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**Expert Paper on “Experiences of Micro Credit of CIRDAP with
Special References to Asian and Pacific Countries”.**

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Experiences of Micro Credit of CIRDAP with Special References to Asian and Pacific Countries.

Introduction

The Centre on Integrated Rural Development for Asia and the Pacific (CIRDAP) is a regional, inter-governmental and autonomous institution. It was established in 1979 at the initiative of the countries of the Asia-Pacific region and the Food and Agriculture Organization (FAO) of the United Nations with support from other UN organizations and donor countries/agencies. The member countries of CIRDAP are Afghanistan, Bangladesh (host state), India, Indonesia, Iran, Lao PDR, Malaysia, Myanmar, Nepal, Pakistan, Philippines, Sri Lanka, Thailand and Vietnam.

The main objectives of the Centre are to (i) assist national action, (ii) promote regional cooperation, and (iii) act as a servicing institution for its member countries for promotion of integrated rural development through research, action research, training and information dissemination. It plays a supplementary and reinforcing role in supporting and furthering the effectiveness of integrated rural development programmes in the Asia-Pacific region. CIRDAP promotes technical cooperation among nations of the regions, operating through designated Contact Ministries (CMC) and Link Institutions (LI) in member countries.

The CMCs account for 32 percent of the world population and 40 per cent of population of the developing countries. Of the rural population, CMCs account for 41.8 per cent of the world total and 46.4 percent of the total population of the developing countries. However, the CMCs account for only 4 per cent of the world GDP and 21 per cent of the total GDP of the developing countries. Obviously, the CMCs are in a disadvantageous position in relation to both income and population.

Sustainable development is the slogan of the day and for this it has to be linked to poverty alleviation and rural development. Poverty alleviation can not be achieved on the basis of public charity. In fact, poor people do not require charity. They need access to resources and equal opportunities and level-playing field. It is in this context that the micro credit gains prominence as an important intervention for poverty alleviation. There are several financial organizations, NGOs and self help groups, which have successfully used micro credit for transforming lives of hundreds of thousands of families, particularly of the poor women.

Sustainable local community development and the role of micro credit in rural development are currently occupying high priority in all CMCs. Programmes aiming at increasing the access of the rural poor to micro credit have witnessed varying degree of success in the CMCs.

South Asia, is seen (Bangladesh, India, Pakistan, Sri Lanka and Nepal) as the birthplace of modern microfinance, houses the largest microfinance institutions in the world, in terms of outreach, and also in terms of poverty focus and sizes of loan portfolios. And

there is a vast diversity of models and levels of development of microfinance in East Asia. Large scale, viable models were developed by formal financing institutions as showcases in Indonesia and Thailand. On the other hand, NGOs have a strong presence in the Bangladesh and Philippines while in China and Vietnam central government programs and associated NGOs have developed new initiatives.

Over the years, the CIRDAP member countries (CMCs) have set up and tested alternative mechanisms to overcome the limits to the Poor's access to formal credit and financial services to their needs.

Organizing policy body meetings (GC,EC and TC) in its member countries , arranging regional and in country training, seminar and workshops and exposure visits are the most important functions of CIRDAP in fulfilling its objectives of assisting national actions and promoting regional cooperation with a view to dissemination and replication of best practices of the member countries.

In the policy body meetings attended by the Ministers, Secretaries and Head of rural development agencies and organizations , country statement on rural development and poverty alleviation policies, strategies and approaches and also activities of rural development institutions and also their best practices are delivered , discussed and shared in the meetings. Reports on the presentations, suggestions and recommendations are published and circulated among the participating members.

My paper is prepared on two such seminars, one **on Reducing Poverty in Asia: Issues in Micro Credit in CIRDAP Member Countries** and the other **on Sustainable Local Community Development and the Role of Micro Credit in Rural Development arranged by CIRDAP**. All CIRDAP member countries participated and presented county papers and successful case studies. Several resources persons attended and delivered and presented papers on micro credit best practices in CIRDAP member countries. My paper comprises a very brief introduction of CIRDAP, and Synthesis on the presentation of the County experiences, suggestions and recommendations, authors observations and comments.

