

**The Swamp of Learning:
The International Leaders' Forum on Development Finance**

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“The strategy of [the meetings] is dominated by its brief duration...Nothing needs to be finished during that period: the harvest is for later. But the process of learning needs to be well enough started and supported to have a good chance of becoming self-perpetuating and continuous. The fruits are people better able and more inclined to learn...To allow this growth, personal habits and community traditions need to be reviewed and part of the ground they cover, cleared and ploughed anew, the seeds of personal development sown, the recurring weeds of earlier preoccupations uprooted...The whole process of learning is so close to farming that the same words can be used for both. But the analogy is deceptive. There is nothing in the world of plants analogous to people's feelings.”

Rolf P. Lynton, *The Tide of Learning*¹

1 Introduction

The Ford Foundation has been funding development finance initiatives for over thirty years in the US and other countries. It was one of the first supporters of the Grameen Bank, Bangladesh and the Shorebank, USA. The Foundation funds such activities out of its normal grants program as well as out of a specialised window called Program Related Investments (PRI), through which it makes mainly loan, and occasionally, equity investments in development finance institutions (DFIs).

In this paper, after describing what the Foundation sponsored International Leaders' Forum (ILF) on Development Finance is, we will explore how the ILF has promoted learning along three dimensions:

- The First Dimension: Who Was Learning: I myself, each ILF member, the ILF as a collective, the Ford Foundation staff who participated in our deliberations and those with whom we interacted, and finally, the wider field of development finance through interactions by ILF members with staff of multi-lateral and bilateral donors and foundations; and with national policy-makers, regulators, scholars and fellow practitioners who are not ILF members.
- The Second Dimension: The Method of Learning: discussions on pre-selected topics, field visits, discussions after the field visits, lectures by guest speakers and discussion thereon; commissioned papers, ILF members' own papers, and joint work to manage the ILF as also to craft the idea of the Global Innovation Fund (GIF);
- The Third Dimension: The Level of Learning: At the first level, or single-loop learning about products, procedures and skills; at the second level, or double-loop learning about systems, strategies and institutional design; and at the third level, or triple-loop learning, about perspectives, world views and values.

2 The Anti-Summit? Participants and Processes in the ILF

In 1995, as part of its re-visioning as a "global foundation", the Foundation established various program staff "affinity groups" on themes of its interest, including the affinity group on development finance (AGDF). The initial meeting of this was held in Tehuacan, Mexico in 1995 and a second one in Positano, Italy in 1996. In these meetings, which were primarily among the Foundation program staff, a few DF practitioners were also invited.

In Positano, Lisa Mensah, then Deputy Director of the Foundation's Economic Development Unit and a number of other program officers including Jane Rosser of the New Delhi office, made the point that the proposed Micro-Credit Summit in Washington DC in February, 1997 was putting forward a particular view of the role of micro-credit in poverty alleviation. In contrast, practitioners supported by the Foundation seemed to have perspectives different from the Micro-Credit Summit. Based on this discussion, the AGDF decided to enable a select set of practitioners to meet in Washington DC, just after the Micro-Credit Summit and see if they would like to use that opportunity to develop one or more alternative and nuanced views about the role of development finance in poverty alleviation.

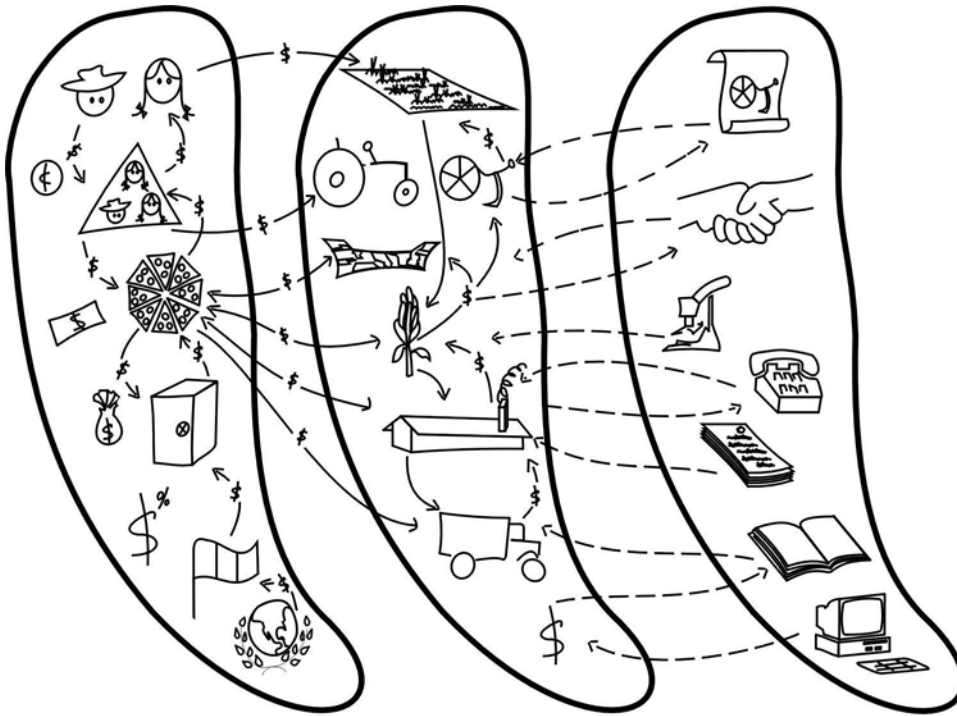
The first time the forum met was at Restaurant Nora near Dupont Circle in Washington DC on February 4 and 5, 1997. Some of us joked that the meeting was the "Anti-Summit", referring to the just concluded Micro-Credit Summit where we witnessed the narrow orthodoxy of micro-credit, even as it was being hyped as the panacea for the poorest. We started with Corn and Pumpkin Chowder for an early dinner and ended with a diagram of a Jalapeno Pepper drawn by Raul Hernandez of Alternativas Mexico on the following afternoon. Lisa Mensah laid out the objectives of the meeting as follows:

- To discuss and share current policy achievements and challenges for development finance at the country, regional and global level.
- To share perceptions of common trends and opportunities in the policy arena, and to discuss regulatory and policy impediments to the growth of the field worldwide.
- To explore whether there is interest in having the Ford Foundation support an ongoing International Leaders' Forum on Development Finance, or whether there is another role for a group of this type.

Among the challenges and dilemmas that were listed out by some of us were

- How do we make development finance work at a significant scale – address "quantity with quality"?
- How do we break the orthodoxy about minimalist credit, the myth that everybody wants to be self-employed and telling the truth about the limitations of micro-credit, particularly with reference to the poorest?
- How do we apply ourselves to "our own" institutions and yet help build the fledgling field through policy work and establishing sector level institutions such as industry associations?
- How do we do all this while managing the load of expectations of being pioneers in our respective settings and yet being acutely conscious of de-personalizing the work so that institutions can be built?

The meeting ended with a memorable comment by Alfredo “it was a great opportunity to hear others think”. In some ways, this comment set the tone for the ILF. Raul summarised the meeting with a picture of three Jalapeno peppers, a pungent rejoinder to the minimalist credit paradigm of the Micro Credit Summit. Later, this was printed on to a T-Shirt – symbolising how serious debate and fun was interlaced in the ILF.



2.1 Participants in the ILF

The ILF has 12 members drawn from seven countries. All are "founders". From the USA is Mary Houghton, who co-founded Shorebank group of institutions, collectively managing assets worth \$750 million in 2001. It started as the South Shore Bank in 1973 to serve one of the poor neighbourhoods of Chicago, and now owns over 15 banks, non-banks and non-profits in various parts of the US. In addition, through its consulting arm, Shorebank Advisory Services (SAS), it works in various countries in Eastern Europe, Russia, Africa and Asia. The other member from the USA is Jeremy Nowak, a former community organiser who founded and runs The Reinvestment Fund (TRF) in Philadelphia, which in 2001 managed about \$150 million of assets in various types of development finance activities, including neighbourhood redevelopment in inner cities, and job creation through equity financing of job-creating enterprises in such areas.

From Mexico, there are two members: Raul Hernandez-Garciadiego who runs Alternativas, an NGO working in the poor arid areas of rural Mexico, promoting land and water-based livelihoods and local processing; and Alfredo Hubard-Deffis, who promoted CAME in the outskirts of Mexico City, as a micro-credit organisation and who is also very active on the policy front in Mexico.

Africa has four members: Chief Bisi Ogunleye, the founder of the Country Women's Association of Nigeria (COWAN), which in 2001 had over 260,000 members, and Aderinan Adeoja, the head of the Farmers' Development Union (FADU), of over 500,000 farmers in northern Nigeria. Aleke Dondo is one of the founders of Kenya Rural Enterprise Program (KREP) in the 1980s and now heads the non-profit arm of K-REP, which works closely with the K-REP Bank, licensed in 1999. Chris Hock founded the Rural Finance Facility and its subsidiary, Rural Housing Finance, a \$25 million DFI serving the poor black people of South Africa with micro-enterprises and housing loans. It closed down in mid 2001.

From Asia, there are only two members: Bambang Ismawan, who founded and runs the 60,000 member Yayasan Bina Swadaya (Movement for Self Help) association of farmers in Java, Indonesia since 1971. It is one of the few Indonesian organisations, which existed with a grassroots base, even during the Suharto regime. The second is the author, Vijay Mahajan, who has worked in the field of rural livelihood promotion since 1981, and in 1996 established the BASIX group of companies, which comprise a micro-finance company, a local area bank, and a non-profit company engaged in action research and training in rural livelihoods, held together by an investment company also engaged in consulting and policy work. In 2001, BASIX was working with 50,000 poor households.

Witold Szwajkowski from Fundusz Mikro, Poland, joined the ILF in 2001 at the members' invitation, as did Jennifer Riria of the Kenya Women's Finance Trust. Michael Chu and later Maria Otero from ACCION attended parts of one meeting each.

From the Ford Foundation, usually Frank DeGiovanni, Director of the Economic Development Unit (EDU) and/or Lisa Mensah, Deputy Director, EDU, attend the ILF. Adhiambo Odaga, Program Officer and since 2001, the Representative for West Africa attends as a permanent invitee of the AGDF, which, in turn, invites two or three ILF members for part of their meeting, enabling exchange of ideas between the two forums.

