

Article

MICROFINANCE AND POOREST COUNTRIES

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1 Introduction

The world consists of developing as well as developed countries. The income gap between them is getting wider and wider. The majority of the earth's population lives in developing countries. It is unreasonable to ignore developing countries in discussing future banking in the world. Are there any finances particularly suitable for poor people? What types of bankings are appropriate to developing countries? How different are they from conventional bankings of advanced countries? The purpose of this paper is to try to answer these questions.

2 Rich versus poor countries in financial mediation

All economies in the world rely upon financial intermediary functions to transfer resources from savers to investors. In developed market economies, this function is performed by commercial banks and capital markets. Millions of poor households in developing countries also want similar financial services. They need these services for the same reasons as everyone else. But in many developing countries, capital markets are still at a rudimentary stage, and commercial banks

are reluctant to lend to the poor. Commercial banks typically do not serve poor households. The reasons include the high cost of small transactions, the lack of traditional collateral, geographic isolation, or simple social prejudice. Even those institutions that provide financial services to the poor are limited in scale. For example, commercial lenders in rural areas prefer to deal mainly with large-scale farmers. Complicated loan procedures combined with a lack of accounting experience limit poor people's access to formal sources of credit.

3 Conventional versus non-conventional lending

In most developing countries, traditional financial sectors ignore the informal sector and repress sustainability of member-based financial institutions at the community level. It has become clear that traditional World Bank and IMF macro investment strategies, based on the 'Washington Consensus' theory of economic liberalization, have failed to improve the livelihoods of the poorest communities in developing countries. This market liberalization approach obstructs community-level investment opportunities, thus failing to develop appropriate rural financial institutions for the poor. It represents the classic top-down approach to development where local communities and even governments have little or no say in the process. These liberalization policies have benefited the urban sector and those people in the top 10% of the income distribution in developing countries; the latter includes bankers, consultants, government bureaucrats, and owners of large businesses, but not the poorer.

The absence of commercial banks for poor people has led to non-conventional schemes of lending. The recent prominence given to mi-

crofinance owes much to the success of a relatively few microfinance programs. The most prominent of the successes now reaches over 2 million people, with cumulative lending of about \$2.1 billion. Similar successful examples can be seen in Latin America and Africa. These schemes are characterized by relatively small loans. The repayment period is relatively short. Women are a major beneficiary of their activities, and the destination of the funds primarily includes agriculture, distribution, trading, small craft and processing industries. The impact of microfinance lending varies widely between rural areas and urban areas.

Participatory structure and limits

In many developing countries, overall interest rates are relatively high. Rates charged by microlending schemes are quite high when the risk premium is added. Many of these micro-institutions claim a high rate of repayment. This is attributable to the informal participatory structures which create an atmosphere in which debtors respect their obligations. The administrative structure is generally light, and the entire process is participatory in nature because everyone is involved on a peer level. While this phenomenon is certainly true of better-run institutions, it is not possible to verify whether this is a universal feature.

Some studies show that there are limits to the use of microfinance as an instrument for poverty eradication. They include difficulties in identifying the poor and targeting credit to reach the poorest of the poor. Added to this is the fact that many people, especially the poorest of the poor, are usually uneducated and not in a position to under-

take an economic activity, because they lack business skills, experiences and even the motivation for business.

4 Definition and Origin of Microfinance

Much of the current interest in microfinance stems from the Microfinance Summit (2–4 February 1997, *Washington DC, USA*). The definition of microfinance that was adopted there was: Microfinance is a program designed to extend small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families. Some of the defining criteria common to all countries include: (1) size (loans are micro, or very small in size), (2) target users (microentrepreneurs and low-income households utilization), (3) use of funds (income generation and enterprise development, but also for community use (health, education, etc.)), (4) terms and conditions (most terms and conditions for microfinance loans are flexible and easy to understand, and suited to the local conditions of the community.)

Microfinance is thus the extension of small loans to entrepreneurs too poor to qualify for conventional bank loans. It has proven an effective and popular measure in the ongoing struggle against poverty, enabling those without access to traditional lending institutions to borrow at bank rates and start small businesses. Microfinance has been used as an ‘inducer’ in many community development activities, serving as an entry point in organizing a community program or as an ingredient in a larger education/training exercise.

Origin of Microfinance: Grameen Bank

Dr. Muhammad Yunus returned to Bangladesh to settle into a life as a professor, after earning a Ph. D. in economics at Vanderbilt University. But a famine in 1974 ravaged the country, leading Dr. Yunus to alter his thinking and his life profoundly: “What good were all my complex theories when people were dying of starvation on the sidewalks and porches across from my lecture hall? Nothing in the economic theories I taught reflected the life around me.”