Synthesis on the presentation from CIRDAP member countries:

- It is now widely realized that micro credit has an important role in rural development in general and poverty alleviation in particular, specially for the economic upliftment of the poor. Credit is one of the most important input for generating income and self-employment for the rural poor.
- Poor people do not have access to the conventional financial institutions;
- Credit needs of the poor are small, fragmented and also varied in nature;
- Because of high cost of delivering small credit to large number of poor people, the formal banking system is not able to reach and, therefore, the poorest is generally by-passed;

- Micro credit has tremendous potential for generating income and self-employment and hence if the poor are mobilized and organized properly to utilize the credit, it can be used as an important instrument for poverty alleviation.
- While the fundamental objectives of the governments of almost all the developing nations are to deliver micro credit to the poor, however, the institutional infrastructure and delivery mechanism vary from country to country.
- Direct Approach – In this method, the financial institutions directly deliver the micro credit to the poor individually or to a group like Grameen Bank in Bangladesh or Vietnam Bank for the Poor.
- Delivery through Cooperatives – This approach is common in most of the countries. The banking institution or the government provides credit facilities to the poor through cooperatives like Bank for Agriculture and Agricultural Cooperatives in Thailand and the National Bank for Agriculture and Rural Development (NABARD) in India, Bank Rakyat Indonesia,
- Delivery through NGOs and SHGs – In some countries in Banking Institution and the governments are using NGOs, SHGs, farmers' committees, etc., to deliver credit to the poor like Bangladesh Rural Advancement Committee (BRAC) in Bangladesh, NABARD in India, AKRSP in Pakistan, Agriculture Development Bank of Nepal, SEEDS in Srilanka, SHARE in India, BDB in Indonesia,
- The existence of viable village organizations is important towards the success of credit programmes. The community based organizations (CBOs) are important in credit mobilization as well as in reducing transaction costs and increasing viability of credit programmes.
- Government policies are important in promoting credit at the micro level. In order not to duplicate responsibilities and programme activities, coordination at the micro level. In order not to duplicate responsibilities and programme activities, coordination at all levels is necessary.
- In case of credit disbursement through formal institutions, transaction costs remain very high. The involvement of NGOs in rural credit requires policies to support NGO participation in credit programme and lower transaction cost. The strengthening of collaboration of NGO and GO efforts as well as coordination of their activities is required to avoid duplication of efforts.
- The overlapping of credit often leads to loan utilization in purposes other than the stipulated IGAs.
- Given that the poor lack formal education and are equipped with few technical and business skills, training and technical assistance are necessary to increase the likelihood of productive use of credit. The components of training, technical assistance and related services, however, increase the cost of credit with added administrative burden and raise the Poor's participating cost without immediate tangible benefits. The appropriate mechanisms for

providing training and other services linked to credit need to be examined and devised.

- In general, micro credit programmes produce positive results for the poor. The poor, however, do not automatically benefit. The experience is that most borrowers realize marginal gains which do not generate significant and sustained income increase.
- Sound financial management and the success of income generating activities are crucial to achieving the desired results. Repayment is not an accurate indicator of successful use of loan funds in productive activities. Repayment may be good due to discipline or peer pressure, regardless of performance.
- As for social impact household income alone is not a good indicator. For instance, microcredit may often contribute to the work load of the poor women, increasing their dual burden of productive and reproductive work. It is essential to analyse e.g. the extent of women's control over credit and income generating activities; whether they control the earned income and how they use it; whether or not all household members benefit equitably from increased household income.
- The majority of the microcredit is used to finance survival activities which are more opportunistic than entrepreneurial in nature.
- A major challenge in microcredit programmes for the rural poor is to effectively integrate the pursuit of social and 'business' objectives. In this respect, mechanisms are required to combine microcredit functions with social mobilization functions (e.g. group formation, awareness raising, skill training).
- It is difficult for microcredit programmes to cover operating and indirect costs or recoup their initial investments without donations and concessionary loans. To remain in operation they, however, have to face the issue of economic viability. For this, they are required to charge interest rates high enough to cover administrative and financial costs yet without jeopardizing the accessibility of the programme to the poor. They must operate efficiently to keep the costs of lending low. The issue of subsidizing the interest rates applicable to the loans for the poor remains controversial. It is often argued that the poor can afford to pay back for the poor remains controversial. It is often argued that the poor can afford to pay back commercial rates as these are below the rates of alternative sources e.g. moneylenders. The practice, even in successful programmes, is to subsidize the cost of outreach to the poor (which include monitoring, follow-up training, and pre-and post-loan assistance to the borrowers).
- Microfinance is a new and emerging discipline in the CMCs. There exists a lack of experience and expertise in institutions involved in microfinance. Greater networking among the institutions will provide an opportunity to develop their capacity and capability.
- Existing regulatory framework in many countries does not encourage microfinance institutions. Public sector programmes alone are not enough and cost effective to cater to the needs of the rural poor as their outreach and accessibility are limited and constrained. It is, therefore, needed to encourage