2.2 Processes in the ILF – In Meetings and In Between

In the initial meetings, the ILF had a facilitator, a role played by Peggy Clark of the Aspen Institute in the first meeting and thereafter by Mary Kay Penn for the ILFs in South Africa and India. Thereafter, the ILF established a “secretariat” at TRF, one of its members in the US and its sole program staff person, Carla Castillo has been playing the role of facilitation and inter-meeting linkage work, including conducting a number of planning meetings by teleconference before each ILF.

The ILF usually invites one or two specialists as speakers to introduce a theme of interest. Sometimes they are DFI leaders from the host country, who are not ILF members but are highly respected in their work. For example, Jon de Witt of Small Enterprise Foundation, was invited to share his experiences on impact assessment in the ILF 1998 in South Africa, while in the ILF 1999 in India, Ela Bhatt of SEWA and Rama Reddy of the Cooperative Development Foundation, spoke on Ownership and Governance supplementing a paper on the same topic by a consultant, Tamara Duggleby. A consultant from Seed Capital presented the summary of their study on the Challenges of Funding DFIs at the ILF 2000 in Mexico. In Indonesia, three people involved with various funds – Alex D’Silva of ProFund, the world’s first micro-finance equity fund; Jean-Phillipe de Schrevel of Blue Orchard, a European fund making debt investments in MFIs; and Anantha Nageswaran of the Aavishkaar India Micro Venture Fund joined for a part of the meeting on the theme “mediating capital markets”.

A typical meeting lasts five days, of which usually two days are devoted to a pre-selected thematic discussion (some of the topics have been: "ownership and governance of DFIs", "impact assessment", and "Capital Plus, or going beyond micro-credit"). Many of the topics, such as the tension between the developmental and the financial missions have characterised every discussion from Morocco to Indonesia. The small group size, usually no more than 12 to 15 including invitees, coupled with repeated meetings, creates an unparalleled atmosphere of intimate learning from each other. Another day is spent on a field visit (since 1998, the meetings are held where one of the members runs a DFI), and the following half-day on eliciting lessons from the field visit. Another half a day is spent on rendering program strategy advice to the Foundation and preparing a consensual message from the ILF to the AGDF meetings, which are normally attended by two or three ILF members. The final day is usually spent sight-seeing, with plenty of time for wrap-up discussions. The Foundation funded all the meetings, initially on an ad hoc basis and since 1999, through a grant to the ILF Secretariat, housed at TRF, Philadelphia.

Though informal, the ILF has always met purposefully. However, it was not till the ILF 1999 in India that the Leaders developed a mission statement, which is as follows:

The Leaders Forum is an international network of independent practitioners whose purpose is to build the field of development finance. Members of the Forum are dedicated to using capital and other development oriented tools to create economic opportunity and eliminate poverty. Membership in the Forum implies an interest in professional exchange, respect for a variety of development finance strategies and approaches, and a commitment to developing the field through disciplined practice and honest reflection.

3 Collective Learning through Dialogue: Two Examples

“Some learning cannot happen by thinking alone, how so ever hard. David Bohm’s work on the theory and practice of dialogue represents a unique synthesis of the two major intellectual currents...Bohm’s most distinctive contribution ...stems from seeing thought as “largely a collective phenomenon”. Bohm asserts that “our thought is incoherent and the resulting counter productiveness lies at the route of the world’s problems”. But since thought is to a large degree collective, we cannot just improve thought individually... We must look on thought as a systemic phenomenon arising from how we interact and discourse with one and another.”

Peter Senge, *The Fifth Discipline*²

In order to understand how learning has happened, it is important to focus on **both product and process**. Thus we take two of the themes, which have been discussed at one or more ILF meetings and describe both the processes used as well as the outcomes.

3.1 Dialogue on Ownership and Governance

The issue of DFI ownership and governance has been an abiding concern for the ILF members. As we ILF members went past the “sound bite” introduction of each other, over a series of discussions and field visits, we discovered that none of us ran a simple “micro-credit” organisation. We classified ourselves along three incorporation forms, each with its own strengths and shortcomings.

- Not-for-profit
- Mutual Benefit / Cooperative
- For-profit

We found the ILF members characterised by a mix of the three types and combinations thereof.

- Alternativas is a non-profit NGO but runs its amaranth business separately; Bina Swadaya also runs a number of for-profit businesses, which help finance its work.
- CAME, COWAN, FADU and Bina Swadaya are “membership” based organisations, registered as cooperatives or non-profit NGOs.
- Shorebank, TRF, Rural Finance, KREP and BASIX all have a group structure, with one or more “for-profit” entities engaged in commercial functions, working in conjunction with non-profit affiliates, engaged in developmental functions.
- KREP and BASIX, though primarily providing financial services directly to individual clients and their groups, also support community level mutual benefit entities, such as Financial Service Associations of farmers in rural Kenya by K-REP and Self-Help Group Federations of poor women in rural India by BASIX.

The theme of ownership and governance of DFIs was identified in the ILF 1998 in South Africa because three of the participants – K-REP, RFF and BASIX were in the midst of negotiations for equity investments, while CAME, COWAN and FADU were in the early stages of considering an appropriate way to move forward. Shorebank was in midst of these things for its subsidiaries. Some of the dilemmas that came up were:

- Most of us came into this work for poverty alleviation, so it was appropriate initially for us to be non-profit NGOs. However, when we began to use capital as a major instrument in our work, we found many problems – banks would not lend us money, nor would regulators allow us to take deposits, which was necessary to provide savings services. In general, we found it difficult to convince the financial world that development work can be a business proposition for them.
- How do we address this? Do we, as ACCION tried to do in Bolivia, get PRODEM, the NGO to set up a new, for-profit, investor-owned entity, BancoSol? If so, where would we find the equity funds to meet the minimum capital requirement for incorporating a financial company, and even more for a bank?
- Since it was rarely that this much capital could not come from the poor people we wanted to serve, we would need to raise the funds from outside. Where do we get those funds from? No private sector investor was interested in putting equity in our kind of work, that also at the start-up stage. If we go to donors, we find most of them do not have any way of investing in the equity of a company. How do we move these two constituencies to put some start up funds in our for-profit DFI?
- Alternatively, do we encourage the poor people we serve to form their own financial institutions, as done by FADU and COWAN in Nigeria? If we take this route, how do we ensure that the community financial institution does not become an old-style cooperative, which is open to predation internally from the more powerful members, as well as by the outside bureaucracy and politicians? Or, should we work first to get the cooperative law changed, so as to minimise the chances of outside interference and member malfeasance? In any case, how do we ensure member empowerment, so that they can effectively manage their own financial institution?
- Or should we remain a non-profit entity, only promoting informal or semi-formal mutual benefit or “self-help” groups of poor people and help link them up with banks, as done by Bina Swadaya in Indonesia? What if the banks in my country do not lend easily to groups? How do we persuade them, or put some policy pressure on them? Who will pay the cost of forming new groups? Can we continue to be donor funded for that, while banks get all the benefit of getting readymade groups to lend to? Can we persuade banks to pay us to form, train and support groups?

We decided that the ILF 1999 in India would focus on this theme of how to grow while remaining true to our founding purpose. I organized the ILF 1999 in Hyderabad, India to enable a significant dialogue with two of the most important figures in India’s micro-finance and the co-operative movement - Ela Bhatt of SEWA, which, among other institutions, runs a women’s cooperative bank; and Ram Reddy of the Cooperative Development Foundation (CDF). A site visit was arranged to the CDF promoted thrift and credit co-operatives, with half of the ILF members visiting CDF, while the other half went to BASIX. CDF had by then promoted over 200 women’s and 50 men’s thrift and credit cooperative societies, with over 60,000 members. On the other hand BASIX ran micro-credit operations as an investor-owned, for-profit non-banking finance company, lending to individuals as also to poorer women’s self-help groups.

The day after the field visit to CDF and BASIX, a stage was set for a spirited discussion on the relative merits of investor owned vs. member owned DFIs. Ram Reddy explained the work of CDF and his firm belief that credit and commodity cooperatives are needed for development. I said: “Though the credit cooperative movement is nearly 100 years old in India, a vast majority of the cooperatives are in the hands of the political bosses and their bureaucrat toadies. CDF has made a contribution to the revival of the Indian cooperative movement, by being instrumental in bringing about legislative changes in favour of member-managed coops, with the enactment of the Andhra Pradesh Mutually Aided Cooperative Societies Act, 1995.”

Yet, the problem is that cooperative laws in most of the other Indian states were still regressive. Moreover, unless there was a capacity-building organisation like CDF behind a cooperative, the true ownership and control was not in the hands of members but with those few who got elected and the senior staff appointed by them. It was this aspect of cooperatives, which discouraged me to consider establishing BASIX as a cooperative of poor people. Ram Reddy said: “Thrift and credit is just a means to establish a people’s organisation. They have to establish control and ownership. Only once that is established, will development follow”.

Ela Bhatt of SEWA who was a special invitee to the Hyderabad meeting said the question of ownership and control by members needs to be addressed through empowerment. “For whom are these services being provided? Ownership is ultimately a relationship. Who are we empowering to own the DFIs?” Chief Bisi agreed with this viewpoint. “For us in COWAN, the ownership and management of credit by women is a step towards their empowerment.” It was clear that the members who favoured cooperatives saw the organisational form as a means to a larger end – member empowerment. They did not see the provision of financial services as an end in itself.

For Aleke and me, the question remained – who makes the investment for this? If that cost is loaded on to the financial operations, the institution may never break even. Even to form Self-Help Groups of poor women borrowers requires staff-time investment, which we found takes five to seven years to recover. Thus the dilemma between financial sustainability and enhancing outreach to poor people through grouping and empowerment remained unresolved. However, K-REP and BASIX are able to pursue both the routes. In 2001, the ILF members visited a Financial Services Associations of villagers that K-REP had established to serve clients in the rural areas. This was a live case of a commercial MFI helping to build community financial institutions partly in self-interest.

In BASIX too, while our flagship company was Samruddhi, which pursued the investor-oriented model, we continued to pursue work with community financial institutions, all established as federations of poor women’s “self-help groups” (SHGs). In Tamil Nadu, a Gandhian NGO, ASSEFA had established over 5000 such SHGs. However, they were not very successful in raising bank loans, despite having years of track record of mutual savings and credit. In July 2001, after a year’s preparatory work, BASIX transferred the ownership of its second non-bank company, Sarvodaya, to the specially created “mutual benefit trusts” each comprising 100-200 SHGs promoted by ASSEFA. By September 2002, Sarvodaya has an equity base of \$1 million, contributed by over 30,000 women, organised into over 2000 SHGs federated further into 21 mutual benefit trusts. BASIX has a management contract with Sarvodaya for two years.