Armed with a lofty dream to end the suffering around him, he started an experimental microfinance enterprise in 1977. It began with a simple loan. After witnessing the cycle of poverty that kept many poor women enslaved to high-interest loan sharks in Bangladesh, Dr. Muhammad Yunus lent the \$27 to 42 women, so they could purchase bamboo to make and sell stools. In a short time, the women were able to repay the loans while continuing to support themselves and their families. With that initial eye-opening success, the seeds of the Grameen (named for the Bengali word for “rural”) Bank, and the concept of microfinance, were planted. By 1983 the Grameen Bank was officially formed.

The idea behind the Grameen Bank is ingeniously simple: extend credit to poor people, and they will help themselves. This concept strikes at the root of poverty by specifically targeting the poorest of the poor, providing small loans (usually less than \$300) to those unable to obtain credit from traditional banks.

At Grameen, loans are administered to groups of five people, with only two receiving their money up front. As soon as these two make a few regular payments, loans are gradually extended to the rest of the

group. This peer pressure ultimately builds a sense of community as well as individual self-reliance. Most of the Grameen Bank's loans are to women, and since its inception, there has been an astonishing loan repayment rate of over 98 percent. The Grameen Bank is now a \$ 2.5 billion banking enterprise in Bangladesh.

Noteworthy is the spread of the microfinance to other countries including some advanced countries. The microfinance model has spread to over 50 countries worldwide, from the U.S. to Papua New Guinea, Norway to Nepal. It has now become the world's hot idea for reducing poverty. Ever optimistic, Yunus travels the globe spreading the belief that poverty can be eliminated: "...the poor, once economically empowered, are the most determined fighters in the battle to solve the population problem; end illiteracy; and live healthier, better lives. When policy makers finally realize that the poor are their partners, rather than bystanders or enemies, we will progress much faster than we do today." Dr. Yunus's efforts prove that hope is a global currency.

It is difficult to argue with Dr. Muhammad Yunus' achievements in building the world's best-known microfinance institution called Grameen Bank. The well-known ability of the Grameen Bank to fight poverty in one of the world's poorest countries has done more than anything else to legitimize the field of micro-finance, which now has a well-coordinated worldwide movement attempting to reach 100 million of the world's poorest families by 2005. The International Year of Microcredit 2005 is just around the corner now.

Part of its success may be due to the bank's relentless innovation and flexibility in organizing itself to work in the challenging setting of

rural Bangladesh. Part of it may be the bank's co-op structure, where borrowers are called "members" and make up the key block of its shareholders. Part of it may be the desire to be only minimally profitable and return as much of its earnings as possible to those very people. The important thing is that the Grameen process as a whole works well. Peer pressure and equal participation unquestionably lead to success.

Grameen Banks typically start off with a non-profit orientation and a desire to fill an important niche in the local development picture, but are intended to convert to a for-profit status within a few years. The best established of these, Grameen Uddog ("Rural Initiative"), finances local women's purchases of yarns and dyes to weave on traditional handlooms, then links them with Bangladesh's thriving textile export business. The production capacity is currently a million yards per month, with more than 15 million yards of the fabric exported to date. Lately Yunus has used Grameen Bank as a springboard into other innovative business ventures intended to create new opportunities for poverty reduction.

Here is a current summary of the bank called Grameen according to the IFC of the World Bank:

Name of the Bank : Grameen Bank

Managing Director : Muhammad Yunus, Bangladesh

Size of Bank : Approximately \$ 100 million in equity; \$ 275 million outstanding loan portfolio; has lent more than \$ 2 billion to 2.3 million low-income borrowers in rural Bangladesh, 94% of them women

Start of Commercial Operations : 1983

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Loan Size : Average is local currency equivalent of \$ 160, but can range from less than \$ 1 to \$ 300 or more.

Ownership: Grameen borrowers 93%, government 7%

Use of Loans : To finance ducks, cows, geese, basket-weaving material, and other inputs for self-employment projects of borrowers who otherwise would have little economic opportunity; also some housing loans

Business Strategy : Lend without collateral to small groups of peers, not individuals, via a system based on “mutual trust, accountability, participation, and creativity”

How It Works : If any member of the group defaults, all are cut off from new lending until the outstanding debt is repaid.