private and NGO initiatives for promoting more efficient, flexible and effective approaches in microfinance.

- Exchange/training cum exposure visits on microfinance among the countries in the region can play an effective role. Such visits will provide useful forum for exchange of experience and sharing of resources and expertise among the countries. In this respect, CIRDAP can play the role of providing a forum on microfinance and organize regional workshops/exposure visits.
- New programmes and approaches are needed to reach the poor who are excluded from the existing programmes. This requires a proper understanding of the limitations of the current approach to microfinance to improve the programme design and offer viable alternatives to those who are excluded.
- In the implementation of credit programmes with emphasis on ensuring success of activities and repayment behavior, it is necessary to disburse credit to such IGAs where the cash inflow interval is quick and regular.
- In the case of disbursement of credit to IGAs where the initial gestation period before realization of income is long (e.g. livestock projects), adequate attention should be given towards ensuring access to technical inputs such as training and veterinary support;
- It is important that capital build-up schemes be institutionalized as complementary to the loan programmes. This is necessary to enable the beneficiaries to become self-reliant in their endeavors through access to saving as well as increase their ability to meet unforeseen losses or expenses through risk management;
- Technical and training inputs should form an important component towards the success of rural credit schemes. The successful delivery of credit depends on how the funds are put to good use, and thus enable the borrowers to repay the loan. Thus, aside from developing the borrower's institutional capability in the IGAs, there is a need to develop his technical, entrepreneurial, managerial and other skills in sustaining the income-generating activities;
- The principle of "group pressure" should be incorporated in credit programmes in order to create a sense of belonging and group spirit among the beneficiaries. The role of group membership in solving emerging technical, operational and business problems and to inculcate a spirit of comradeship is well-recognized in rural credit programmes;
- The credit programmes should provide an avenue and facility for refinancing especially in cases where the beneficiaries exhibit a good loan repayment behavior. The refinancing scheme is an excellent incentive towards good credit behavior as well as in allowing greater sustainability of the IGAs and the possibility of further expansion of household incomes;
- Innovative schemes should be pursued to address the needs of the rural poor in order to tailor to their technical and resource capability, local resources, market demand, social values, and other factors;
- Field visits to successful IGAs and credit programmes as a learning experience remain useful, informative and productive. Such visits for beneficiaries and the project staff should be promoted.

- The success of any credit programme hinges on proper institutional arrangements. Regular and effective supervision is mandatory in the implementation of credit programmes. Towards this end, pragmatic and explicit guidelines should be formulated for strengthening institutional set-up and institutional links in monitoring and regular follow-up; Simplification and standardization of procedures, sharing and delegation of responsibilities to intermediaries and village organizations are needed besides clarification of responsibilities and roles of the institutions involved;
- In order to increase the interest of banks and financial institutions in micro lending, processing of group applications of larger amounts and creation of support groups/community based organizations (CBOs) should be encouraged and promoted;
- As part of the institutionalization process, the credit programmes should be integrated into the regular programme of the village level cooperatives since the cooperative could be used as effective conduit to deliver credit services to the poor.