Who Owns Us: At our request, before the Hyderabad ILF in 1999, the Foundation had commissioned an independent consultant Tamara Duggelby, who surveyed a range of ILF members as well as other DFI leaders and wrote a paper titled “Who Owns Us?” We discussed Tamara’s paper, which was focussed on investor-owned DFIs. She listed the key issues as follows:

- Managing the dual objectives of addressing the DFI’s social mission and achieving profitability.
- Balancing the interest of new investors with those of the founding organization when a successful institution must seek outside capital to fulfil its market potential.
- Maintaining a balance between accountability to a Board and/or shareholder group and management responsibility for making an executing operating decisions.

Aleke set the ball rolling with the question “What qualifies one to claim to be an owner?” He went on to answer it by stating: “Surely, it is more than money. Intangible inputs – passion, ideas, time put in by Board members – matter as much as money”. Staying with the theme of how to find “owners”, Aleke shared K-REP’s experience about raising capital and attracting and selecting new investors. He said K-REP first sought local investors but have no success. They had a dilemma about institutional versus individual investors - because they felt that the former have more transparency while the latter have more drive. So they established the following criteria - the investor should:

- Share K-REP vision and social mission.
- Bring strong financial and commercial discipline
- Give K-REP a good image and shield it from political interference
- Have clout to influence authorities
- Have resources for future investments and
- Be willing to disinvest after five years at the time of IPO

Using these criteria K-REP picked the following - International Finance Corporation (IFC), African Development Bank, Shorebank, Triodos Bank, FMO (a Dutch development agency) and topped it up with KWA, which is a co-operative society of K-REP staff and Board.

There was a great degree of similarity in K-REP’s investors and ours. So, following this, I described the trajectory along which we would like the BASIX capital structure to move. I put this down as follows:

- Stage 0: 1995-96: Concept phase during which we mainly put in “sweat equity” of the three co-promoters, Bharti, Deep and I, in the form of over 50 person-years of experience in development and/or finance, and three person-years of feasibility study for BASIX. Taking our first step towards commercialisation, we also put in personal money equity of Rs 1.1 million (\$25,000) to set up the holding company.
- Stage I: 1996-97: Pilot lending through our non-profit entity. Borrowing \$250,000 at an interest of 1 percent pa, for one year only, from the Sir Ratan Tata Trust, a major Indian philanthropy. It was their first loan ever in their 60year history! We repaid the loan successfully and used the experience to launch commercial operations through a for-profit micro-finance company, Bhartiya Samruddhi Finance Ltd in 1997.

- Stage II: 1997-99: Scaling up – Borrowing in our holding company, \$ 3.5 million, from the Ford Foundation and Swiss Development Cooperation, at 1 percent pa current interest and 7 percent pa deferred interest, payable contingent upon our being sufficiently profitable, for a period of 10 years, to be used for downstreaming to Samruddhi as equity and loans. We used this “quasi-equity” to raise loans from foreign and Indian apex development lenders such as NABARD and SIDBI.
- Stage III: 2000-2004: Growth based on Commercial Funds: To raise additional equity from developmentally oriented investors/institutions (such as the IFC) and leverage that with loans from Indian commercial banks (such as the ICICI Bank)
- Stage IV 2005- onwards: Fully commercial operations: To raise equity through raising further equity, as required, to grow the portfolio and maintain capital adequacy. Leverage equity with additional bank loans and hopefully deposits, by transforming into a bank, which may be allowed by then by the regulatory authorities.

Many of the Leaders in the ILF are strongly rooted in the tradition of community-based institutions. To get someone like Raul of Alternativas, Mexico, or Chief Bisi of COWAN, Nigeria, to even look at alternatives involving raising capital from private investors was unusual. On the other hand Alfredo, who had worked for many years in the private sector before starting CAME, was more willing to explore such an alternative. After listening to my description of the BASIX strategy for raising capital, Alfredo said: “I find this is a very wise way to raise equity. It is patient money, from investors who understand BASIX, so it doesn’t face a dilemma in balancing its social mission with its financial goals”.

Alfredo talked about the experience of ACCION promoted MFIs such as Bancosol, which tried to raise a substantial amount of capital from commercial investors. He said that Bancosol was born from the NGO PRODEM’s work. The initial CEO, Pancho Otero came from there. In the meanwhile, due to the discovery of this market, many commercial lenders jumped in and Bancosol faced severe competition. “It is the worst of cases. They have lost their social mission and they are losing money”.

I later heard that Pancho was eased out by the commercial investors after a few years since they did not see him leading Bancosol to commercial success. I came back and wrote an angry memo to my co-promoters in BASIX about our own negotiations for equity with the IFC, saying “ I don’t agree that we should sell Samruddhi equity at par to the IFC and other investors, since we have already set up operations for three years and shown that we are viable. We are not a start up. I insist we ask the IFC to invest at a premium.”

One of the BASIX co-promoters, Bharti, a senior partner at Price Waterhouse Consulting, disagreed with me and wrote back “We should take the new investors’ equity at par, since their entry will help us to raise other capital. We need them as allies. Do not insist on a premium, our financial projections do not justify it.”

In retrospect, I know that Bharti, a close friend and colleague for many years, was only giving her best professional opinion but at that moment I took it as an under-valuation of the entrepreneurial energy I put in and vehemently asked the Board to approve that we seek the new equity investment at a premium. I “won” the battle and got Board approval.

I negotiated hard with the investors and they agreed to the principle of valuing social entrepreneurship in real financial terms. The investors agreed to recognise an intangible “sweat equity” of Rs 10 million (about \$220,000) from the BASIX promoters. This was passed on by us promoters to the holding company and would be used only for public purpose development finance efforts. They also agreed to a back-ended premium, which would be based on Samruddhi’s performance for three years after their equity investment. If Samruddhi performs well, they will allow the holding company to buy an additional ten percent of the equity at par. The lesson: if you want to deal with commercial investors, you must bargain hard to make them recognise and monetise the social equity we development entrepreneurs put in.

Various experiences shared at different ILF meetings, all helped me re-examine the BASIX strategy for moving from Stage 0 to Stage III of the BASIX capital raising trajectory and having the courage to deal with the new investors on terms which I felt were more fair than their initial offering. These include Aleke’s comment: “What qualifies one to claim to be an owner? Surely it is more than money. Intangible inputs – passion, ideas, time put in by Board members – matter as much as money”; Alfredo’s caveat about Bancosol’s “successful” transition to commercial equity”; and Chris Hock’s bruising experience with South Africa’s “apex” lenders. In turn, I hope through the investor institutions, the field has also learnt something from this deal.

Michael Chu, who had earlier worked with KKR, the Wall Street firm before he joined ACCION, was a special invitee to the Ford Foundation AGDF meeting in Tehuacan, Mexico in 1995, in which he described how he had helped BancoSol, Peru securitise their micro finance loan portfolio and placed it in the US bonds market. In the ILF 1998, at South Africa, Michael said his key learning was that micro finance is economically viable and therefore can link with capital markets. Hearing from Michael that micro-finance can indeed be linked with mainstream finance kept my spirits up as I was struggling to raise the very first round of funding for BASIX in India, where the capital markets had been liberalised only in 1993 and went bust three years later. Thus, 1996 was perhaps the worst year to establish a new DFI in India.

Yet, as I look back in 2002, having successfully raised not just medium term debt but also equity capital from a combination of Indian and international financial institutions, I cannot but wonder at the contribution of ideas and experiences at the ILF which kept my faith that we could do it.

Mary Houghton said in South Africa in 1998: “It is important to raise capital and gain entry to markets in order to reach more low-income beneficiaries. I am concerned, however, that commercialization could cause mission drift. I wonder whether an organization’s social mission could be commercialized or whether organizations with a strong social mission could be financially sustainable. Part of the key to addressing these concerns lies in developing different institutional strategies, for example, the single entity versus the holding company. Single entity organizations typically have more problems with clearly tracking cross-subsidization. The holding company structure allows for complementarity: the for-profit entity houses the profitable activities and the not-for-profit entity houses the socially oriented function and products.”

When Mary talked about Shorebank's experience of "mediating capital markets" in Indonesia in 2002, Shorebank's asset base had grown from \$750 million in 1998 to \$1.3 billion, starting from an initial equity base of \$40 million. Mary said: "Shorebank is not making enough money to attract investors who will take out earlier investors [nor] to both grow and pay good dividends. Yet, a strong capital base is the only way to withstand adverse events, while with modest profits, growth always requires new capital, which requires financial performance, development impact and a story." It was sobering for all of us that even after 27 years, Shorebank was largely dependent on social investors, who only sought to protect their capital, not maximise returns on it.

In the Indonesia meeting, we invited Alex De Silva of ProFund and he said that though ProFund has been successful, it was able to cater to the more commercially-oriented MFIs, and though they reach the poor, their average loan size is larger than the ones that ProFund did not invest in. At the same time, there has been no exit option for investors in ProFund.

There are a number of other examples of how the same discussion in the ILF affected the members differently in thinking about their own organisations. Thus while the ILF discussions sharpened my urge to link with capital markets using sophisticated institutional strategies like Shorebank, and market-making strategies such as by TRF, they had a reverse impact on Raul.

Raul told Carla in 2001: "The Forum has greatly influenced the direction and vision for my organization. The Forum's discussions have allowed me to contrast my organization's experiences with the experiences of DFIs in other parts of the world and with global trends. My vision for Alternativas and my work has been most directly affected by the current global trend that promotes specialized financial institutions versus the promotion of institutions with a more holistic approach to poverty alleviation. Conversations with individual Forum members and during sessions on this topic helped me to frame the discussions within Alternativas: should Alternativas follow the global trend or should it insist on a microfinance system that goes beyond finance."³

These conversations as well observations about why some members have chosen to follow the global trend helped Raul reconfigure his questions and reformulate his ideas. He and Alternativas decided not to follow the global trend. Raul said: "I realize that this decision would impact the availability of funding of Alternativas' projects. Alternativas would, therefore, need to reformulate and strengthen its strategies".

