

**‘Microcredit,’ ‘microfinance’ or ‘access to financial services’
What do Pacific people need?**

by

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Abstract

The terms 'microcredit' and 'microfinance' are often used interchangeably and yet they represent the provision of different and distinct levels of financial service. It is also necessary to understand the distinctions between the more famous 'models' of microfinance and, perhaps more importantly, the context in which each evolved. Often it seems that these models are applied, with very little variation, in situations where the operating context is much different from that in which they were developed. There are many elements in the economic and socio-cultural context of the Pacific region which distinguish it from Asia. Is it possible that the rush to replicate existing microfinance models, using 'best practice' principles developed far from the Pacific, is curtailing careful market analysis? Could it also be stifling innovation, in the sense of finding alternative solutions for providing access to financial services for the poor in the Pacific? This discussion paper asks readers to consider the types of financial services and the methods of their delivery which may be appropriate in the Pacific context, and more important, which meet the needs of people in the Pacific.

Introduction

There can be little argument that 'microcredit,' 'microfinance,' and initiatives to support 'microenterprise development' have all taken up considerable space in economic development news (and donor reports) in the past decade. Some of these initiatives have reported spectacular results in terms of both their outreach and the size of their lending and savings portfolios.² As of mid-2000, in Bangladesh alone, three of the largest microfinance institutions (MFIs), ASA, BRAC and the Grameen Bank, reported more than 6 million active members, cumulative loan disbursements of \$US4.5 billion and mobilisation of more than US\$319 million in cumulative savings. Even allowing for double counting of members, it has been estimated that microfinance services reach over 80% of Bangladesh's estimated 9.9 million poor families (ADB, 2000, p.7) The magnitude of these figures has, not surprisingly, led to a rush to replicate successful programs in almost all countries where poverty is pervasive. However, such haste does not always allow for in-depth consideration and '[c]are should be taken to ensure that the provision of microfinance is truly demand driven, rather than simply a means to satisfy donors' agendas' (Ledgerwood. 1999, p.7).

Distinguishing between 'microfinance' and 'microcredit'

'Microfinance' is the provision of a broad range of financial services to low-income microenterprises and households. The range of financial services usually includes savings and loans. However, other products might also include insurance, leasing, and money transfers. More narrowly, 'microcredit' emphasises the provision of credit services to low-income clients, usually in the form of small loans for microenterprise and income generating activities. It has been argued that 'microcredit' should really be called 'microdebt'.³ Certainly, the use of the term 'microcredit' is often associated with an inadequate appreciation of the value of savings services to the poor. In most cases, the provision of savings services in 'microcredit' schemes simply involves the collection of compulsory deposit amounts that are designed only to collateralize those loans. Little effort may be made to collect additional, voluntary, savings to which the client may have access. Where clients have restricted access to their enforced savings, these savings also become a source of institutional capital.

Microfinance providers

Those who provide microfinance services generally fall into three sectors: formal, semi-formal and informal.⁴ The formal sector is characterised by a high level of regulation and supervision that provides some level of recourse to borrowers and savers. Organisations within this sector include, for example, banks (commercial, rural, savings, postal, cooperative), development banks (state-owned or private), finance companies, building societies and credit unions, pension funds and insurance companies.

Organisations within the semi-formal sector may not be formally regulated but are often licensed and supervised by some form of official government agency. This sector might include, for example, savings and credit cooperatives, credit unions, employee savings

² As of September 1995, in a survey conducted by the Sustainable Banking with the Poor project, 200 microfinance institutions reported they had provided US\$7 billion in outstanding loans to over 13 million individuals and groups. They had also mobilised more than US\$19 billion from 45 million active deposit accounts. (Ledgerwood. 1999)

³Hulme, D. 'Is microdebt good for poor people? A note on the dark side of microfinance.' *Small Enterprise Development*. March 2000. Vol. 11 No.1. p.26

⁴ See Ledgerwood (1999), pp. 12-17 for a useful discussion and further descriptions of these categories.

funds, village banks, registered self-help groups, and non-government organisations (NGOs). The informal sector is generally characterised by the absence of any form of regulation and supervision. Rotating savings and credit associations (ROSCAs), nonregistered self-help groups, commercial moneylenders, traders and shopkeepers, NGOs, friends and family may be included in this group.

