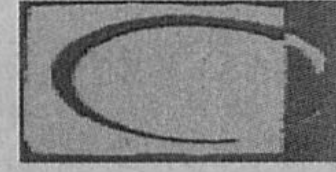


Asia Pacific Region Microcredit Summit Meeting of Councils (APRMS)

Dhaka, 16-19 February, 2004



Palli Karma-Sahayak Foundation (PKSF)



MICROCREDIT SUMMIT CAMPAIGN

Session Topics

Plenary Sessions:

- Discussion of commissioned paper: Ensuring Impact: Reaching the Poorest While Building Financially Self-sufficient Institutions and Showing Improvement in the Lives of the Poorest Families
- Presentation of Institutional Action Plans
- Discussion of commissioned paper: Creating Autonomous National and Sub-Regional Microcredit Funds
- Discussion of commissioned paper: Building Better Lives: Sustainable Integration of Microfinance and Education in Child Survival, Reproductive Health and HIV/AIDS Prevention for the Poorest Entrepreneurs
- Financing Microfinance for Poverty Reduction
- Innovations for Empowering Women through Microcredit: Voices from the Field
- Policies, Regulations, Governance and Systems that Promote Sustainable Financial services to the Poor and the Poorest

Break out Sessions:

- How Parliamentarians, Advocates and Other Leaders Can Get High-Level Government Commitment to Microcredit Programs and the Summit's Goal
- Successful Management Strategies to Reduce Cost & Improve Efficiency
- Managing the Growth of Microcredit Programs: Human Resource Management Including Recruiting, Training and Motivating Staff
- Innovative ways of Reaching and Benefiting the Most Poor and Most Vulnerable People
- Using Microfinance to Link the Application of Information Technology and the Very Poor
- Empowerment of Women through Microcredit
- Designing Internal Control Systems to minimize Fraud and Irregularities
- How MFIs and their clients can have positive impact on the Environment
- Microcredit and Agriculture: How to Make It Work
- Ownership and Governance in Microfinance.

Day-Long Courses:

- Learning to Plan for Institutional Financial Self-Sufficiency while Reaching the Poorest Families
- Learning to Use Cost-Effective Impact Measurement Tools
- Management Capacity Building for Reaching Large Numbers
- Entering the Field: Learning the Basics of Starting a Microcredit Program
- Appropriate Role for Governments: Establishing the Appropriate Legal Status, Regulations and Policy for Microcredit Institutions
- Creating Autonomous National and Sub-Regional Microcredit Funds

Associated Sessions:

- Review of The Bangladesh MF Sector: Strategy for Possible Donor Participation
- Pacific Countries Associated Session
- Exploring Impact and Improving Practice: National Impact Study of MFIs in India and Discussion of the M-CRIL Report 2003
- ICT at Work in Microfinance in Asia
- The Unitus Acceleration Model: Accelerating Microfinance Growth
- Experience of Grameen Replicators: Financing, Institutionalization, Innovations and Achievements
- Why do 12 million poor women in India used SHG Methodology to enjoy door step Banking
- Regional Cooperation in Microfinance: The Banking with the poor network in Asia
- Regulating divergent players in Microfinance: The case of the Microfinance regulatory council, South Africa
- Flexible Microfinance services for the tribal communities: the Experience of ASHRAI in North Western Bangladesh
- Scaling up Microfinance to SME finance
- Operationalising Social Performance in Microfinance, Experience from Imp-Act Program Partners
- New Frontiers of Microfinance
- Grameen Generalized System: Grameen Bank II
- Are we Reaching The Poorest ? CIDA's Experience in Philippines and Bangladesh
- Beyond Savings and Credit- Microfinance for Sustainable Poverty Alleviation
- Linking International Migrant Remittance to Microenterprise Initiative in Bangladesh: Possibilities and potentials
- Flexible Microfinance and Innovation for the Extreme Poor: Experience and Learning
- Overcoming the Funding Constraint: Grameen Foundation USA's Capital Market Initiatives in India
- Millions, Markets and Microcredit in China: An introduction and Update on Microcredit Industry in the Undiscovered Market.

Giving a chance to the poor

More than 1000 leaders from this region and around the world have gathered for the Asia Pacific Microcredit Summit Meeting of Councils in Dhaka, Bangladesh. During these few days heads of state and government, heads of institutions of all sizes, and microcredit clients will participate in this summit. No matter what role we play, we bring to this gathering a shared commitment to eradicate poverty and a belief in the power of microcredit to empower families and save lives.