Raul who hosted the 1995 AGDF meeting where Michael Chu had described how ACCION tried to link MFIs with capital markets, remained deeply unconvinced of this approach. His visit to India in 1999 and the discussions contrasting the CDF approach of building community-based financial institutions versus the BASIX approach of linking with capital investors, further strengthened his beliefs. When Chris Hock visited Mexico during ILF 2000, Raul spoke to him about this dilemma. Later, he recalled this conversation: "I greatly value my discussions with Chris about RHF because those conversations helped me analyze Alternativas' approach to capital structure. Those conversations also helped me understand that Alternativas did not need capital from any source because it is critical to know the conditions that accompany a funding source."

The other area of learning for Raul was on the topic of governance. He recalled: “ I developed a strong belief that the ownership of institutions should not be held by investors who may be only interested in profit maximization and their individual wealth, which is "external" governance. I think that this model does not take into account the interest of the beneficiaries nor those of the organizations that were established to help the beneficiaries...The ILF conversations around this topic have helped strengthen my commitment to developing systems, norms, and procedures that will make the poor a formal part of the governance structure in Alternativas.”

On the same topic, Chief Bisi recalled in Kenya in 2001, “Talking of ownership, I learnt that my women leaders are right to be more careful of leaving governing of them to the professionals. Twenty years ago, when I set up COWAN, we began the credit program by first encouraging women to save and then matching it one-to-two with funds from the agriculture ministry. The women understand and manage everything. ”

After going back from Kenya, Chief Bisi re-organised the COWAN savings and credit work into a separate division called Rural Responsive Banking, with stronger management systems. In 2002, Chief Bisi said “In Kenya and in Indonesia I saw they are using the traditional village structures very well to do micro-finance work and this is what we are also doing in COWAN, but we need to structure it better.”

The Ford Foundation has also evidently learned something from dealing with co-investors such as the IFC and Triodos Bank in K-REP, BASIX and elsewhere. It commissioned a study by Seed Capital to identify what were the constraints in DFIs accessing larger amounts of capital. The study concluded that the supply of capital did not often match the need, there are significant capacity gaps that needed to be addressed, and problems in the enabling environment in many countries limited the scale and success of development finance.

The Foundation then supported Shorebank’s initiative to set up ShoreCap, which is a \$10 million fund to provide equity and debt investments to DFIs. Recognising that innovative institutions find it very difficult to attract start-up funds, and even established institutions have difficulty in addressing innovations to reach the poorer segments, the Foundation decided to move forward on the idea of establishing a Global Innovations Fund (GIF) for development finance, with significant inputs from practitioners.

The field of development finance is still struggling with the issue of optimal ownership and governance of DFIs. All the three models, non-profit, mutual-benefit and for-profit, have positive and negative attributes. The ILF has certainly contributed to the deepening the understanding of these issues, as well as the interplay between organisational/ founders’ missions, the investors’/funders’ mandates and the regulatory requirements.

3.2 Dialogue on Impact Assessment

“...The purpose of a dialogue is to go beyond any one individual’s understanding. “We are not trying to win in a dialogue.” We all win if we are doing it right... In dialogue a group explores complex difficult issues from many points of view. Individuals suspend their assumptions but they communicate their assumptions fully. The result is a free exploration that brings to the surface the full depth of people’s experience and thought, and yet can move beyond their individual views. The purpose of dialogue is to reveal incoherence in our thought...”

Peter Senge, *The Fifth Discipline*⁴

Based on the discussions in the joint AGDF and ILF meeting in late 1997 in Morocco, the theme for ILF 1998 in South Africa was Impact Assessment. Apart from a set of background papers on the topic, two presentations, one by Michael Chu titled “Impact Studies: A View” and a second one by Jon de Witt and Anton Simanowitz about the impact assessment tools that they have developed at the Small Enterprise Foundation, South Africa. Michael raised four main points about impact assessment:

- Audience: Who is the impact study for?
- Fit: Is the evaluation compatible with the organization’s main activities?
- Evaluator: Who should do an evaluation?
- Quality: Is an evaluation good enough to use for decision-making?

Michael distinguished between evaluation from the point of view of practitioners and that of donors. For the former, he felt that pioneer strategies need to be validated and therefore impact assessment is necessary. For donors the question of evaluating impact is never closed. Donors must evaluate constantly to determine what strategies and institutions best help fulfil their missions. Lisa asked: “Is the practitioner his own best critic or whether the best critics come from the outside the organization?” Michael responded that an impact assessment would probably not be worthwhile for an institution like BancoSol. He felt that loan officers on the street see the impact daily.

Jeremy made a counter point by eliciting the limits of practitioner validation. “It is difficult to figure out your own mistakes.” He pointed to the “conspiracy of silence about mistakes and failures by micro finance institutions.” This was in 1998, three years before the street riots in Lima against BancoSol and other MFIs, asking for debt forgiveness, or the bad news about the Grameen Bank, Bangladesh’s portfolio health becoming public!

A further question was on when to carry out impact assessment. I asked if paying attention to impact issues over design issues, while the programs were still in their infancy, was worthwhile. Mary pointed out that impact evaluation at the pilot stage may be premature and that experimental projects are often condemned after periods as brief as two years, though impact happens over a decade or more. Aleke agreed with this – three years is too short a time to measure impact of micro-finance on a poor family.

Then we had Jon de Witt's presentation on impact assessment, as practiced by his organisation. DeWitt proposed a “simplistic” measurement system that looked at the impact on, for example, a village: Can villagers now send their children to school? Do the children have shoes for school? Can the villagers buy their children's school uniforms?

What was my learning on these issues? In a memo to my colleagues, I presented my synthesis of the pros and cons of impact assessment as follows:

One View	Middle Path	Another View
Don't bother with impact assessment	Evaluate only at major milestones	Compulsively measure impact
Do it internally	Use peer/mutual evaluation techniques	Use external evaluators
Keep it informal	Document it but use techniques such as PRA, Focus Groups and Case Studies	Use formal research techniques such as questionnaire surveys and control groups
Only care about customers	Combine financial results with customer satisfaction and quality of life indicators	Focus only on investors – ROI
Publish on the WWW	Different levels of detail for different audiences	Primarily for donors and Boards
Only after long term stabilisation	At every scaling up milestone	At periodic intervals – three years, five years, etc

As I had my doubts about the utility of impact assessment at the early stage of an organisation's work, I came back and commissioned a "preliminary" impact assessment exercise for BASIX, with the main objective of learning how to do impact assessment. We hired the same outside rural market research agency that we had earlier engaged to carry out a customer satisfaction audit for us. Among other things during the briefing, I shared with them the slides of Jon de Witt's presentation. The exercise we carried out, did not turn out to be very insightful though it yielded useful statistical information, confirming what we knew based on our field visits to customers. Michael was right!

Soon after this exercise, though not entirely due to it, we in BASIX dropped two of our most innovative credit distribution channels - one using commodity brokers to extend loans to farmers and another using seed production companies for a similar purpose. Both of these channels were controversial in India, since they were based on the use of commercial intermediaries widely perceived to be "exploitative". The impact study showed that there was some use of on-lending funds by intermediaries to finance their own operations rather than on-lend those to farmers. Coupled with delinquency rates considerably higher than direct micro loans to farmers, this evidence was the last straw, which made us close these channels.

I feel we closed these experimental channels prematurely, partly out of the anxiety of a small and new organisation to maintain its portfolio quality. We did not have the organisational depth to maintain the experiment to its logical conclusion. Mary was prophetic!

Two years later, BASIX commissioned another independent researcher in economic development to carry out a household case study based assessment. This turned to be more insightful but was dismissed by one of our Board members who is an academic, saying the sample was “insufficient as a basis for generalization!” So, in 2002, BASIX commissioned the Indian Market Research Bureau (IMRB), a major private market research company, to carry out a substantial sample survey based impact assessment, coupled with focus group discussions to generate qualitative insights.

For good measure, we hired the same independent researcher to act as a monitor and resource person to the study from our side. When the IMRB’s draft report came, nobody could make much out of it, as just did not reflect an adequate understanding of the context. After a lot of dialogue and inputs from the social scientist and our staff, we were able to process the report and on the whole it has led to many useful insights, which are not obvious.

Three years after the ILF session on impact assessment, in an interview in late 2001, Chris told Carla, the program coordinator of the ILF that he was particularly impressed with DeWitt’s use of participatory wealth ranking - as a way to measure the DFIs' impact on wealth creation. Jeremy described how he learned to think about impact assessment. “I learned the difference between counting products delivered and analysing impact, as well as how to analyse the tension that exists between the two.”

What did the Ford Foundation learn from all this? The AGDF Report for 2000 states that “DFIs are now believed to reach 10 million people world-wide...while their potential market is 2 to 3 billion...Mobilizing donors and capital markets...will require that DFIs not only demonstrate their institutional strength and staying power but also their social and economic impact.”

In pursuit of this, the “AGDF members have launched a worldwide applied research project to develop and test methodologies for impact assessment by DFIs. The Foundation set up a US Project Team and a separate action research program at the Institute of Development Studies Sussex, to assess the impact of development finance programs. The program would support a consortium of researchers in three British Universities to undertake applied research and develop methodologies by which DFIs could assess the impact of their program.”

In terms of learning for the field: Jon de Witt's method was picked up by CGAP and is currently being used by many DFIs. It has helped integrate impact assessment with operational monitoring, thus making it more useful for improving the practice of DFIs. At the same time, donors have become more aware that their need for statistically rigorous, large sample, control group type of impact assessment is best done by outside academic consultants and with minimal operating disturbance to the organisation being studied.

As Anton Simanowitz, Jon de Witt’s former colleague, now coordinating a program titled “Imp-Act” wrote in an article: “Impact assessment has come a long way from the days when studies were commissioned by donors, implemented by consultants and provided little use to MFIs other than a pretty report on the shelf.”⁵

4 Triple Loop Learning:

In his book, Masterful Coaching, Robert Hargrove distinguishes between "incremental learning" (single-loop), "reframing" (double-loop learning), and "transformational learning" (triple-loop). These distinctions (based on the original work of Gregory Bateson, and extended by Chris Argyris and Peter Senge) are important... Much development work for [practitioners]... takes place at the incremental level (helping them to embody new skills and capabilities), sometimes at the level of reframing (challenging them to reshape their patterns of thinking), but seldom at the transformational level (creating a shift in context or point of view about themselves)...