Examples of microfinance providers in all three sectors are evident across the Pacific. Some development banks⁵ have made attempts to develop specific lending programs aimed at reaching borrowers located in isolated regions and the outer islands. In the semi-formal sector, most countries in the Pacific have varying numbers of credit unions in both urban and rural areas. Bridging the semi-formal and informal sectors, some NGOs and government projects are applying the Grameen Bank solidarity group lending model. Examples of these include the Liklik Dinau Abitore Trust in Papua New Guinea (PNG), the Women's Social and Economic Development Programme (WOSED) in Fiji, and the Vanuatu Women's Development Scheme (VANWODS). Other microfinance providers within this semi-formal/informal area include revolving loan fund schemes. These have generally been most prevalent in PNG and the outer islands of Kirabati, the Cook Islands and Tuvalu. Finally, arguably the largest group of microfinance providers in the Pacific, in number if not in monetary value, is those in the informal sector comprising commercial moneylenders, traders and shopkeepers, and family and friends.

Microfinance 'models'

Microfinance 'models' usually refer to the products and services provided as well as the method in which they are provided. Internationally, some of the most well-known microfinance models include the Grameen Bank solidarity group, the Latin American solidarity group, the rural financial systems approach as epitomised by Bank Rakyat Indonesia's (BRI) *unit desa* system, community-owned village banks, savings and loans associations, credit unions, and self-help groups. Ledgerwood (1999, pp.82-86) provides a very useful description of the characteristics, products, significant examples and appropriate clients, for some of the most well-known models. A summary of her observations on particular models is attached in Appendix 1.

The success of what is perhaps the most famous microfinance model, the Grameen Bank solidarity group-lending mechanism (where social capital becomes the collateral for members' loans) has led to its replication in countries far beyond Bangladesh, where it was originally developed. The appropriate clientele for this particular model is summarised by Ledgerwood (1999, p.84) as follows:

Clients are from rural or urban (densely populated) areas and are usually (although not exclusively) women from low-income groups (means tests are applied to ensure outreach to the very poor) pursuing income-generating activities.

Bangladesh, with a population density of 965 people per square kilometre (World Bank, 2000) and a long established system of rural markets and off-farm income-generating activity has an appropriate clientele to support this form of microfinance. Replications and imitations of the Grameen Bank model have also been successfully established in countries where similar operating conditions and clientele with similar characteristics exist.⁶ It must be said however, that significant outreach using this model has only been achieved in Bangladesh. All other Grameen Bank replicator programs of any considerable size are also working in Asian countries.

⁵ Tonga Development Bank, The Cook Islands Development Bank, Development Bank of West Samoa.

⁶ CASHPOR Inc., a network of organisations founded by Grameen Bank replicators, has member institutions in the Philippines, Nepal, Pakistan, India, Malaysia and Indonesia. www.cashpor.com

Table 1, reproduced from McGuire (1997), reflects the results of a review of major microfinance programs in nine Pacific countries. At that time, McGuire estimated that of a total rural population of 4.49 million, only 14,303 people were accessing services from microfinance programs. This review was undertaken in 1996, but it is still fair to say that the outreach of microfinance programs in the Pacific region remains very low. In PNG, for example, Liklik Dinau Abitore Trust, one of the better known projects replicating the Grameen lending model in the region, reported 216 active borrowers at the time of McGuire's review. A further review in mid-1998⁷, almost three years later, reported total outreach had grown to only 862 active borrowers.

Table 1 Pacific Island countries: number of borrowers in microfinance programs

Country	Development banks	Credit unions	Grameen replications	Revolving funds	Total	Rural population
Fiji	0	1,719	150	0	1,869	474,000
PNG	0	1,000	334	500	1,834	3,359,000
Solomon Islands	0	6,802	0	0	6,802	320,000
Tonga	1,595	0	0	30	1,625	76,000
Vanuatu	0	2,000	0	10	2,010	135,000
Western Samoa	133	?	20	10	163	129,000
Total	1,728	11,521	504	550	14,303	4,492,000

Source: McGuire. 1997

At the time of his review, McGuire reported that none of the microfinance programs operating in the Pacific was operating on a sustainable basis, either operationally or financially.⁸ It is probable that this is still the case. In light of these observations, perhaps before considering what type of microfinance model and which microfinance providers might work best in the Pacific, we should consider whether support for microfinance is the appropriate policy option at all. Given the unique physical, economic and socio-cultural aspects of the operating environment, is providing access to microcredit, or even microfinance, using one of the 'off-the-shelf' models the most appropriate development intervention in the Pacific or are the economic and socio-cultural conditions so different that a complete re-assessment of potential client needs and subsequent innovation of products and services is required?