Repayment Rate : 98%

Number of Villages Served : 37,000

Number of Employees : 12,000

Portion of Borrowers Who Have Escaped Poverty : 33.3% (World Bank/Grameen estimate)

5 EMPOWERING THE POOR THROUGH MICROFINANCE IN BANGLADESH

The provision of small loans for income-generating self-employment activities can make all the difference for poor families. The World Bank is supporting Bangladesh's microfinance movement for Poverty Alleviation Microfinance Project. The International Development Association (IDA) in the World Bank plays a key role in supporting poverty reduction mission. The IDA's assistance is focused on the poorest countries, to which it provides interest-free loans and

other services. The IDA depends on contributions from its wealthier member countries for most of its financial resources.

The interest-free International Development Association (IDA) credit is to be repaid by the Government of Bangladesh in 40 years with a 10-year grace period. The government, in turn, gives this money to Palli Karma Sahayak Foundation (PKSF) at 1 percent interest to be repaid in 20 years. The money flows as follows:

IDA (WB) → Government of Bangladesh → PKSF → 170 Microfinance NGOs

The PKSF is an innovative quasi-government poverty foundation, which lends to promising small and medium NGOs to expand their microfinance programs. The government helps the PKSF and the microfinance NGOs who borrow from it to become financially viable through training, research, and disseminating best practices on increasing cost effectiveness. The project has helped more than 170 NGOs extend microfinance to an estimated 1.4 million poor borrowers, most of whom are women. "Microfinance has tremendous potential as an instrument for poverty reduction," says Reazul Islam, Operations Officer in the World Bank's Dhaka Office. "The project supports the Bank's twin objectives of poverty alleviation and broad-based economic growth."

PROSHIKA, an NGO for education and training for human development

The name 'PROSHIKA' is an acronym of three Bangla words, which stand for training, education, and action. It is a non-governmental organization offering educational and training programs for human

development. It has been more than two decades since PROSHIKA, now one of the largest NGOs in Bangladesh, took its first step. The PROSHIKA development process started in a few villages of Dhaka and Comilla districts in 1975. The organization formally emerged in October, 1976.

Rural areas are beyond the reach of formal financial institutions, but the hunger for microfinance is tremendous. Severely short of capital, the rural poor have proven that they can change their destiny if cash flows into their hands. "Demand is expanding so fast that we initially could not provide all our group members with credit," says Dr. Qazi Faruque Ahmed, President of Proshika.

Aminul Islam, Director of the Bangladesh Rural Advancement Committee (BRAC), echoes this sentiment. "The demand for funds is increasing fast. Once a woman finds that credit can change her lifestyle, she dreams of going higher and higher, and the demand also grows. We found that grant money couldn't keep up with the large demand. So we opted to take funds from PKSF." Now that PKSF is providing a new source of funding, NGOs are able to meet the demand for microfinance. Meanwhile, more and more members of NGO groups are taking out new loans everyday.

Ranzida Khatun's story: ASA and a lesson for commercial banks

ASA (*Association for Social Advancement*) is an NGO specializing in credit programs in Bangladesh. The organization is committed to empowering landless and disadvantaged poor villagers. ASA disburses credit through small groups, which serve to promote solidarity and awareness-building. ASA has developed a credit

service to women's groups which is highly standardized and very economical. The repayment rate is near 100% and covers not only all field expenses but overhead expenses as well. The organization runs nearly 800 branches in Bangladesh. With almost half of their loans resulting in default, Bangladesh's commercial banks have much to learn from Ranzida Khatun.

Ranzida Khatun, a small peanut trader, is a member of Keya Bhumihin Women's Group in the village of Kuliarchar, Bangladeshi, and has taken out four loans from ASA. There has not been one single instance in which she has defaulted. "The first time I borrowed only Tk 2,000 to see if I can really make use of it. Since it was successful, I found the courage to borrow another Tk 3,000, then Tk 4,000, and finally Tk 5,000 eight months ago," says Ranzida. "I have already paid 32 installments on my last loan and have 13 more installments to go." The NGOs that have been giving loans to these women are also regularly repaying their lender. "We place top priority on paying back loans to PKSF," says Shafiqul Haque Choudhury, Managing Director of ASA. "Our loan recovery rate is 99.82 percent." Explaining the secret to their success, Choudhury says, "We are able to maintain such a high rate of loan recovery by providing training to borrowers before giving them loans. Projects are also vigorously scrutinized by our staff before giving loans and these are constantly monitored," he added.

Bangladesh Rural Advance Commission

BRAC (Bangladesh Rural Advance Commission) is a nongovernmental organization with programs in microfinance, primary health care, and nonformal primary education for the landless rural poor. It is currently engaged in relief operations for flood victims and the landless rural poor. BRAC was established as a relief and rehabilitation organization in 1972 after the Bangladesh Liberation War by Mr. Fazle Hasan Abed. Over the years BRAC has gradually evolved into a large and multifaceted development organization with the twin objectives of "Alleviation of Poverty and Empowerment of the Poor". It targets people living below poverty line (mostly landless). BRAC mainly focuses on women and has developed its own strategy to take resources and services to the grassroots level.