Mary R. Bast *Transformational Change In Organizations*⁶

Apart from nearly three days of thematic discussions, each ILF meeting comprised at least a full day of site visits. Thus the participants had a chance to see

- Micro-business and housing loans operations of Rural Finance in the black townships of South Africa,
- Micro-credit and livelihood promotion by BASIX in rural Andhra Pradesh in India,
- Women's thrift and credit cooperatives of CDF in another part of rural Andhra
- Savings and loans operations of CAME in Mexico
- Natural resource based livelihood promotion by Alternativas in deep rural Mexico
- Farmers' Financial Service Associations and own branches of K-REP in Kenya
- Women's savings and credit groups of the KWFT in Kenya
- Business Units such as the "Trubus" agricultural magazine and books publication unit of Bina Swadaya in Indonesia

What learning came out of these discussions and visits? In Kenya, I used a questionnaire to get the ILF members to recollect their learnings, which they seemed to recall vividly. Later, Carla followed this up with a number of telephone conversations.

4.1 Single Loop Learning: Products, Systems and Skills

Incremental learning in our context is about operational detail: what products we need to offer, the systems we need to improve, and the skills that our staff need to have to do this.

Chris Hock told Carla in late 2001: "I found the site visits to be a very valuable way of understanding the work of other Forum members in terms of procedures, products, and systems. Although everyone spoke about the work of their organizations, I found it difficult to understand the nuances of the stories without physically experiencing them. The site visit to the CAME groups and CAME's offices gave me a clear understanding of the similarities between CAME and our own group lending models. I discovered that Mexican groups tested potential new members' strength and commitment in the same manner as South African groups. I tested their review skill first-hand with one of the CAME groups that I visited. I opened a savings account and asked if I could borrow money. One of the group members said that I must first save on a weekly basis before being lent any money: the group clearly understood it must carefully consider new group members. It cannot offer recklessly the group's guaranty without first understanding the personal risk they may be taking in a new member. This skill impressed me because the members are unskilled people working without credit training."

In a conversation with Carla, Aleke said: “I was fascinated by the use of Palm Pilots in CAME” while Jeremy said “I was very impressed with CAME's creative application of technology through the use of the Palm Pilot system. Not only would the Palm Pilot system enable the members to reduce their time commitment, it would also make them familiar with another level of technological sophistication.”

I could not go to the Mexico meeting, but when I read about the Palm Pilots, I thought we could also try it out in BASIX, since we also had the advantage of having a number of accomplished hardware vendors and software firms in our own city, increasingly being referred to as Cyberabad! So, after a few months, BASIX launched a pilot program for testing two different technologies for using hand-held terminals to capture transactions in the field and these are now being rolled out fully in a couple of branches. Later, I asked Alfredo how the CAME experience was going on and he said that while there were teething troubles with the technology, it was beginning to stabilise. Alfredo made an interesting statement: “What the computer does for CAME is fine enough, but for the women, it is a great source of self-confidence that they can now use computers.”

In 1999, on seeing how BASIX uses not highly educated or experienced rural youth as Customer Service Agents, after rigorous selection and training, Chief Bisi went back and adopted that system. In 2001, she wrote: “I learnt from India how to institutionalise out volunteerism into an agent function. This has helped us to put more value on the role of our leaders' function as savings mobilisers.” In the same meeting, Ade had picked up the Operations Manual of BASIX, which he used as a basis to review FADU's procedures for credit appraisal, particularly for individual loans, which they had just started giving to those members who had graduated from groups. By 2001, individual loans accounted for nearly 20 percent of FADU's portfolio. Ade told me in 2002: “The BASIX Operations Manual I picked up in 1999 became a very good reference and training document for us.”

4.2 Double Loop Learning: Strategies and Institutional Design

Double loop learning is about “reframing” a familiar problem, in this case, how can we alleviate poverty in a sustainable manner? Thus strategies and institutional designs are the key to this level of learning. There was plenty of evidence of this at the ILF:

Raul told Carla in 2001: “I hope that my presentation during the Alternativas site visit helped ILF members understand the impact that Alternativas' water reclamation projects - a non-financial strategy - has on communities, and their linkage to Alternativas' amaranth projects - a financial strategy. Not only do they help rural communities live a more dignified life, they also provide the basis for economic development through sustainable agricultural production.” It certainly made a lot of sense to Ade of FADU, who said he went back and strengthened their “Mixed Agriculture Project” involving credit to farmers for growing fruit trees along with food and cash crops, to improve the environment. FADU also designed a credit program for boats, nets and outboard motors for the fishermen in their Fisheries Development Program.

Jeremy appreciated the learning he gathered on sub-sectoral analysis during the field visit to BASIX. Jeremy said: “I was impressed with BASIX' insightful identification of new and growing business sectors and clusters, the importance of the lender's role, and the linkage between the economic context and lending transactions... I used some of the ideas I picked up during the site visit to BASIX when I was in Tibet later.”

Exchange visits among ILF members, before the ILF was formed or after, were a major source of learning about strategies and institutional design. The Foundation facilitated a visit by Chris Hock and two of his colleagues to Shorebank in 1992, before they set up Rural Finance, and likewise, the Foundation supported three Indian colleagues to visit Shorebank in 1993 and Indonesia's BRI and Bina Swadaya's Self-Help Group program in 1994, before BASIX was established. After our visit to Indonesia in 1994, my colleague Bharti and I made presentation to the Deputy Governor of the Reserve Bank of India, to allow private rural banks like the BPRs in Indonesia and deregulate interest rates on small and rural loans. After the RBI sent its own team to visit Indonesia, the ideas were accepted in 1996! In 2002, he was able to report to Bambang how much the Indian rural credit system had got influenced by Indonesian ideas and practice.

Adhiambo missed coming to the ILF meeting in Hyderabad but came later for a visit with a group of Nigerian central bankers, commercial bankers and MFI leaders to India in 2000, with field visits to BASIX and CDF, and meetings with the Reserve Bank of India, an apex bank NABARD, involved with linkage of poor women's SHGs with commercial banks, and ICICI, a major private commercial bank ICICI. Adhiambo told me: "In 2001, the Nigerian Minister of Industry had gone to India and learnt of our visit and contacted us soon after coming back. We gave a number of policy suggestions to him."

In an interview in 2001, Chris Hock said: "I was impressed by the practical way in which Raul had used his exploratorium as a way of buying people's support. I liked that it was a physical and very tangible way of showing people what the organization does and the logic behind why it is being done. I have always used more conventional approaches to gaining people's support; I used persuasion - take a risk in an organisation without a balance sheet - and through proposals - build an argument logically and creatively." All of us responded the same way to Witold presentation on "partnership finance" where he handed out two sticks and a string, to show how a relationship could be strengthened.

In response to a questionnaire about learning, Bambang said he had learnt at the level of strategy, that "combining the direct and indirect lending and the banking and non-banking financial institution approaches" can yield more effective results. Bambang's organisation had set up four BPRs (local privately owned banks); led the work of forming and linking self-help groups with commercial banks and financial institutions all over Indonesia and in 2002, launched a pilot project to become a direct lending MFI, along the lines of ASA, Bangladesh.

Aleke responded by writing that he recognises the effect of Shorebank on re-organisation of K-REP to what it is today, whereby a holding company (K-REP Company Ltd.) was created - the holding company and interest in three subsidiaries - K-REP Bank, a consulting company, K-REP Advisory Services and an NGO involved in developing new micro-finance products. K-REP Development Agency - was learnt from Shorebank Corporation. I, of course, had unabashedly "copied" BASIX corporate structure from Shorebank.

Chief Bisi seems to have had similar learning when she wrote that there is a "need to separate micro-finance activities from the other social activities and still be part of the integrated approach to empowerment of rural women. Perhaps COWAN can be a holding organisation for a Rural Responsive Bank."

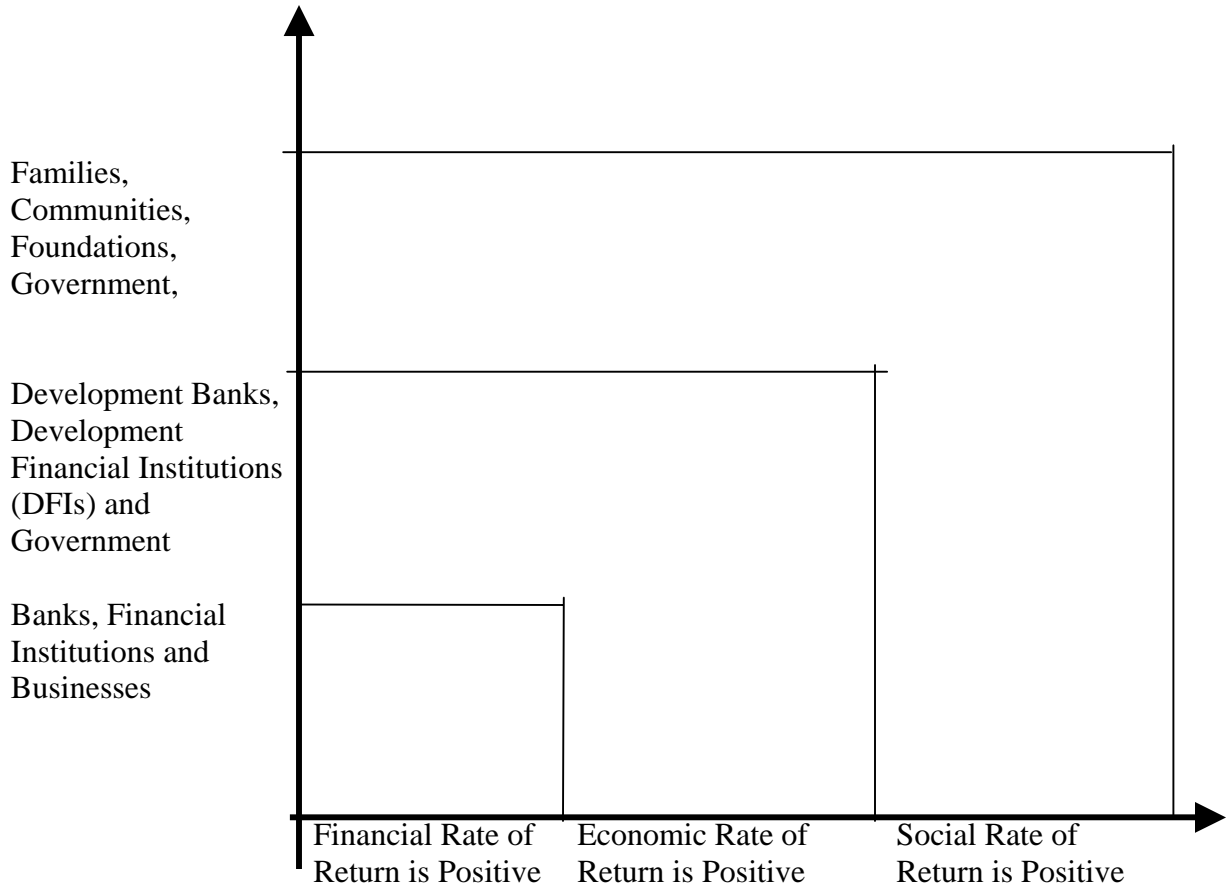
Talking about his learning on financial sustainability versus social impact, Witold from Poland wrote: “The conference in Kenya was a kind eye opener for me with respect to the commercial vs. subsidized approach. Until then I believed that the natural goal of each MFI is to achieve financial sustainability. It resulted from the [fact that] in spite of being subsidized (Fundusz Mikro is not paying for \$20 million loan capital that we are using) we use most of the principles applicable to commercial organizations. I was under a strong influence of the ‘commercial group’ led by ACCION. After the conference, I realized that ‘smart subsidy’ is good and does not necessarily lead to inefficiency”.

