

**3rd AFRICAN
MICROFINANCE
CONFERENCE**
New Options for Rural and Urban Africa
Kampala, Uganda
20 - 23 August 2007



Is sustainable access to financial services for the poor possible ?

What was the promise?

- To serve the poor by providing credit through:
 1. A credit technology that takes care of their assumed needs.
 2. Maintain repayment rates that enable the service provider enough to continue providing the service.
 3. Charge a recovery interest rate that enforces the above.
 4. Support the clients' businesses through training etc.



Possible assumptions behind the Credit technology

- Training would be minimal and would be on the credit technology and not on the business needs of the client
- The clients are natural entrepreneurs
- Every client needs a loan and can use it effectively



- Markets are available
- The clients would be more than happy to receive the loan.
- Governments will fulfill their responsibilities, etc

continued



- The poor can afford to attend weekly meetings, daily meetings etc.
- Can pay weekly too, since all their undertakings can produce cash everyday
- Can also save...but compulsorily
- Need enforcement of the contracts and so must have a legal /regulatory framework to protect our interests and commercialize microfinance to obtain cheap sources of funds and reach more poor people, etc.

What parts of the promise were delivered !!

- Funds were given to the clients after a week of training on the credit technology
- Clients came to weekly meetings, at times late and at times without all the installments
- Clients got money from institution **X** to pay **Y**. Hence portfolio at risk increased in both institutions.
- MFIs increased their loan /savings portfolios and other indirect costs
- MFIs competed without significant reduction in interest rates since immediate ?? commercial sustainability had to be achieved
- Borrowers' graduation to formal financial institutions/ to sustainable businesses still questionable
- The poor were redefined to include only those that were active.
- The poor who were inactive did not benefit.
- Talk in many quarters that the non active poor cannot handle loans...needed grants and other charitable interventions etc.

Politicians were on the War path..

- They claimed??? that the poorest of the poor were not being served
- And so proposed that the only way would be to provide the loans at low interest rates and not enforce good practices including loan recoveries
- In some countries a recovery of 50 % was supposed to be good (where would the rest of new loans come from?)
- Their divine intervention never materialized as it was not for the poor that they waged the war .



Mechanisms that can reach the poor

The Bangladesh Story :

1. Total population is about 140 million, with 80% people in rural areas; low natural resources base; a lot of natural calamities, including drought and floods
2. Outreach of all microfinance institutions is about 21 million clients
3. Total hardcore poor not yet reached about 12 million (May 2006)
4. There is an overlap of 40 % amongst recorded clients that could lead to indebtedness
5. Despite the 30 years microcredit history, many MFIs still use hand calculators to prepare their financial statements
6. An estimated 50 % of the population live below the poverty line (< 1 dollar a day)



Ultra poor program of Palli-Karma Shahayak Foundation(PKSF)

- The ultra poor have no access to financial services due to rigid modalities, self exclusion and exclusion by MFIs.
- The hardcore poor have access to < 1800 calories per head per day and are deprived of basic human needs such as food, shelter, health care etc.
- No land, at most < than 13 decimals, no own house, no savings, weak asset base, earn meager income by selling manual labour for a few months in a year.
- Cannot have 3 meals a day, meet only minimum clothing needs and suffer instability and frustration in their everyday lives.
- These are : beggars, seasonal labourers, domestic help, old people, physically disabled and those without alternative sources of income.

The credit technology

Group lending with the following features :

- No fees/initial savings backed with a flexible voluntary savings scheme...Tk.1-2 per week and not a requirement for taking out a loan
- Flexibility in terms of repayment terms, weekly, monthly, six monthly, yearly etc
- Six months seasonal loans with bullet payments
- Reduced wholesale lending interest rates from 4.5% to 1 % and the PO (Partner Organizations) lends at 9-10% p.a
- First loan size Tk.500-4000(\$10-60) and progressively increases up to Tk. 5000 for the third loan.
- Grace period 1-6 weeks
- Orientation and IGA Training for self/wage employment
- Special social assistance programs in health, social awareness, rights of women etc.

Target Areas of Operation

- The areas should be poverty stricken
- Administratively remote areas...no electricity, mobile connection, 50 people per sq km in some instances
- Lack of government or NGO activity
- Geographically vulnerable
- River erosion prone areas, etc



Physical Coverage

- 84 Participating POs
- \$ 70 million in loans
- \$ 5 million in savings
- Repayment rates of 99.57%



What are the evaluation results so far(May 2006)

- Slight increase in income levels..5.2 % earned below Tk.5,000, while 88.5 % have incomes between Tk. 5,000-25,000
- Increase in expenditure amongst beneficiary group much higher than the control group
- Savings have in modest amounts began (1-500 for most) given that 2 out 5 had no savings at start of project.
- Decline in illiteracy from 63% to 60%
- Acquisition of new productive assets
- Reduction in number of houses with straw and bamboo roofs and more with tin sheets
- Increase in sanitary latrines from 38.2 % to 55.2 %, use of open spaces for defecation by beneficiaries was reduced from 38.9 % to 20.55 %

continued

- Electricity access increased from 5.5 % of HH to 7.1 % with the project
- Slight improvement in the food deficit levels
- Slight increase in full and part time employment
- Reduction in temporary migration for wage employment, etc.
- Empowerment of women through access to assets, for example livestock, trees and land
- Changes from occupations that offer less returns to one that offer higher returns
- Increase in working hours due to changes in IGAs

Voices of the clients

- My home was gone because of river erosion
- Never knew that a poor woman like me could do this
- We used to eat once a day, now we eat at least twice a day
- We had been excluded from BRAC, ASA and GRAMEEN
- Before ASA, BRAC, GRAMEEN could not take us, but now all the poor are in groups



DVD presentation of
The Ultra Poor Program

Conclusions and recommendations

- Need genuine partnership arrangements between institutions and governments, at national and local levels.
- Evaluation of the current credit delivery mechanisms
- Donors and governments' attention should be focused on provision of funds for social mobilization and assistance to support good inclusive financial services delivery mechanisms.
- Reduction of poverty through provision of financial services to the hardcore poor should be prepared to support a combination of financial services delivery mechanisms and social assistance programs.
- Last but not least...the graduation of the hardcore poor to sustainable microfinance implies a reduction in the government social costs and could enhance accountability of the political leaders that spend most of their efforts in applying economic models that do not work for the poor.

THANK YOU