Jamila Begum and her small hotel:

"Monohori Hotel" reads a freshly written sign on the top of the tin shed beside the dusty road. From inside wafts the mouth-watering smell of fish curry. Between the narrow gap of the two rows of stretched tables and benches, Jamila Begum moves along deftly with a bowl of rice in one hand and curry in the other. Customers, mostly cattle traders who came to sell their animals in the market a few hundred yards away, eat heartily. "The hotel is my brain child," Jamila says while serving her customers. "First, I borrowed Tk 1,000 from BRAC and started a poultry farm. But when I found out that those hotels near the market were booming, I thought, well, if they can sell food to the cattle traders, why can't I? I am a good cook, and I can offer them better food at

cheaper prices. So I took out another Tk 6,000 loan from BRAC and along with the profits from the poultry invested in this hotel.” “Before starting the hotel, I used to work as a maid in other people’s houses,” recalls Jamila. “I had to work from dawn to late night almost for a pittance. We used to live in temporary housing made of straw. Those terrible days are now behind me. Now, I have replaced my old house with a tin shed, and my two children are attending primary school.”

6 Grameen Bank and its replications in the world

There are two different kinds of banks: conventional commercial banks based on distrust and unconventional microfinances based on trust. Grameen Bank (GB) has reversed conventional banking practices by removing the need for collateral and creating a banking system based on mutual trust, accountability, participation and creativity. GB provides credit to the poorest of the poor in rural Bangladesh, without any collateral. At GB, credit is a cost-effective weapon to fight poverty and it serves as a catalyst in the overall development of socio-economic conditions of the poor who have been kept outside the banking orbit on the ground that they are poor and hence not bankable. Professor Muhammad Yunus reasoned that if financial resources can be made available to the poor people on terms and conditions that are appropriate and reasonable, “these millions of small people with their millions of small pursuits can add up to create the biggest development wonder.” His reasoning proved to be right.

Currently, GB is the largest rural finance institution in Bangladesh.

It has more than 2.3 million borrowers, 94 percent of whom are women. With 1,128 branches, GB provides services in 38,951 villages, covering more than half of the total villages in Bangladesh. The repayment of its loans, which average US \$160, is over 95%. Grameen Bank's positive impact on its poor and formerly poor borrowers has been documented in many independent studies carried out by external agencies including the World Bank, the International Food Research Policy Institute (IFPRI) and the Bangladesh Institute of Development Studies (BIDS).

Grameen Bank has inspired people and institutions throughout the world with its success in poverty alleviation. More than 4,000 people from some 100 countries have gone through Grameen's training / exposure programs over the last ten years. Some of those visitors have returned to their countries and replicated the Grameen Bank financial system to help the poor people in their own country to overcome poverty. A total of 223 Grameen replication programs in 58 countries have been established during the decade of 1990s. Taken together, they have reached several hundred thousand poor borrowers with credit around the world.

Grameen Bank for the US and the UK

Professor Margaret Grieco of the University of North London presented a paper on "Meeting the moment: Microfinance and the social exclusion agenda", to the "Accounting SIG, Business School, University of North London", on the 9th December, 1998. Her paper indicates influences of the Grameen Bank on advanced countries. The following few sentences in my paper are partly based on her paper. Microfi-

nance meets the moment when the government attention has fallen upon the social exclusion of those on low income from banking and savings services. Interest in microfinance in the developed world has been fueled by the attention received and success achieved by microfinance in the developing world.

The success of the Grameen Bank in Bangladesh has been much heralded with Hilary Clinton's visit to the Grameen Bank. US policy makers began to consider the applicability of this experiment to the low income, inner city neighborhoods of the United States. At its advent, the Grameen Bank developed strong enforcement structures through group lending and borrowing which ensured a high rate of repayment. The Bank of late has made use of the advances in new information technology, which enable better contact with borrowers and the better monitoring of repayment. The development of information communication technology, appropriate for streamlining microfinance and making it more attractive to high street banks, make this the moment for a serious consideration of the prospect of developing microfinance with the low income communities in the United Kingdom and elsewhere. Already grass roots microfinance initiatives have developed within the United Kingdom such as Full Circle in Norwich and the Rebuilding Society Network in Birmingham. Thus the merit of the microfinance is not limited to the developing countries. It is now universally recognized.