On the same theme, Jeremy said: “After the ILF discussions, I learned to understand the difference between smart and dumb subsidy. In particular, I learned that using subsidy the wrong way can degrade an organization's and a borrower's position. Using subsidy the right way can result in a higher level of organizational self-worth and independence.”

I clarified this with a diagram in the Indonesia meeting, trying to rigorously define “smart subsidy and dumb subsidy”. According to me, all investments are smart as long as they yield a positive return, with an assessable level of risk. The mainstream financial sector is able to make only those investments in which a return is above the prevailing cost of capital. Development banks and social investors are able to make an investment when there is a positive economic return, even if the financial return is below the prevailing cost of capital. This is done to help economic growth of a sector, a region or a segment of population – the minorities, for example. This is an investment, not a subsidy. However, if it known in advance that the economic rate of return will be negative, then it is not an investment, but a dumb subsidy.

On the same lines, when a family, a community, a foundation or a nation-state often make investments in activities which only yield a positive social rate of return, but not a positive economic return, nor obviously, a positive financial return. There are activities such as planting slow-growing but environmentally useful tree species, bringing up children with adequate nutrition and education, and building democratic institutions, all of which have a positive social return, but not necessarily a positive economic or financial rate of return. Yet, investing in these is a smart not dumb subsidy”.

Smart Subsidy



As long as FRR/ERR/SRR is positive the investment is valid and there is no “dumb subsidy”. However if the SRR is positive and ERR is not, then subsidy enables that investment to happen and such a subsidy is “smart”. Similarly if the SRR/ERR is positive but FRR is not, subsidy makes that investment happen and it is “smart”. Examples - Schools do not have positive FRR with a low fee structure. A subsidy by government can make the FRR go positive

4.3 Triple Loop Learning: Perspectives, Values and Worldviews

Triple loop learning is “transformational”, it fundamentally alters perspectives, values and worldviews. It is extremely rare and extremely hard for grown-ups, least of all for accomplished professionals, to change at this level. Yet, when such a change occurs, and it may be a slow process and not a single dramatic event, the benefits of it to the practitioner, his organisation and the field are enormous.

At what stage double loop learning starts morphing into triple loop learning is hard to say. But sometimes, one can see that happening in mid-sentence. To complete the quote from Chris Hock about his visit to ILF, Mexico: “Finding these types of similarities between the work of RHF in South Africa and CAME in Mexico encouraged me. I did not feel like a lone person struggling for a certain cause; I knew that I had colleagues in different parts of the world working on the same problems.”

Jeremy told Carla that he had deeply enjoyed the site visits to local groups. “The level of poverty that I have seen made a big impression on me... I have been amazed by the dignity of the people. I have a deep sense of respect for those who subsist on very little and I admire their persistent determination to improve their lives...At the same time, I have been struck by the tremendous creativity [of my ILF colleagues] in trying to integrate a social or public purpose with traditional markets. I was so struck by the regulatory and legal constraints that many ILF countries face, particularly with regards to making property into an asset. Every organization is trying to solve [this] very complicated problem.”

Raul told Carla in 2001: “I think the site visits are very important component of the Forum meetings. Not just going on site visits, but also hosting those is a learning experience. I believe that it is only through the site visits that members can see and understand the real life conditions and context of the lives of the rural and urban poor. I have found the site visit format very important: presentation from the host group, site visit, and reflection. The site visits take the leaders beyond abstract norms to understanding the ‘why’ of the norms.”

Ade told me in 2002 “Just the repeated use of the language of finance in the ILF made me rethink how we were doing this work in FADU. I felt we should do it in a more business-like way and look at operational costs and profitability.”

Aleke said in 1999: “I found the sub-sector approach to livelihood promotion by BASIX is a new way of looking at things.” And in 2002: “The way in which the LPD Bank was working in Bali, using the power of a traditional structure for peoples’ benefit, makes me moan for the decline of similar structure in Africa”. Aleke wrote that the ILF helped him reaffirm the values of empathy with the poor/the disadvantaged; fairness/justice for all; equity; a belief that wealth if not shared is not sustainable; and protection and rehabilitation of the environment.

I learnt from Aleke to be able to express concern for the poor without “hiding” it, and from Jeremy to laugh at himself and poke fun at others! From Chris, I learnt that life goes on, in spite of major setbacks, and indeed what looks like a setback at the time it happened, later shows up as an opportunity to change course and evolve. And from Bambang and Ade, the virtues of listening, participating with one’s ears open.

5 Interlude: Personal Support for Those Lonely at the Top

“The distinction between personal and professional growth is central to the success of any given group... Ideally, individuals would be involved in both types of growth and learning. One’s personal growth can do nothing but enhance one’s professional effectiveness. Professional effectiveness can also contribute importantly to one’s sense of personal well-being... It is not an either-or... if personal issues are excluded entirely, professional goals will break down... Support groups are safe places [for both types of growth], places where members like to be, where there is support, caring, concern, laughter, and camaraderie. These are not sterile learning situations, but the primary goal is never obscured.”

Howard Kirschenbaum and Barbara Glaser *“Developing Support Groups”*⁷

This account of how the ILF works as a learning space for professionals in development finance will not be complete without touching on the personal dimension. This dimension was first brought home in the sharing in the Morocco meeting of the ILF. Almost everyone seemed to indicate that they were in development work because of some deep reason. Each of us was a driven person, some driven by a belief in social justice and others by the unwillingness to accept the deep inequity and poverty in this world.

This kind of drive leads to burn-outs. The ILF served an unintended purpose, that of becoming a “mutual support group” to the Leaders as they went forth in their lonely, pioneering and often frustrating pursuits. We recount some poignant examples, with the permission of the concerned members:

A few months before ILF 2001, Chris Hock had sent us all an email in April 2001 that he was resigning from the Rural Finance Facility and its subsidiary, Rural Housing Finance, the twin DFIs which he was the founder of, due to differences with his Board. At the ILF 2001, we learnt the full story. It seemed RFF was growing well, but became over-dependent on lines of credit from two South African public financial institutions, Khula, for micro-enterprise loans, and the National Housing Finance Corporation (NHFC), for his housing portfolio. Due to changes in policy on exposure to micro-finance institutions, Khula and NHFC decided that they could not extend further loans to RFF, and indeed called up part of their existing loans. There was no way that RFF could repay, so it was put under liquidation, even as it was making \$35,000 profits per month.

Chris Hock was fired by his Board for getting into a situation "allowing" Khula and NHFC to recall their loans. Three days later, he had a major car accident, which fortunately he survived without significant injury. As he was hit by an oncoming vehicle at 70 kmph, Chris recalled thinking, "This is it, this is the bottom of my troubles and after this I will only go up". And sure enough he had. Though RFF had been split and sold off, one part to an MFI another to a private bank, Chris had been hired by a major private investment bank to help set up a second tier microfinance institution for South Africa. Chris Hock's never-say-die spirit was a deep existential lesson for all of us, even in 2001, but it was a “wow”, when we met him in 2002, and found that he was now working for the Rand Merchant Bank, helping them securitise \$ 100 million worth of housing loans for low-income families and dealing with NHFC from a different vantage point! We encouraged Chris to write-down his story and it has resulted in a remarkable piece titled “Falling Forward”. Hearing Chris Hock tell his story and then reading his

account in “Falling Forward” made me cry in resonance. I felt Chris’ story was my own story and in some ways, without going through trauma, I was learning some lessons.

This is how Chris recalled the ILF Mexico visit in October 2000, when he was nearing the peak of the crisis: “I told my story and was re-assured - I was not going crazy. I felt I was right on the edge of an abyss – clawing my way back from the pitch black night on that bright sunny afternoon. After a day in conference in Mexico City we got on the road south to hear and see the work of CAME and Alternativas...South of Pueblo, I was standing in a field of Amaranth. A drought resistant, high protein cereal, it is also a substitute for the expensive flowers required in many Mexican ceremonies. We watched farmers threshing the bright red flowers alongside a river whose flow has been restored by careful nurturing of the ground water with a series of small retention ponds. Only later did I come to see that this trip, and the Leaders Forum itself, played a similar role for me, a series of small replenishing ponds nurturing the wellsprings of my faith in my work.”⁸

Raul resonates to this theme when he told Carla in late 2001: “In the very long-term battles that MFIs face, having the support of a network of fellow MFI heads is key. It is important to me to not feel alone in my battle. I feel that I no longer need to be concerned with changing the world, but can be focused on changing my piece of the world because there are other people working on the same battle in other parts of the world. In Mexico I feel fairly isolated because I don’t have the opportunity to enter into a dialogue with someone who has lived with the MFI complexity and is, therefore able to respond to the context...Participation in the Forum has clarified for me the important role of heads of organizations. Over the years, I have heard of the successes and challenges that my colleagues have faced. Only certain people would willingly embark on such a journey and accomplish as much as the Forum members have accomplished.”