Recommendations on the findings:

- The design of micro credit programmes should :
 - focus on organizing the rural poor around feasible entrepreneurial activities;
 - adopt simplified lending procedures to enhance accessibility of the poor;
 - include vertical and horizontal linkages to ensure regular monitoring and accountability;
 - evolve built-in mechanism to exert community pressure for optimal credit utilization;
 - ensure flexibility to cater to varied entrepreneurial requirements under local conditions; and
 - ensure technological development and marketing services for the products of loan-financed operations;
 - have in-built mechanism to mobilize savings from the poor so that a safety-net can also be developed for them to face any distress situation.
 - Formation of SHGs should be encouraged not only for capacity building but also for working as a pressure group for the community to develop their access to other services and inputs.
 - Community participation as well as participation of target groups in planning and managing microcredit should be emphasized.
 - Local governments should be made effective and participation of the poor through -SHGs or community organization that will help in building necessary linkages for the poor and safeguarding their socio-economic interests should be encouraged.
 - The SHGs, when become quite effective and mature, should be used for the delivery of other services which are most essential for the poor to improve their living standards.

- For ensuring empowerment of the rural poor, the access to credit by itself is not sufficient. Micro credit is more effective in combination with other social interventions. For the purpose, the CMCs should build upon the wide range of grassroots experience available in the region and identify the complementary interventions that one used essential to address the broader causes of poverty.
- At the policy level, appropriate measures should be taken to give the microfinance institutions the necessary legal status to operate as financial institution of the poor.
- Since women constitute the large majority of micro credit programme participants, the impact of micro credit on women's status and gender equity is an important area of concern in the CMCs. The countries should explore relevant aspects of gender equity and economic status of women e.g. how microcredit contributes to the workload of women and increases their dual burden of productive and reproductive work; whether the women control the earned income and how they use it; whether household members, irrespective of age and sex, benefit equitably from increased incomes;
- The rural credit programmes in the CMCs should consider income protection strategies as an important complement to income promotion measures. For the purpose, the programme design should introduce greater flexibility in the provision of financial services e.g. consumption loans, savings, insurance schemes and other mechanisms to reduce the vulnerability of the rural poor;
- The focus of rural credit programmes should be gradually shifted towards entrepreneurship development rather than financing survival activities which are more opportunities and leads to short run income increases. For the purpose, repeat loans should be more directed to capital investments, technological improvements and capacity building of the poor instead of expanding the scope of existing activities to enhance the potential for significant and sustained increases in income;
- For ensuring sustainability, the rural credit programmes should be made economically viable. For the purpose, the programme operations should be efficient to keep the costs of lending low and the credit costs should be adequate to cover administrative and financial costs without jeopardizing the accessibility of the programme to the poor;
- In case it is not feasible to recover all the costs associated with credit disbursement to the rural poor (e.g. monitoring, training and technical assistance, other pre- and post-loan assistance, social mobilization), the governments should accept the cost of outreach to the poor as an important social and economic investment;

- The governments should earmark adequate financial resources for lending to the poor borrowers and undertake information campaign, in collaboration with relevant institutions, for creating awareness among the poor on availability and utilization of credit and greater understanding of policies, programmes and procedures relating to micro-finance operations;
- The micro-finance institutions should design appropriate training programmes for their staff to develop mutually beneficial culture and relationship for workshop the challenges of the rural poor. The efforts should also include the building of effective communication between the policy makers and the poor.
- Capacity of the poor as individual or in group through SHGs and/or NGOs in using microcredit effectively should be improved as a prerequisite for making his/her creditworthiness.

Author's observations and comments:

Asset less/ poor are better borrowers

It is now an established fact that the poor people are not necessarily liabilities for developing economies. They are merely resource poor and victims of circumstances. Given a small amount of resources, they can effectively help themselves with their own skill and innovativeness to get out of the poverty trap and turn out to be assets for the economy. The micro credit movement worldwide has proved conclusively that even the asset less poor are creditworthy.