7 Microfinance Summit and Comparative Data

Microfinance Summit Campaign was established in 1997 in response to the desperate need of hundreds of millions of women in developing

countries. The Campaign seeks to reach 100 million of the world's poorest families, especially the women of those families, with credit for self-employment and other financial and business services by 2005. Over the last three years 1997-1999, 1,065 microfinance institutions have reached 13.8 million poorest clients, 10.3 million or 75 percent of whom are women. At the time of the 1997 Microfinance Summit it was estimated that eight million poorest clients were being reached. The recent survey of the year 2000 indicates an increase of more than 6 million poorest clients being reached over a two year period (January 1, 1998 to December 31, 1999), an increase of 82 percent. Of the 512 programs reporting data that covers January 1, 1999 to December 31, 1999, the growth in the number of poorest women being reached over the last year is 1.4 million, an increase of 16 percent. While this progress is impressive, the Campaign still has a long way to go to fulfill its mission over the next six years.

Four Core Themes: Setting the Direction

At the launch of the Microfinance Summit, too many in the field of microfinance argued for a focus on building financially self-sufficient institutions at the expense of reaching the poorest families. However, members of the Microfinance Summit Campaign are demonstrating that there does not have to be a trade-off. Combining institutional financial self-sufficiency with reaching the poorest is attainable.

The Microfinance Summit Campaign has four core themes, extracted from the Summit's 55-page *Declaration and Plan of Action*. The four core themes are:

1. *Reaching the Poorest*: The Summit recognizes that the field of mi-

crofinance includes institutions providing financial services to constituencies that are overlooked by the traditional banking sector. However, the Summit specifically focuses on reaching the poorest families, defined in the *Declaration and Plan of Action* as families in developing countries among the bottom 50 percent of those living below their nation's poverty line. Another way of looking at this target is to see the 1.2 billion people living in absolute poverty as comprising some 240 million families. These 240 million families comprise the group from which most of the Microfinance Summit's target of 100 million poorest will come. Within industrialized countries the Summit is focused on all of those living below their nation's poverty line.

2. *Reaching and Empowering Women*: Experience shows that women are a good credit risk, and that woman-run businesses tend to benefit family members more directly than those run by men. At the same time, through earning an income, women achieve a higher status in their homes, their communities, and their nations.

3. *Building Financially Self-Sufficient Institutions*: The *Declaration and Plan of Action* emphasizes the importance of programs in developing countries reaching financial self-sufficiency. Experience has shown that microfinance programs in developing countries can improve their efficiency and structure, their interest rates and fees, to eventually cover their operating and financial costs. This is demonstrated powerfully in a paper commissioned by the Campaign titled: *The Microfinance Summit's Challenge: Building Financially Self-Sufficient Institutions While Maintaining a Commitment to Reaching the Poorest*. Day-long courses offered by the Campaign at global and regional

meetings held from 1999 through 2001 trained practitioners in this area. Though the economic context in industrialized countries is radically different, the Summit encourages programs in industrialized countries to explore ways of becoming self-sufficient, so that their operating costs will be covered through direct revenue from program services.

4. *Ensuring a Positive, Measurable Impact on the Lives of Clients and their Families:* While financial measures such as program repayment rates give an indication of the strength of a microfinance institution, the Microfinance Summit is committed to programs having a positive, measurable impact on the lives of the very poor. Two impact assessment studies conducted by the non-governmental microfinance organization, Freedom From Hunger, showed that current clients of its affiliate institutions in Honduras and Mali experienced positive impact from the program at the individual, household, and community levels. The studies demonstrated that, when compared to non-clients, current clients were more likely to have larger enterprises; experience an increase in personal income and household food consumption; have personal savings; and feel a greater sense of empowerment and higher self esteem.

Micro Summit Campaign Programs report reaching 82 percent more poorest clients (over 6 million more poorest families) during the two year period from January 1, 1998 to December 31, 1999. The numbers increased from 7.6 million at the end of 1997 to 13.8 million at the end of 1999. The 512 programs are reporting a 16 percent increase in the number of poorest *women* reached in the past year (January 1, 1999 to December 31, 1999), an increase of 1.4 million poorest women.

1,065 established microfinance practitioners responded to the survey. These programs report reaching 23,555,689 active clients. According to the information provided by these programs, they are currently serving 13,779,872 of the *poorest* families, 75 percent of whom are women. This is shown in Table 1.