Witold said in 2002, “Even though I am a new member and this is my second meeting, I find the ILF very useful. I have a three person Board, all of whom live in the US and the discussion is rarely about the deeper issues I face in my work in Poland. I cherish the chance to present my paper on the “Secrets of Microfinance” and I was pleasantly surprised to see it made sense to so many of you as well.”

Bambang could not come to the Hyderabad Forum in 1999, because he had lost his 30-year old son a few months earlier. I met Bambang in Kenya in 2001 for the first time I was meeting Bambang after he had lost his son, over two years ago. Bambang had written that his daughter had gone into a depression after losing her brother. It was good to see his daughter Irsa now back to normal. As for Bambang, he seemed to have taken the whole thing very stoically.

Chief Bisi captures the spirit when she wrote: “ I have learnt that all things are not always roses. To hear others confronting problems energises me to keep on.” Who energises whom is a matter of point of view. I recall being moved deeply when, at one of the meetings, visiting the operations of the Kenya Women’s Finance Trust, Chief Bisi, a 60 year old Nigerian woman, asked the local younger Kenyan women to join her in singing and they all broke out into a rendition of “Harambee, Harmabee”... the pan-African song of the early post-independence phase. It means, “let us all pull together”. Let us, indeed!

6 Building a Perspective Together: Capital Plus

“ ...There are two primary types of discourse - dialogue and discussion. Both are important to a team capable of continual, generative learning but their power lies in their synergy... The word discussion has the same root as percussion and concussion. It suggests some thing like a ping-pong game where we are hitting the ball back and forth between us. Clearly this can be useful. Yet the purpose of the game is normally to win and in this case winning means to have one's views accepted by the group. A sustained emphasis on winning is not compatible, however, with giving first priority to coherence and truth...what is needed to bring about such a change of priorities is dialogue, which is a different mode of communication... In dialogue, a group accesses a larger pool of common meaning, which cannot be accessed individually.”

Peter Senge, *The Fifth Discipline*⁹

In the ILF 1999 in India, we discussed how to use capital to build local institutions and the role of DFIs in building social capital, job-creation and new enterprise creation. In all of these issues, we tried to bridge the notion of capital as core product and the core product as an organizing and positioning vehicle for a variety of other parallel products.

The idea that capital is only effective with other products like technical services or social organization became widely accepted among the ILF members, over a series of meetings. We often discussed the need to go beyond finance to Capital Plus, or all the other things one needs to do apart from mobilising finance, to get economic development going.

Eventually, the discussion on this theme became so much of a *leit motif* that we decided to collectively write a background paper. But how do twelve busy people, with unequal access to email and telecom, spread across the globe write a paper together? We decided on an interesting process – to use the ILF discussions to arrive at a consensus on the core points in the paper, then some of us writing some sections and eventually Carla putting together a draft, everyone commenting on it extensively and then one or two of us editing and finalising the paper. The original outline of the Capital Plus Paper was:

- capital as a core product of development finance – specifically the ways in which DFIs capitalize and the variety of lending and investment approaches; the importance of DFIs' role in intermediating capital markets and difficulties that they face in their attempts; and the meaning of commercialization and its implications for DFIs
- a review of the social impact versus sustainability argument; the need to place the argument within a broader framework of economic growth and development
- the stages of DFI growth and managing mission in the context of institutional scale, with particular emphasis on balancing investor expectations and ownership
- the increased effectiveness of capital through leveraging of traditional financial products with other non-financial products and institution building processes, as told through the experiences of ILF members
- the systematic barriers faced by DFIs in their efforts to create scale and have effective portfolios and the regulatory reforms that must be implemented in order to lessen these barriers
- the role of subsidy and public systems in building DFIs and facilitating economic growth.

We used the ILF 2001 in Kenya to evolve the common key points. These were:

- The practice of development finance provides an important vantage point from which to explore a variety of interrelated themes: the lives, decisions, and budgets of low-income consumers and entrepreneurs; the financial services, economic development, and legal context in which they operate; and the quality and culture of the civil society that sustains and incubates them.
- The ambiguous nature of development finance institutions gives them a special vantage point from which to evaluate both social problems and economic solutions — DFIs are simultaneously private sector in character (the discipline of markets) and still promote and maintain a public purpose mission (economic growth and capital access for the poor).
- Development finance can use its pragmatic and ambiguous nature and practice to say something about both its own transactions and operations as well as address broader social decisions regarding public and private regulation and investment.

In the discussion on the Capital Plus paper in the ILF 2001 in Kenya, Frank DeGiovanni recommended focusing the paper around a set of normative statements about the field. He noted that the field is dominated by such statements, but not from practitioners. Thus invited, the seven normative statements that we articulated were as follows:

- Statement #1: Access to financial services is necessary but not sufficient to alleviate poverty. Building social capital is a necessary component of poverty alleviation.
- Statement #2: DFIs have a permanent institutional role and should provide financial services to the broad group of low-income beneficiaries.
- Statement #3: Smart subsidy is good and does not necessarily lead to inefficiency.
- Statement #4: Effective DFIs must innovate continually.
- Statement #5: Growth of the development finance field requires promotion of social entrepreneurship and appropriate governance systems in order to manage tensions between markets and public purpose in a transparent manner.
- Statement #6: DFIs should be accountable for showing development impact. Members suggested two potential impact assessment indicators: income generation and community enterprise.
- Statement #7: Regulatory change creates wealth. The regulatory environment must be strengthened to enhance the ability of DFIs to alleviate poverty and create wealth.

The discussions on the Capital Plus paper continued over email during most of 2001 and became a major input to the proposal that the ILF made to the Ford Foundation in thinking about the Global Innovation Fund (GIF) for Development Finance.

7 Generativity in Action: Designing the Global Innovation Fund (GIF)

Evolution has made man a learning as well as a teaching animal, for dependency and maturity is guided by the nature of that which must be cared for. Generativity, then, is primarily the concern for establishing and guiding the next generation...an attempt to establish a set of proven methods and a fund of traditional reassurance which enables each generation to meet the needs of the next in relative independence...

Erik H. Erikson *“Identity, Youth and Crisis”*¹⁰

The idea to build what is eventually being called the Global Innovation Fund (GIF) for Development Finance, first came up in a bus-ride through the Krueger National Park, on the last day of the ILF, 1998 in South Africa. I certainly recall Mary, Jeremy and Chris in the initial conversation, but I think it soon had everybody excited. Adhiambo mentioned the idea formally to the Foundation in a “back to office” memo. It was discussed by the AGDF in its annual meeting in Olive Branch, Mississippi in 1998. We followed it up in ILF, 1999 at Hyderabad, with a formal memo to the Ford Foundation, urging it to look carefully at the field’s need for more and more diverse, flexible and patient funding to help grow their institutions. We also offered the ILF’s assistance and involvement in developing the idea further. The Foundation then hired Seed Capital as consultants to go around different parts of the world trying to determine the demand for such a facility and develop an acceptable contour for the idea. That report was presented in the ILF, 2000 in Mexico.

The idea was substantially discussed in the ILF 2001 in Kenya, starting with an update by Frank DeGiovanni on the Foundation’s work on the GIF, the Foundation’s presentation of a set of six unresolved questions and the Forum’s corresponding feedback, and the development of a proposal to the Foundation for how best to proceed with development of the GIF and the Forum’s role in its development.¹¹ Frank provided ILF members with an overview of the Foundation’s GIF work since the last AGDF conference. He highlighted the background of the Foundation’s recent work and discussions on the GIF, including the intentions of the Foundation going forward. He made mention of the following:

- Difficulties that groups such as K-REP and BASIX experienced in attempting to raise significant capital.
- The Seed Capital demand-side report conclusions: the supply of capital did not often match the need, there are significant capacity gaps that needed to be addressed, and problems in the enabling environment in many countries limited the scale and success of development finance.
- The interest by many in the Foundation to update the report from the supply-side perspective and then engage in a business planning process for the GIF this year.
- The work of the Foundation in identifying a conceptual framework for the GIF.

7.1 *Formative Questions about the GIF*

Frank then presented the Forum with a set of unresolved questions pertaining to the mission and strategy of a GIF and requested our feedback. This is how we responded:

- Who should the GIF serve?

We felt the GIF should serve DFIs which are able to bridge public and private sectors and leverage GIF resources; DFIs who use innovative Capital Plus strategies to reach the poor - for demonstration effect; Organisations who provide capacity building or other services (rating, business development services, dissemination) and also Industry associations/networks/researchers for establishing standards and working on the enabling environment, policy, regulation

- What should be the GIF's core goals?

Different members of the ILF proposed three potential missions statements for the GIF, with each reflecting a different emphasis.

- Mission Statement A: The GIF should use financial and non-financial tools to build the institutional depth of DFIs to reach the poorest of the poor.
- Mission Statement B: The GIF should serve socially committed entrepreneurs that are trying to add value to undervalued human, social, and natural capital by linking to financial capital.
- Mission Statement C: The GIF should use financial and non-financial tools to build the institutional depth of DFIs and the DFI industry in order to add value to the human, social, and natural capital of the poorest of the poor for the purposes of wealth creation.

The conversation around the first mission statement placed the emphasis on innovation, namely how do we recognize where innovation is likely to take place. Most members agreed that stronger institutions typically have a greater capacity to innovate. They also recognized that if the GIF were going to make the poorest of the poor a criterion for investment, it would have to choose relatively strong institutions that had a demonstrable strategy for getting to that population. It was interesting to note that the question of beneficiary targeting to some extent assumed the question of organizational capacity or institutional type.

The second mission statement reflects a shift in emphasis from beneficiaries and institutions to social entrepreneurs and institutions. This statement reminded everyone that the GIF's potential role could include early intervention in DFI's organizational development cycle in order to facilitate the incubation of strong institutions.

The third mission statement addressed the sub-textual tension that had arisen around the discussions of the first and second mission statements: was it possible for the GIF to play a field-building role, whereby it would facilitate institutional growth and expansion, and also reach the poorest beneficiaries. The consensus that was reached around this tension is reflected in third mission statement.

- Who should be the potential grantees and/or investees of the GIF? Should the GIF invest directly in development finance organizations? What should be its geographic focus?

