection principles;

c) Incorporate as terms and conditions in their financing agreements with MFIs that their funding is conditional on MFI implementing internationally agreed client protection principles;

d) Monitor during the loan tenor through regular reports and onsite inspections that MFIs are actually practicing responsible finance;

e) Funders to consider providing "social relevance discounts" to MFIs for achievement of social indicators through responsible finance. These discounts vary from 0.25 to 1.0%;

The funders need to make sure in order to justify their financing that MFIs are not only financially viable but they also should contribute to the social development of the country effectively assisting the poor. The main social indicators that the funders would look at are breadth of outreach and depth of outreach and the financial ratios they are interested in are ROE, ROA, OSS and FSS

Government's role in responsible finance

During the early stage of microfinance the primary objective of almost all MFIs was helping the poor and these MFIs were owned and run by non-profit NGOs. Funding came mainly in the form of donations and donors were not expecting a return on their funds or the repayment of same. As MFIs were not looking for profits there was no need for them to practice unethical practices such as cut-throat competition, un–bearable rates of interest and fees and abusive collection tactics in their business of helping the poor. With the transformation of MFIs from Non-profit NGOs to profit maximizing privately owned for profit companies, they started many unethical practices which were really harmful to the customers and also the reputation of the industry. Although many stakeholders were discussing the need for governments to step in to protect the customers and the industry as a whole since early 2000s, no significant development took place until the recent microfinance crisis in India and in some countries in Africa and Latin America. With the crisis in the sector, the respective Governments and microfinance support agencies like CGAP, expedited the efforts to put in place some operational guidelines and regulations for MFIs to prevent them exploiting poor customers pretending to be the saviors of the poor. Some Governments brought the MFIs under the purview of their Central Banks while some others created specific regulatory institutions. In Sri Lanka the Government is in the process of creating a specialized authority with powers to regulate the industry.

The financial industry is regulated by authorities to protect the interests of individual customers and also to safeguard the financial health of the entire industry. The financial sector regulations are expected to provide an appropriate legal framework for the conduct of financial transactions in a manner that would reduce the systemic industry risk and also prevent unethical practices by the institutional players. Establishing of sound, clear and easily monitored regulations for financial institutions, encourages the managers of financial institutions to run their institutions better and also make it easy for regulators.

The need to regulate the microfinance sector has arisen due to many reasons and some of these reasons are;

a) Borrowers in the microfinance sector represent a highly vulnerable group in the society who lack individual bargaining power and financial literacy. They live in an environment which is fragile and exposed to external shocks. These poor people are ill equipped to absorb these shocks and are easily exploited.

b) Many governments in the developing world implement financial inclusion programs to alleviate poverty and microfinance is an important component of many such programs. A fair and adequate regulation of this sector will encourage the growth of the sector while safeguarding the clients' interests.

c) Some MFIs mobilize deposits from the general public and regulation is needed to protect their money.

d) Microfinance has become an important and integrated part of the financial industry in many countries with linkages to other segments of the industry. Collapse of the microfinance sector will have adverse repercussions on the entire financial industry.

Some of the areas of MFI operations that may be covered under regulations are;

a) Composition of the assets –Percentage of microfinance loans in the total assets

b) Maximum loan amount

c) Rates of interest and fees

d) Loan tenor

e) Collection practices

f) Loan purposes

g) Recovery frequency

h) Types of products and services to be offered

Role of support agencies

There are many international organizations and international industry networks who are actively involved in promoting responsible finance among the MFIs. Among several such institutions role played by 4 leading institutions in promoting responsible finance is remarkable. They have a larger role to play in the future and they could do it efficiently as all industry stakeholders trust them and have faith in them. These four institutions are:

a) Consultative Group to Assist Poor (CGAP): CGAP, a World Bank Group initiative in 2005 is an independent policy and research centre dedicated to advancing financial services to the poor. It is supported by more than 30 international development agencies and private foundations. CGAP provide market intelligence, promote standards and offer advisory services to governments, financial service providers, donors and investors.

b) Smart Campaign: This is a global campaign initiative set up in 2008 jointly by Microfinance institutions, microfinance support organizations, donors and individual microfinance professionals. The Campaign is committed to embedding client protection practices in to institutional culture and operations of the microfinance industry.

c) Microfinance Transparency: Transparency is an international non-government organization set up in 2008 that promotes transparency in MFI operations by facilitating pricing disclosure, offering policy advisory and developing training and educational materials. Its work mainly involves making MFIs aware of practices and methods of responsible pricing. It collects data on microfinance product from more than 170 countries and publishes them in its website.

d) Social Performance Task Force (SPTF): This was set up in 2005 by a group of microfinance stake holders to come to an agreement on a common social performance framework and to develop an action plan to move forward the social performance of MFIs. The combined actions by MFIs, external providers of funds, governments and international microfinance support organizations could certainly ensure responsible finance by MFIs to the to the poor beneficiaries.

Conclusion

The future of financial inclusion and world poverty is difficult to predict. According to CGAP, the future of financial inclusion would depend on the answers to the following four questions and their answers are likely to fundamentally shape the future of financial inclusion and the lives of unbanked poor which are strongly inter connected.

a) Digital Technologies. Will the spread of digital technologies and the digitization of information flows benefit poor and unbanked people?. Stakeholders of Financial inclusion strongly believe that the spread of digital technologies will continue to pave the way for more accessible and affordable financial services. There is also a belief that there is also a possibility that some segments of the population, such as rural people, women and poorer households, could be further excluded if digital infrastructure remains available only to other segments, such as urban people, men and richer households, and if providers do not adapt solutions to serve the diverse needs of poor urban and rural populations.

b) Globalization. Will the globalization of capital, information, and ideas change the way unbanked engage in society? The pattern of globalization is shifting .Global flows of trade and finance slowing down and the volume of data transmitted across borders surging through digital technologies. Digital platforms are changing the way business is conducted across borders, creating opportunities for local economies.

c) Migration. Will poor people continue to move domestically and internationally. Given the globalization, climate change, conflicts, changing demographics and people's aspirations, many predict that urbanization and cross-border migration will grow in importance.

d) Nature of Work. Will the changing world of work due to the three reasons mentioned above affect the poor people socially and economically?

The pace and magnitude of change coming during the next decade can have a profound impact on the lives of poor people and the global financial inclusion. Some of the predictable possible developments in the financial sector during the next decade can be summarized as follows:

a) The financial services will continue to be central as an enabler to improve poor people's lives.

b) The diversification of providers of financial services will change the financial services ecosystem.

c) Broad use of data will enable transformative solutions for the poor people but also will create risks.

d) Role of the governments will be critical. There is a strong consensus that government will continue to play a key role in driving financial inclusion. However, governments face capacity limitations and governance challenges that will need to be addressed. As data is increasingly controlled at intra-national levels, the question that many will ask is how will governments supervise and regulate the actors that emerge in control of the data?

The aim of all stakeholders of financial inclusion is to achieve the full financial inclusion one day. Although, there have been some setbacks recently due to irresponsible behaviour of some MFIs in growing the global financial inclusion, the world has witnessed a continuous increasing trend in global financial inclusion . According to the World Bank's Global Financial Inclusion(Findex) database the global number of accounts held by previously unbanked people had increased by approximately 700 million from 2011 to 2014. As a result, the percentage of people excluded from the financial services has dropped from 50% to 38% by 2014.The financial inclusion is about much more than just having an account with a financial institution. At its root level it is a key element of social and economic inclusion. It is about helping people participate in today's connected economy. Reaching the unbanked population is beneficial to both parties, the unbanked as well as providers of financial services.