Table 2 shows that of the world's 1999 microfinance clients, 79% exists in Asia, followed by Africa with 16% and Latin America and Caribbean with 5%. This is shown in Diagram 1. The concentration in Asia is no doubt due to the birthplace of microfinance. Their first success in Bangladesh is being spread around its neighbors in Asia. It is also interesting to note that their spread is not limited to developing countries. Poor people live in developed countries as well, and can benefit by microfinances which are now borderless.

Table 3 shows that Bangladesh is the most active in microfinance with clients of more than five million. It remains to be the leader in this field, followed by Thailand. The ratio of women to the total number of poorest clients in Bangladesh is 90% in 1998 and 91% in 1999.

Table 1 : World summary of microfinance clients

| Year | Total number of client reported | Number of "poorest" clients reported | Number of "poorest" clients who are women |
|-------------------------------------|---------------------------------|--------------------------------------|---|
| 12/31/1998 1,065 institutions | 20,938,899 | 12,221,918 | 8,839,706 |
| 12/31/1999 1,065 institutions | 23,555,689 | 13,779,872 | 10,273,900 |

Source : Microfinance Summit Campaign

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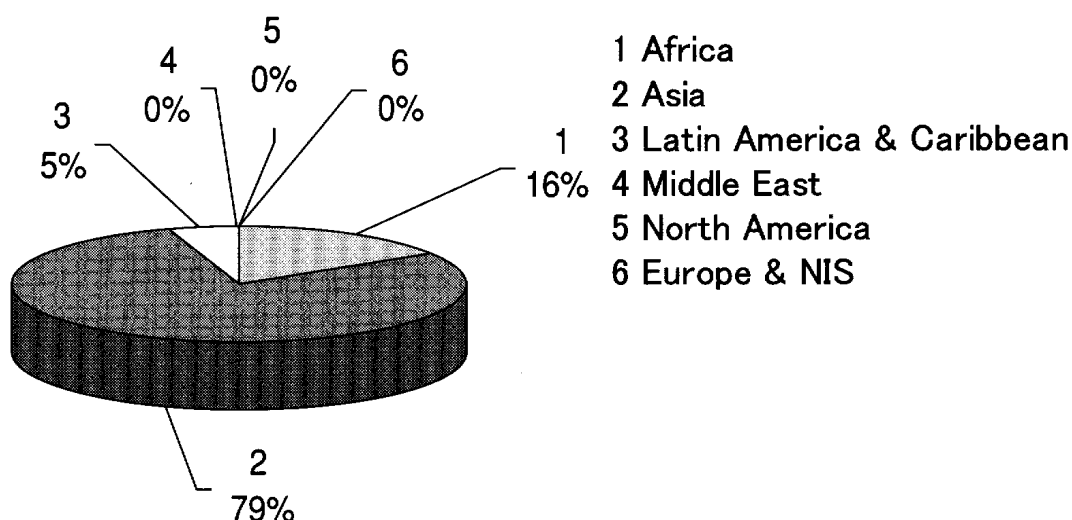
The same ratio in Thailand was smaller, 58% in 1998 and 60% in 1999. Bangladeshi women appear to be more empowered in small business than Thai women. The same ratio in 1999 was 33% in Nepal, 65% in India and 90% in Cambodia. Women in Cambodia appear to be as active in microfinance and small business as Bangladeshi women, which I have also observed locally in Cambodia in September 2001. Grameen Bank replication programs now operate in 19 countries in Asia. In India alone there are over 20 Grameen Bank replicators.

Table 2 : Microfinance clients in the world by region

| Region | Number of programs reporting | Number of clients reported 1998 | Number of clients reported 1999 | Number of poorest ¹ clients reported 1998 | Number of poorest ¹ clients reported 1999 | Number of women clients poorest ¹ reported 1998 | Number of women clients poorest ¹ reported 1999 |
|-----------------------------|------------------------------|---------------------------------|---------------------------------|--|--|--|--|
| Africa | 455 | 2,974,318 | 3,833,565 | 2,149,517 | 2,617,861 | 1,142,614 | 1,526,267 |
| Asia | 352 | 16,798,605 | 18,427,125 | 9,513,544 | 10,498,656 | 7,350,121 | 8,316,313 |
| Latin America & Caribbean | 152 | 989,800 | 1,109,708 | 452,436 | 531,228 | 290,364 | 355,253 |
| Middle East | 16 | 44,225 | 46,925 | 28,071 | 28,807 | 15,501 | 15,680 |
| Developing World Totals | 975 | 20,806,948 | 23,417,323 | 12,143,568 | 13,676,552 | 8,798,600 | 10,213,513 |
| North America | 48 | 40,439 | 46,925 | 28,071 | 28,807 | 15,501 | 15,680 |
| Europe & NIS | 42 | 40,439 | 43,750 | 16,566 | 18,519 | 11,144 | 13,022 |
| Industrialized World Totals | 90 | 131,951 | 138,366 | 78,350 | 103,320 | 41,106 | 60,387 |
| Global World Totals | 1,065 | 20,938,899 | 23,555,689 | 12,221,918 | 13,779,872 | 8,839,706 | 10,273,900 |