We arrived at a consensus that the GIF should invest directly in DFIs only where there is a possibility of demonstrating an innovation or of significant leveraging of public and private funds. We also felt that the GIF should invest both in established institutions as they innovate, and in new ones with innovative ideas. About the geographic focus, we wanted it to be global, but recognising that global presence is costly, we suggested that the GIF should invest in regional/national/sectoral funds if they leverage public and private resources.

- What strategies should it pursue to attain those goals? What kinds of programs should the GIF offer?

We stressed the need to foster entrepreneurship in the DF sector by identifying/promoting and mentoring social entrepreneurs and their institutions and capacity building for DFIs; We felt that the GIF should be promoting innovations for enhancing outreach to the poor and sustainability; and advocating policy and regulatory changes by networking with private and public sector leaders and institutions at the multi/bilateral, and national levels to enhance flow of capital plus to DFIs. The contribution of the GIF would be in connecting public and private capital plus resources with demand for capital plus from the poor, as aggregated by DFIs; and leveraging and orchestrating private and public sector investments to DFIs. Some of us also felt that the GIF can link impact assessment and research with practice. GIF “Investments” should orchestrate grants, loans, equity, mentoring, TA, networking, enhancing access to natural resources/housing/infrastructure/ savings and transaction services/markets and policy support.

- Who would be the investors in the GIF?

The Ford Foundation should be the lead investor, leveraging its relationships to draw in capital and ideas from both the public sector (USAID, DFID, KfW, JBIC, IFC) as well as the private sector (Soros, Citibank, Dexia, AKFED). The GIF business planning process should involve some of these potential investors, to help evolve a structure that is acceptable to a broader range of constituencies.

- What should be the institutional form of the GIF?

We felt that the institutional form of the GIF would be complex, in response to the fact that its functions were complex. Thus it would have one arm for making loans, another for making equity investments and a third for making grants for research and development and capacity building. The governance of all the entities should be under a common Supervisory Board, which would have representation from the Ford Foundation, Public sector investors; Private sector investors, and Practitioners, bringing in experiential capital. In addition to common governance, various processes needed to be put in place to ensure integration across different components of the GIF.

The question of how best to proceed and the role of the Forum in forming the GIF was the most animated discussion at the conference. These themes - the role of practitioners in designing and forming the GF and the way practitioners respond to organizational development issues - formed the underlying rationale to the proposal.

- ILF members thought that there is a tendency for the field to be overly determined and defined by donors, consultants, and academicians. While they are important stakeholders with vital roles to play, their presence often crowds out the voice and strategic vision of the field's social entrepreneurs. The question of how to form the GIF and whom it should serve became a natural springboard to the issue of who "owns" the field.
- There was some sense that practitioners grapple with organizational development and position issues in a less abstract way than non-practitioners because they live with the everyday complexities of their institutional portfolios, opportunities, and compromises. Therefore, many of the ILF responses to organizational strategy questions had a contextual rather than an exact resolution. The leaders envisioned the formation of an opportunity-driven institution that, while animated by core values and a strong mission, would seek and learn from expected and unexpected circumstances.

These two recurring themes that formed part of the GIF discussions greatly influenced the following four options that were developed and voted on.

Option One: The Ford Foundation should take the lead and the Forum function in a purely advisory capacity at the Foundation's request.

Option Two: Ask the Foundation to directly contract with the Forum to hire the consultant for the business plan. The Forum would also be responsible for turning the business plan into a proposal to the Foundation and a prospectus to other investors.

Option Three: Form a joint Forum/Foundation AGDF committee to hire the consultant and turn the business plan into a Foundation request and prospectus.

Option Four: Pursue a two-fund path where Forum members request a small start up grant from the Foundation to pursue a fund while the Foundation continues on its own path with the GIF.

We suggested that the GIF be practitioner-led and that it offer much more than money (in terms of equity and loans). I put a lot of emphasis on the mentoring role of mature DFIs, who themselves would not benefit from the GIF but would combine their experience with the resources from the GIF to take up equity positions in newer DFIs. There seemed to be differences about the "ownership" of the GIF. The ILF members wanted it to be "our" GIF, with the Foundation playing a "fund it if found fit and then forget it" role, whereas the Foundation wants it to be something they play a substantial role in designing and getting off the ground.

After a vigorous debate, the group overwhelmingly voted for option three (the joint Foundation/ILF option) based on the fact that it gave the ILF a sense of practitioner ownership, kept the spirit of the Foundation relationship, and recognized the Foundation's understandable interest in wanting to be part of the process. Members believed this option to be a strong development strategy because it reflected a sensitivity to the ownership interests of donors, practitioners, and investors.

7.2 *The ILF-AGDF Consultation on GIF at Beijing, 2002*

The Foundation invited the ILF to send its representatives to the AGDF meeting in Beijing in February 2002 and make a presentation on the proposed GIF. Five of us went – Jeremy, Bambang, Alfredo, Aleke and I. We were scheduled to make a presentation on Friday, and we arrived on Tuesday. Apart from participating in the AGDF meetings and making a presentation on the ILF, we used the evenings to sharpen our thoughts on the GIF.

Elizabeth Littelfield, CGAP’s Executive Director who was also at the meeting, presented a paper titled “Water, water everywhere, not a drop to drink.” Elizabeth was referring to the paradox - while the donors perception was that too much funding was chasing the field, on the other hand, DFIs constantly found themselves short of funds. She said that 10,000 plus micro-finance institutions (MFIs) worldwide reached only 5 percent of the potential market and only 1 percent of the MFIs were financially sustainable.

In his response to Elizabeth’s presentation, Bambang said: “ Since ancient civilisations, water was not for everyone; water was for those who were able to control the river...It is clear that unlike water which tends to flow towards the lower land, money tends to flow in the opposite direction...Finance can become available to the poor if its proper management is assured.” Thus Bambang was saying that building the capacity of people’s institutions was the key task, which would then enhance supply.

Taking a cue from this, we added a substantial diagnosis of this situation from our point of view, as follows: The architecture of the global financial system is like three silos, each standing alone. The first generation of DFIs (National Agriculture and/or Industrial Development Banks) were all set up in the public sector. They did serve some purpose, but mostly performed badly and are now widely reviled by their creators – the World Bank and national governments. “Alternative” DFIs mostly grew out of NGO/PVO experiences. They are promising, but small and often not yet financially mature or sustainable. Private finance markets have remained isolated from both the public and alternative DFIs. Current funding practices focus on low-scale, compared to the size of problem; offer inflexible/inappropriate terms; do not encourage engagement with the public and the private sectors and lack a capacity- and field-building component.

This in turn, keeps alternative DFIs low-scale and with inadequate capacity, so resources keep flowing to moribund public sector DFIs. The public sector DFIs offering “low cost loans” and soft-funded “alternative” DFIs discourage private sector entities from making an entry into development finance. Hence the field remains locked into donor funds, public sector dominance and general malaise.

We then said that there is a way to break this vicious cycle and bridge the three silos. We first defined capital plus. In addition to financial capital, the poor need access to: Natural capital: land, water, forests; Physical capital: infrastructure, utilities, housing; Human capital: education, skills, training, TA; and Social capital: functioning institutions (norms, laws, policies, regulations, networks, markets). All this together is Capital Plus. Experience shows that finance (micro-credit, even less so) has been a necessary but not sufficient condition for growth and poverty alleviation.

The demand as well as supply for new Capital Plus resources can go up significantly, if preceded or accompanied by strategies to foster social entrepreneurship; promote innovation for deepening reach sustainably; build the capacity of DFIs – scale, scope, systems; establish an enabling environment – laws, policies; and orchestrate, in local contexts, the use of public and private sector resources to deliver Capital Plus.

The role of the proposed GIF was precisely to do so. We laid out a vision for the GIF, saying, “we see the GIF as a bridge across the three silos, the public, the private and the alternative DF sectors; enabling the public sector actively uses DFIs for delivering Capital Plus to the poor and encouraging the private sector has a broad menu of options to invest in DFIs.”

We restated the mission of the GIF as follows: “The GIF shall use Capital Plus to foster new talent and innovations in, and build institutional depth of the development finance field, in order to enhance access to the human, social, and natural capital by the poor, for enhancing their economic security and help them build assets”.

We insisted that the GIF’s starting size should make a statement, about the field and about the Ford Foundation’s place in it. So, we proposed an initial size of US\$100 million, with a third coming from the Ford Foundation. This will enable the GIF to start with the requisite prestige, staff, infrastructure and the ability to invest directly in DFIs as also in regional/national/sectoral funds from day one.

So, if the GIF becomes a reality, it would be a very concrete and abiding contribution of the learning from the ILF.

One can only end with an invocation from Donald Schon’s “*The Reflective Practitioner*”¹²:

“ In the varied topography of professional practice, there is a high ground overlooking a swamp. On the high ground, management problems lend themselves to solution through the application of research based theory and technique. In the swamp lowland, messy, confusing problems defy technical solution. The practitioner must choose. Shall he remain on the high ground where he can solve relatively unimportant problems according to prevailing standard of rigor, or shall he descend to the swamp of important problems and abandon rigorous inquiry?”

I am sure my colleagues in the Leaders’ Forum are ready to enter the “swamp”, hands held together. Skip back to the title and start reading again!

8 Acknowledgments

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Endnotes

¹ Lynton, Rolf P., *The Tide of Learning*

² Senge, Peter *The Fifth Discipline*

³ A number of the quotations are reconstructed from conversations various ILF members had with Carla Castillo in telephone interviews in November 2001.

⁴ Senge, Peter op.cit.

⁵ Simanowitz, Anton in “*From event to process: current trends in microfinance impact assessment*” in the Small Enterprise Journal, Vol 12, No 4, Dec 2001.

⁶ Bast, Mary H.

⁷ Kirschenbaum Howard and Barbara Glaser Developing Support Groups in *Facilitating Development*, Lynton Rolf P. and Udai Pareek (Eds.)

⁸ Chris Hock in *Falling Forward*, p3.

⁹ Senge, Peter, op.cit.

¹⁰ Erikson, Erik H. Identity, Youth and Crisis in *Facilitating Development*, Lynton Rolf P. and Udai Pareek (Eds.)

¹¹ The text in this section is taken largely from the ILF’s Global Investment Fund memorandum to Foundation.

¹² Schon, Donald H. “*The Reflective Practitioner*”