The operating environment: population, geography, and settlement patterns

Assessing the nature and extent of demand for microfinance should involve detailed analysis of the operating environment, in both economic and socio-cultural terms. Table 2 provides some key data for a selection of countries in the Pacific region. Combined, they represent an estimated total population of

⁷ Hickson, Wilkinson and Chowdhury, 1998.

⁸ Based on McGuire's 1997 report, institutional reviews and anecdotal reports.

Table 2 Key data for a selection of Pacific countries

	Population Thousands 1998(est.)	Population density People per sq km	Urban %	Geography and settlement patterns	GDP per capita US Dollars	Life Expectancy at Birth Years	Adult illiteracy rate % of people 15 and above		Human Developmen t Index (HDI)
							M	F	
Pacific									
Cook Islands	16.5	70	59	Pop'n spread over very large areas of ocean	4,947	72	7	6	.822
Fiji	797.8	44	46	Made up of more than 300 islands. Majority of population live on two main islands.	2,684	66.5	5	9	.667
Kiribati	85.1	105	37	Pop'n living on 28 main islands spread over 3.5 million sq. km.	702	61.6	6	9	.515
Papua New Guinea	4,412	10	15	Largest pop'n in the region but lowest pop'n density. Dispersed settlement patterns and rugged mountainous terrain.	1,196	54	65	79	.314
Western Samoa	174.8	60	21	Almost all of the population living on two main islands.	1,060	66.6	4	4	.590
Solomon Islands	417.8	15	13	Dispersed settlement patterns.	926	64.7	61	80	.371
Tonga	98	131	32	Relatively high population density. Approximately 40% of population live on outer islands some distance from main island.	1,868	68	1	1	.647
Tuvalu	11	423	42	Pop'n spread over very large areas of ocean.	1,157	67	5	5	.583
Vanuatu	182.5	15	18	Dispersed settlement patterns. Pop'n spread thinly over islands.	1,231	65.8	63	70	.425

Sources Data reproduced from UNDP Pacific Human Development Report 1999 (McGuire 1997)

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6.2 million in 1998, spread over an area of ocean spanning more than 13.5 million square kilometres. Their settlement patterns are characterised by relatively dense concentrations around one or two main islands or urban centres and isolated, small communities spread over very wide areas of ocean and/or extremely rugged terrain. These physical conditions make effective transport and communications extremely difficult to achieve. Moreover, the isolation and small size of many communities severely limits market and business opportunities.

By contrast, many Asian countries are characterised by very high population densities, dense networks of villages with established transport links, and established rural market systems and trading routes. Bangladesh, the extreme case, has a population of 126 million people spread over a relatively small area resulting in its extremely high population density. While only 20 percent of the population live in urban areas, rural areas are characterised by relatively accessible, well-linked networks of villages with well-established rural market systems and trading routes.

Socio-cultural issues: rice vs root crop economies

In a recent article, an economic anthropologist (Gregory 1999), attributes the success of the Grameen Bank microfinance model to having its origins in 'the particular socio-cultural conditions of an Asian rice economy.' Gregory argues that the distinction between an economy based on wet rice production (Asia) and one based on root-crop production (Pacific) is fundamental because 'the two staples have radically different ecological, social, cultural and economic consequences.' (1999, p.84) Some of these differences are summarised in Table 3 which represents a set of 'stylised facts'⁹ describing traditional agricultural communities in the two regions.

⁹ It is in the nature of a stylised fact that it describes no present situation exactly. In the manner of a caricature, it exaggerates to make a particular point. The description here relates better to Melanesia than to Polynesia, and we need to remember that consumption patterns and aspirations have altered dramatically, so that all households 'need' to engage in at least some market economic activities to meet those aspirations.