Source : Microfinance Summit Campaign

Diagram 1 Microfinance Clients in 1999 by Region
Microcredit Clients(%) in 1999



Source : Compiled and processed from the data of Microfinance Summit Campaign

Table 3 : Major microfinance clients in Asia by country

| ASIA | Total number of poorest clients as of 12/31/98 | Total number of poorest clients as of 12/31/99 | Total number of poorest women as of 12/31/98 | Total number of poorest women as of 12/31/99 |
|------------|--|--|--|--|
| Bangladesh | 5,165,069 | 5,801,699 | 4,645,862 | 5,261,566 |
| Thailand | 1,502,644 | 1,528,245 | 871,534 | 916,947 |
| Nepal | 176,742 | 186,576 | 54,275 | 61,613 |
| India | 151,288 | 168,211 | 86,114 | 109,524 |
| Cambodia | 69,724 | 71,646 | 64,125 | 64,200 |

Source : Compiled and processed from the data of Microfinance Summit Campaign

Table 4 : Major microfinance clients in Africa by country

| AFRICA Country | Total number of poorest clients as of 12/31/98 | Total number of poorest clients as of 12/31/99 | Total number of poorest women as of 12/31/98 | Total number of poorest women as of 12/31/99 |
|-------------------|--|--|--|--|
| Ethiopia | 272,123 | 385,373 | 113,038 | 164,895 |
| Nigeria | 299,052 | 262,999 | 115,816 | 110,123 |
| Malawi | 272,123 | 120,703 | 49,196 | 55,541 |
| Mali | 67,871 | 82,898 | 67,871 | 82,898 |
| Burkina Faso | 30,806 | 35,000 | 29,266 | 31,500 |
| Morocco | 16,055 | 30,000 | 16,055 | 30,000 |
| Benin | 7,205 | 9,444 | 4,683 | 6,327 |
| Kenya | 5,686 | 9,060 | 5,686 | 9,060 |
| Congo | 1,568 | 1,778 | 1,490 | 1,689 |

Source : Compiled and processed from the data of Microfinance Summit Campaign

Africa is shown in Table 4. Ethiopia stays the leader, although the 1999 total number of poorest clients in Ethiopia constitutes only 7% of that in Bangladesh.

The ratio of women to the total number of poorest clients in Ethiopia is 43% in 1999, far below that in Bangladesh. The ratio in No. 2 Nigeria is similar. Other countries seem to contain missing data, although taken directly from the Microfinance Summit Campaign website.

8 CENTRAL BANKERS AND MICROFINANCE

The Asia and Pacific Region Microfinance Summit Meeting of Councils was held on February 1–5, 2001, in New Delhi, India. Many central

bankers from Asian countries got together to discuss microfinance. Here are some of their views about microfinance. Mr. Dipendra Purosh Dhakal, Governor of the Central Bank of Nepal, says that microfinance institutions come forward to play an active role in fulfilling the goal of poverty eradication. The Central Bank of Nepal is supporting this active role and is assisting relevant programs so that the microfinance institutions will expand in Nepal. He says that the role of the Central Bank is not only to be related to credit, but also to social intermediation. The Central Bank of Nepal, he says, has to play an important role in coordinating relevant development projects for the poor rural population.

Dr. Ishrat Husain, Governor of the State Bank of Pakistan, says that they want to promote microfinance institutions as a partnership between the public sector, the private sector, the communities, and the non-governmental organizations. The interest rates and the service charges will be at a level which is determined by the market, not subsidized: The government will not own these institutions. They will not have high-handed supervision and regulation. They do not want to stifle this particular movement by doing a prescriptive mode of prudential regulations as a prior condition for licensing these microfinance institutions to operate.

Other central bankers in Asia express similar opinions. It is therefore clear that in poor Asian countries, central bankers attach relevant importance to microfinance institutions in achieving one of the nation's goals, i.e., poverty reduction. Many central bankers regard microfinance as being important in poverty alleviation and stress the role of partnership being played by microfinance institutions.