Peer pressure as collateral

The group liability can be effectively used as a replacement of conventional collateral requirements (i.g. land). In particular, women's participation can be significantly increased through utilizing solidarity group mechanism. Group liability enables the members to contract loans using close group supervision; reduces cost of lending by bundling together small loans; and facilitates credit monitoring.

Relatively 'informal' mechanisms is a better option

The innovative use of relatively informal mechanism has the ability to overcome several constraints to the poor's access to formal credit e.g. simplified forms and procedures; minimum written formalities; frequent and flexible repayment schedules; close supervision and support; technical, marketing and other services to successfully undertake income generating activities; and location of credit operations close to the poor's places of work or residence.

Savings is the solidarity

The mobilization of savings under the credit programmes is an effective way to realize the savings potential of the poor as well as to expand the capacity of the programmes to cover potential beneficiaries.

Government Commitment

For ensuring success in credit programmes, macroeconomic, regulatory and related policies are needed to be complimentary to microcredit delivery.

Value of information sharing

The sharing of results and experiences, both achievements and failures, can play a significant role in designing effective credit programmes for the rural poor. Despite the fact that every programme is unique and requires specific socio-economic and culturally adapted approach.

Make it more enterprise oriented

The usefulness of micro credit in generating income and employment, and empowerment of the poor can hardly be overemphasized. We should also strive hard to evolve ways and means to transform these first generation programs into more enterprise oriented, sustained ones where the poor can actually move up the ladder by breaking the shackles of poverty and backwardness.

Multiple sources of funding

Funding sources of MCFs may include the government, donor agencies, international financial institutions, the central bank and commercial banks within a country. Locally initiated and mobilized micro credit fund may not be enough to meet their requirement. Therefore, regional or sub regional micro credit fund may be created. For example, regional fund may be mobilized for South East Asian countries, and sub regional fund may be created for the SAARC and ASEAN and ARRDO countries

Coordinated combination a better option

A "coordinated combination" of appropriate development services is needed to improve their business, income and assets, health, nutrition, family planning, education of children, social support network, etc. There is a critical need for innovative integration of microfinance with the promotion of family planning and HIV/AIDS prevention.

Regulatory Frame work

Regarding regulatory framework, it was important to have a balance between excessive regulation that hinder the dynamism of the microfinance industry, and the need to

safeguard the financial system, and poor people's savings in particular. Users friendly regulatory leading to a level playing field should be in place for better operation of micro credit.

Donors Role

Equity is vital and quasi-equity will remain important in microfinance. Donors can reduce risk to commercial investors by making different forms of debt. Donors can provide technical assistance and capacity building support at the preparation stage before an NGO commences its commercial operation. Donors can also help publicize success stories and equity investment by making the whole idea available in website so that more investors interested in MFIs can learn about. Donors can work with the government on legal and regulatory environment. Donors can also help to make the program sustainable.

Backstopping by Government

Govt. agencies should not be providing retail microfinance. Must not place ceiling on interest rate and must not back only one model, but a variety of models and technologies, thus initiating competition. Govt. should extend support for outreach to millions of people by increasing MFI capacity, involving mainstream banks and mobilizing the domestic capital market.

Credit Mix is a better option

The policies for sustainable financial services should reflect the needs of the poor which include: speedy and convenient loan delivery, access to larger and flexible loans including housing loans, low interest rate, health and life insurance, short, medium and long term savings products and above all, respect and recognition. Program design is also important. One simple example from Grameen Bank is its housing loan.

Magic Bullet in the hands of women

Microfinance is a magic bullet and it is a strong argument. This magic bullet is empowering women. Financial services to the poor can be made sustainable. In Bangladesh, hundreds of thousands of women in the last 15 years have become more visible to have increased mobility. Microfinance programs make women come to the center meetings and that helps to build their confidence. Microfinance allows women to handle money. Over time, their husbands take away the money. Now they become a financial managers. When their husbands buy rickshaw with her microcredit money for their household management, they control that. Anyone can see this great transformation in Bangladesh.