Table 3 Summary: differences between rice and root-crop economies

Rice economies	Root-crop economies
<ul style="list-style-type: none"> • Much higher population densities <p><i>Surplus production</i></p> <ul style="list-style-type: none"> • Rice is a self-reproducing, seasonal crop which can be easily stored and surplus production is possible but such surpluses are only in the hands of a small minority. In order to survive, the majority 'have an economic need to engage in a range of market-oriented activities including small-scale trading, artisanal production, daily labouring, and so on.' <p><i>Systems of property</i></p> <ul style="list-style-type: none"> • Land tenure can be determined precisely. <p><i>Modes of exchange</i></p> <ul style="list-style-type: none"> • There is a system of rural periodic markets where villagers have the opportunity to earn additional income by engaging in petty trading. 	<ul style="list-style-type: none"> • Much smaller absolute populations and population densities <ul style="list-style-type: none"> • Some root crops are seasonal, some cannot be stored. Generally any surplus is accumulated for prestige rather than economic gain. Households generally can produce enough food to survive and consequently have no economic need to engage in market-oriented activities. <ul style="list-style-type: none"> • Land tenure is often very difficult to determine. <ul style="list-style-type: none"> • No history of periodic marketing systems. In Papua New Guinea, for example, competitive gift giving (with a political rather than an economic motive) prevails and trading systems were/are based on barter.

Source Adapted from Gregory (1999), pp. 84–85

Gregory goes further to say that while the Asian form of 'penny capitalism' (1999, p.85) is found in many other places in the world, the 'socio-cultural conditions of the Pacific's root-crop based economy pose particular problems for microfinance development projects.' Using Papua New Guinea as a specific example of a root-crop economy, Gregory describes the situation as 'subsistence affluence' (1999, p.85) where the stimuli of poverty and hunger are far less urgent than in Asia.

Gregory's comparison is useful as it highlights an interesting way of analysing differences in the country context when considering the provision of financial services. However, while population size and density, infrastructure, economic activity and socio-cultural norms may differ markedly, what links most Pacific countries to many Asian countries is a common set of indices indicating low levels of human development.

A common bond: low levels of human development

While the pervasiveness of poverty within most Asian countries is widely acknowledged and accepted, 'seeing' poverty in the Pacific is much more difficult. Despite the lack of a cash income, it is often argued that most Pacific people do not suffer from a lack of food and can still maintain a decent standard of living. However, in his 1997 report on microfinance in the Pacific, McGuire reflected that there were 'disturbing signs that poverty and deprivation are increasing' (p.3). He cited problems such as rapid population growth and a lack of land in rural areas in a number of countries forcing rural-urban migration leading to health, sanitation and housing problems in urban areas. He also noted the apparent breakdown of social support mechanisms, particularly in urban areas, that may have limited poverty in the past.

UNDP's most recent Pacific Human Development Report (1999b) reports a number of Pacific countries with a Human Development Index (HDI) which is lower than, or comparable to, Bangladesh with an HDI of 0.44 (UNDP, 1999a). In fact, three Pacific countries, Papua New Guinea, Solomon Islands and Vanuatu, rank within UNDP's lowest human development category. Of the countries listed in Table 1, only the Cook Islands falls within UNDP's highest range. The HDI is derived from a combination of human development indicators including life expectancy at birth, infant mortality rates, adult literacy, educational attainment and GDP per capita. In light of recent events in the region, and taking account of the low levels of human development indicators, it would seem that the number of disadvantaged and vulnerable people in the Pacific is, in fact, likely to be significant.

The provision of microcredit in support of microenterprise activity is often cited as a means of alleviating poverty in poor households. While the above discussion highlights fundamental differences in terms of the operating environments in Asian and Pacific countries, it also uncovers similarly low levels of human development. Given these common levels of disadvantage, are the financial needs of low-income clients in the Pacific likely to be very different from those in Asia? What role does the operating environment play in determining the types of microfinancial services which are best suited to a potential client's needs? Do Pacific people need microcredit, microfinance or simply the opportunity to access financial services?