9 Future of Microfinance

The goal of the Microfinance Summit Campaign headquartered in Washington, D.C., is to ensure that 100 million of the world's poorest families, especially the women of those families, will receive credit for self-employment and other financial and business services by the year 2005. A crucial part of any future effort will be to strengthen the administrative structures of the existing microfinance institutions. Economies of scale are important in microlending. Dynamic leadership and management staff are also crucial. The provision of information on available services to the poor is particularly essential. At present this is not the case, even in some developing countries. Unfortunately, information on services for the poor is rarely made readily available.

The long-term financial sustainability of microfinance operations deserves particular attention. In the absence of long-term sustainability, microfinance operations become a welfare or charity operation. While the latter have their own place in development in some circumstances, they should not characterize microfinance institutions. Microfinance institutions will remain to be no charity organization.

There is now considerable consensus that lending to the poor can succeed provided it is accompanied by other services, especially training, information and access to land. An OECD study, for example, emphasizes that credit needs to be supplemented with access to land and appropriate technology, but such activities require strong support from the public sector. In some of the lowest-income countries, lack of access to land is the single most critical cause of rural poverty. The success of microfinance in the future will depend on the availability of

other accompanying services from the public sector. Governments and central banks will need to be involved to some extent.

Future historians will hopefully look back at the last decades of the 20th century and the early decades of the 21st century and regard them as some of the most transformational periods of mankind in the sense that the microfinances have shattered a myth in helping alleviate poverty. Microfinances have indeed been shattering myth after myth. The myth used to be that women are not bankable, poor and not reachable. Bagladeshi women have turned out to be productive members of the society, which is observed in many other countries in Asia, Africa and elsewhere.

Even in Mongolia, microfinance is producing some tangible outcomes. In the early 1990s the Mongolian government identified microfinance as an essential tool in eradicating poverty. MicroStart Mongolia project was officially launched in 1997 to build the local capacity to initiate microfinance activities in Mongolia. (“Golden Fund for Development”) disbursed its first loan in September 1998 and quickly became a pioneer in creating a new structure and a new way to do business in Mongolia. MicroStart Mongolia-X.A.C. has already expanded its activities to more than 21,700 loans, encompassing a value of more than US\$ 5.2 million, all of which were provided to low-income families. The rate of repayment has consistently been maintained at above 97 percent.

It is true that Asia still has a disproportionate number of the world's poor, but the incredible successes of microfinance programs in Bangladesh and others will continue to give hope and encourage followers to network mutual help of poverty alleviation.

Today, there are thousands of microfinance designers, technicians and visionaries in the world. Many microfinances in Uganda support AIDS orphans. Microfinance campaigns sometimes include AIDS education, but truly, economic empowerment is important. Microfinance is about trading, selling, and processing; something where you get some return on your investment in days or weeks. The microfinance summit's target group is not farmers, but small entrepreneurs. The next microfinance summit is New Delhi, 2005. At the Asia Pacific Region Meeting of the Microfinance Summit Meeting of Councils, New Delhi, India, February 1-5, 2001, Dr. Yunus gave a brief presentation at the workshop titled "Application of Information Technology for the Poor" where he highlighted some of the successes Grameen has had in utilizing technology to benefit the poor, including Grameen Phone and Grameen Shakti (Energy). IT will continue to be used more in the future for the benefit of the poorest.

10 SUMMARY AND CONCLUSION

In the world, there are two kinds of banks: conventional ones and unconventional. Commercial banks are usually based on mutual distrust, while new unconventional banks, microfinances, are based on mutual trust. The origin of microfinance is deeply rooted in Asia. In 1976, Grameen Bank in Bangladesh was founded by Dr. Muhammad Yunus. Microfinance reverses conventional banking practice by removing the need for collateral. It creates a banking system based on accountability, participation, creativity and mutual trust. It revolves around an unshakable personal commitment to fight poverty from the bottom up, and an equally strong sense that the established order has

little to offer those it has left behind.

The success of the Grameen Bank is attributable to innovation and flexibility, group responsibility, return of its earnings to participating poor people, etc. Peer pressure and equal participation unquestionably lead to success. Microfinance institutions claim a high rate of repayment, due to the participatory structure in which debtors respect their obligations. The administrative structure is generally light, and the profit is kept at a minimum just enough to bear total cost. Grameen Bank as a whole works quite well. It is no wonder that there are so many replications throughout the poor world.

Microfinances have been shattering myth after myth. The myth used to be that women are not bankable. Bagladeshi women have turned out to be productive members of the society, which is potentially true of other women in other countries. The incredible successes of microfinance programs in Bangladesh and other Asian countries will certainly give hope, courage and optimism to other poor people on earth. Microfinance networking will help alleviate poverty in many countries, developing or developed. More stability in such poor countries will certainly benefit advanced economies and the world.

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