Access to financial services

Increasingly, practitioners argue that forcing clients to borrow for microentrepreneurial activities in order to gain access to credit does not address the needs of low-income clients. Instead, clients may be forced to 'invent' a microenterprise plan in order to access sums of money which they can repay but which may not necessarily be used for any income-generating purpose.¹⁰

Focusing on the Pacific, Liew (1997) notes that '[i]n rural communities and especially among the disadvantaged, the demand for cash is primarily to meet emergencies, for schooling, to meet traditional and religious obligations and for other basic necessities. The demand for cash is rarely for starting a micro-enterprise or income earning activity.' (p.3) Liew also comments that the demand for cash is 'highly seasonal coinciding with the beginning of the school year, before the planting/fishing season, around Christmas and other festivals.' (p.3)

Where there is no access to markets and/or business opportunities, low-income clients are also likely to find microcredit of little use. In many cases, very poor people are risk-averse; they do not want to go into debt and fear losing what little they have in the event of their microenterprise activity failing to generate sufficient income to repay their loan. For them, access to savings services may be perceived as far more useful.

The growing number of clients accessing voluntary savings services indicates that it is the ability to access safe, flexible savings services to 'smooth' unexpected or seasonal cash requirements which many poor clients value. This is not to say that credit cannot fulfill the same function. Liew (1997) writes:

Schemes aimed at providing ready cash to people to meet seasonal and unexpected cash needs are equally important. In many parts of the Pacific, people are now forced to sell land, taro pits, fishing canoes and other assets to raise cash to meet customary obligations and to meet seasonal cash needs. If a lending

¹⁰ Todd (1996) documents the considerable extent to which this appeared to occur among a sample of Grameen bank borrowers.

scheme can prevent people from selling productive assets necessary for their livelihood, it is already making considerable beneficial impact on the lives of the people.

Matin [1999] provides an interesting outline of the 'changing conceptualizations' of the poor and their financial needs over the last four decades. According to him, from the 1950s to 1970s, the poor were seen as small farmers, (mostly male), whose needs could be served via agricultural credit. This was the heyday of the state 'development' bank and subsidised lending. From the 1980's to 1995, the poor were seen as microentrepreneurs, (mostly female), with needs served by microcredit to support income-generating projects. Now, the poor are seen as 'a diverse group of vulnerable households with complex livelihoods and varied needs.' Matin describes current times as the 'microfinancial services era.'

Clients with complex and varied needs require a variety of services beyond credit and basic savings for a variety of non-uniform reasons. Hulme and Mosley [1997] describe 'the need for designers of financial services for poor people to recognise that 'the poor' are not a homogeneous group with broadly similar needs.' Is it appropriate to think that a limited range of products or services constrained by a fairly rigid delivery system might usefully cover all of the complex and varied financial needs of low-income people and the poor in the Pacific?

In the microfinancial services era, providing uniform products and services via an inflexible delivery system will not suffice but providing a range of products and services to suit a complex variety of needs can be prohibitively expensive. For those who are attempting to provide products and services to poor people, the challenge will be how best to deliver these in such a way that they not only meet client needs but also allow for institutional sustainability. Rutherford (2000) believes that satisfying these two criteria is possible but only if we move away from thinking of the uses to which loans might be put and consider instead the 'function' of financial services. In Rutherford's view, the function of financial services is to 'help manage money [so as] to allow people to pay now for things they need in the future, and to pay in the future for things they need now.' (2000,p.15)

Is there a 'culturally specific' approach to providing financial services?

If we define microfinance as the provision of a broad range of financial services which assist low-income clients to manage their money, then it is difficult to believe that such services can only be provided in specific cultures and contexts. After all, the provision of a broad range of financial services to richer clients is possible in every culture and operating environment in the world. The challenge for microfinance practitioners is in finding innovative models and methods which will allow the complex and varied financial needs of lower-income clientele to be met sustainably. This is equally applicable in the Pacific context as in any other.¹¹

'Best practice' and 'sound practice'

Over time, a set of 'best practice' principles for the provision of micro-financial services has evolved. Inherent in most 'best practice' is a focus on ensuring the financial sustainability of the institutions that are providing those micro-financial services. However, just as different models and different services are appropriate in different economic and socio-cultural

¹¹ Already some microfinance programs in the Pacific have adapted Grameen Bank models by offering voluntary savings facilities to clients. Such programs include Liklik Dinau/Abitore Trust in Goroka, PNG and Vanuatu Women's Development Scheme (VANWODS) in Port Vila, Vanuatu. The savings performance of clients of Liklik Dinau is particularly impressive indicating a high level of demand for this service in an environment where access to conventional banking services is difficult.

contexts, then equally different principles of 'best practice' must apply. Seibel (1998) specifically challenges the use of the adjective 'best' and its implication that there is only one optimal way of doing things. Instead, he argues for the need to talk of 'sound practices.' Dunford (2000), quoting Seibel, says, '[g]iven the great diversity of microfinance organizations, strategies and situations, there cannot possibly be a unitary set of best practices, only diverse sets of sound practices.' (p.7)

Rutherford challenges microfinance suppliers to look beyond microcredit and to consider their role as being providers of money management services according to the needs of the poor. It is equally important to look beyond 'the set' of best practice principles to consider what the objective of the institution is and how that objective might be reached given the operating context. If the provision of financial services to low-income clients is the sole objective of an organisation, then the challenge for that organisation is to use sound practices to meet, sustainably, the complex and varied needs of those low-income clients given the economic and socio-cultural context in which they are found. If however, the institution has a broader objective than just the provision of financial services, it needs to experiment to discover the set of sound practices which might be appropriate given the organisation's different strategies and situations.

Conclusion

The provision of financial services to the poor as an element in 'development' programs has evolved from subsidised credit to microcredit to microfinance. Recognition of the importance of savings services has been essential to this progression. This process of evolution has been distinguished by continual learning and innovation on the part of microfinance practitioners. What is clear is that true innovations in the provision of financial products and services to poor clients usually occur when those products and services meet the needs of poor clients as determined by careful market analysis (including segment and environmental analysis). Experience has also shown that the financial needs of poor people (particularly in terms of credit) cannot be implied; they are not a homogeneous group. If we argue that access to a broad range of financial services is valuable to all people and not just the poor, then the challenge is to develop innovative, sustainable ways to deliver those services to the poor wherever they might live.

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Appendix Summary of characteristics¹² of several of the more well-known microfinance 'models'

<i>Microfinance Approach</i>	<i>Method</i>	<i>Products</i>	<i>Significant examples</i>	<i>Appropriate clients</i>
<p>The Grameen Bank Solidarity Group lending model was developed in Bangladesh to assist rural, landless women to finance income-generating activities</p>	<p>Self-formed peer groups of 5 unrelated members incorporated into village 'centers' (up to 8 peer groups) Group members mutually guarantee each other's loans and are held legally responsible for repayment by other members.</p> <ul style="list-style-type: none"> - No collateral is required. - Two members receive loans initially. After a period of successful repayment, two more members receive loans. Following a further successful repayment period, the final member receives her loan. - No further loans become available if all group members do not pay on time. - Mandatory attendance at weekly center meetings. All transactions (loan disbursements, repayment collections, savings collections) take place at the center meetings. - Mandatory weekly savings contributions, group fund contributions, and insurance payments - Members must contribute savings for 4-8 weeks prior to receiving a loan. Savings must continue for the duration of the loan term. - Loan appraisal is by group members and centre leaders. 	<p>Loans: US\$100 to US\$300. Terms: 6 mths to 1 yr Weekly repayments Compulsory savings</p>	<p>Grameen Bank and BRAC in Bangladesh; TSPI in the Philippines</p>	<p>Clients are usually women from low-income groups (means tests are applied to ensure outreach to the very poor) from rural or urban (densely populated) areas pursuing income-generating activities.</p>

¹² Information in this section is substantially reproduced from Ledgerwood (1999, pp.82-86)

<i>Microfinance Approach</i>	<i>Method</i>	<i>Products</i>	<i>Significant examples</i>	<i>Appropriate clients</i>
<p>The Latin American Solidarity Group Lending model was developed by ACCION International in Latin America.</p>	<p>Clients are typically female market vendors who need small amounts of working capital. Self-formed groups of 4 to 7. Group members cross-guarantee each other's loans. Access to subsequent loans is dependent on successful repayment by all group members.</p> <p>Loan officers usually handle 200-400 clients. Loan approval is by loan officers using minimal economic analysis of loan request.</p>	<p>Loans: Initially \$US100 to US\$200. Subsequently, no upper limit.</p> <p>Savings: Savings are usually required as a portion of the loan. Very few voluntary savings are products offered.</p> <p>Some institutions encourage intragroup emergency funds.</p>	<p>ACCION affiliates: PRODEM, BancoSol Bolivia; Asociacion Grupos Solidarios do Colombia</p>	<p>Clients are mostly urban and include both men and women who have small to medium incomes (microbusinesses, merchants, or traders.)</p>

<i>Microfinance Approach</i>	<i>Method</i>	<i>Products</i>	<i>Significant examples</i>	<i>Appropriate clients</i>
<p>Village Banks are community-managed credit and savings associations established to provide access to financial services in rural areas, build community self-help groups, and help members accumulate savings.</p> <p>There are several different models and numerous variations of each.</p>	<p>The FINCA model was developed in the mid-1980s and involves a sponsoring MFI organising individual village banks with between 30-50 members (mostly women). Membership is based on self-selection.</p> <p>The structure consists of a management committee, which receives training from the sponsoring MFI, and the membership.</p> <p>Financing of the bank comes from an 'internal account' (mobilisation of members' savings and interest earnings) and an 'external account' (loan provided for seed capital by the sponsoring MFI.)</p> <p>Loans funding the external account are collectively guaranteed by all members. These loans are usually provided in a series of cycles with a lump-sum repayment expected at the end of each cycle. Subsequent loans to the external account are tied to the accumulated savings of bank members. The ultimate aim is to grow the internal account to a point where it alone is sufficient to meet members' credit needs.</p> <p>The bank on-lends to its members from both the external and internal accounts. Loans from the external account are at commercial rates of interest. Members determine the interest rates and terms on loans from the internal account. Generally, interest rates are higher and loan terms shorter than for loans from the external account.</p>	<p>Loans: Typically, first loans are around US\$50 Terms: 4 to 6 mths. Weekly repayments.</p> <p>Subsequent loan amounts are tied to the amount of members' accumulated savings.</p> <p>Savings: The model anticipates that members will save 20% of the loan amount per cycle.</p> <p>Savings attract no interest. Instead, members receive a dividend from the lending or investment profits of the bank. The amount of the dividend paid depends upon the amount of savings contributed to the bank by the member.</p> <p>Savings deposits, loan disbursements, and administrative issues are dealt with at regular weekly or monthly meetings.</p>	<p>FINCA in Mexico and Costa Rica; CARE in Guatemala; Freedom from Hunger in Thailand, Burkina Faso, Bolivia, Mali, and Ghana. Catholic Relief Services in Thailand and Benin.</p> <p>NB. The original model has been adapted by various sponsoring MFIs in a number of ways. In West Africa, for example, Freedom from Hunger works with credit unions so as to increase their membership among women. The program aims to have village bank clients 'graduate' to the credit union.</p>	<p>Clients are usually from rural or sparsely populated but sufficiently cohesive areas. Clients are predominantly women, with very low incomes but with savings capacity. (This model is also adequate for men or mixed groups.)</p>

<p>Village Banks (cont.)</p>	<p>Self-reliant village banks (or Savings and Loans Associations) differ from the above model in that they are established and managed by village communities themselves. Membership is based on the village as a whole and includes both men and women. The model requires strong social cohesion in the village and a clearly expressed need for a village bank. Villagers determine the organisation and rules of the bank.</p> <p>The self-reliant village bank accesses no external lines of credit. Instead, it must rely on mobilisation of savings from members to provide the fund from which to extend loans.</p> <p>There may be a 'sponsoring' organisation but its primary role is to provide technical assistance.</p> <p>Interest rates are set by the village. Usually, the more remote the area, the higher the interest rate.</p> <p>The aim, after a year or two, is to build up enough self-reliant village banks to establish an informal network which might act as an intermediary and negotiate lines of credit with local banks. In this way, village banks are linked to the formal financial sector.</p> <p>(Ledgerwood attributes development of this particular version of the village bank model to the French NGO, the Center for International Development and Research, in the mid-1980s. However, examples of other village bank models (with broadly similar principles) do exist in many different settings.)</p>	<p>Savings: current accounts and term deposits</p> <p>Loans: to individuals for short-term, working capital</p> <p>There is no direct link between members' savings capacity and loan amounts.</p> <p>Collateral is necessary but the bank primarily relies on village trust and social pressure to ensure repayment.</p> <p>Repayment is usually in one instalment.</p> <p>In some cases, technical assistance might be provided to microentrepreneurs.</p>	<p>Caisses Villagioises d'Epargne et de Credit Autogerees in Mali (Pays Dogon), Burkina Faso, Madagascar, The Gambia</p>	<p>Clients are in rural areas and include both men and women with low to medium incomes and saving capacity.</p>
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