On the 1.2 billion people on our planet who live on less than US\$ 1 a day, some 800 million, or two-thirds, live in Asia. Each of us must work to bring financial services and a dignified route out of poverty to the people of this region. Together we can achieve the Millennium Development Goals in Asia and the Pacific, especially the goal of cutting absolute poverty in half by 2015.

The State of the Microcredit Summit Campaign Report was released last November at the United Nations in New York City. The 2,572 institutions reporting were reaching 67.6 million clients of the end of 2002, 41.6 million of whom were among the poorest when they received their first loan. Of the 41.6 million poorest reached, 87 percent are in Asia and the Pacific.

The Dhaka Meeting has a particular focus on the Microcredit Summit's four core themes: 1) reaching the poorest, 2) reaching and empowering women, 3) building financially self-sufficient institutions, and 4) ensuring a positive measurable impact on the lives of clients and their families.

May this gathering begin a crescendo of awareness and action that will powerfully launch the United Nation's International Year of Microcredit in 2005 and result in reaching 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.

When we succeed, hundreds of millions of people will be released from dire poverty and will be better able to property feed their families, educate their children, provide basic health and adequate housing, and see themselves and their families reach their full potential.

Sam Daley-Harris
Director

Microcredit Summit Campaign

Salehuddin Ahmed
Managing Director

Palli Karma-Sahayak Foundation (PKSF)

Microcredit in the Global Context

Financial services for the poor have proved to be powerful instrument for poverty reduction enabling the poor to build assets, increase incomes, and reduce vulnerability to economic stress. Today, access to credit is recognized as a right globally. Throughout the 1980s and 1990s the world observed major achievement and growth of microcredit sector in different countries, particularly in developing and least developed countries. After two decades of operation microcredit sector now needs to consolidate its achievements and confront new challenges.

The critical issue for microcredit practitioners 'is to challenge' the myth that microcredit program does not cover poorest of the poor. Bringing financial self-sufficiency of the microcredit organizations that serve the poorest is also a crucial point for practitioners. The global coverage of microcredit program shows that by the end of 2002, about 67.6 million clients were covered under microcredit program by 2522 microcredit institutions, 41.6 million of whom were among the poorest. In order to reach 100 million poorest families by 2005, the microcredit campaign requires a 38 percent growth per year from its starting point of 7.6 million poorest families at the end of 1997. The growth from 26.8 million poorest clients at the end of 2001 to 41.6 million at the end of 2002 represents 55 percent growth and have a good chance to make it 100 million by 2005.

Contribution of microcredit for poverty reduction and for employment, especially for the employment of women, is recognized in the declaration of Year 2005 as International Year of Microcredit by the United Nations. The year would be observed as a special occasion for giving impetus to microcredit programmes throughout the world. On the eve of the UN International Year of Microcredit 2005, the Asia Pacific Region Microcredit Summit Meeting of Councils in Dhaka 2004 will have significant impact on the efforts to achieve the goals of the year. Microcredit can play a significant role in achieving Millennium Development Goals (MDGs) as it serves the credit needs of the poor.

Experience of Microcredit in Bangladesh

The idea of microcredit is something for which Bangladesh can deservedly claim the intellectual property right. Not only Bangladesh's model of microcredit is now replicated world wide, but also it has found its place of pride in standard economic textbooks. Microcredit has now outreached well over one-third of all rural households in Bangladesh. Perhaps, no single poverty intervention programme ever reached such a wide coverage anywhere in the world.

Microcredit in Bangladesh represents an evolving and dynamic system - a learning-by-doing process leading to new innovations. We now know that the poor people have almost universal, but varying types of need for credit. We also know that both group solidarity and loan repayment are habit forming. This behavioural norm along with the maturity of the system now allows increasing flexibility in programme design. Because of such flexibility, microcredit can increasingly go into more productive and varied range of economic activities, such as by accommodating production seasonality and longer time-lags between investments and cash flows. Microcredit programmes are now being extended to provide larger loans to the progressive borrowers who have the demonstrated ability to go into scaled up micro-enterprises, and the initial results are quite encouraging. The coming years will perhaps see considerable deepening of microcredit in this direction along with simultaneous efforts to outreach the poorest of the poor.

A frequently asked question about microcredit is whether the interest rates charged are too high. In fact, the question should be put the other way round. Considering the enormous effort needed in mobilising the large numbers of poor borrowers and making financial services available at their doorsteps, it should strike as surprising how the microcredit programmes can keep the interest rates from diverging more from those of commercial banks and still remain sustainable. Indeed, it indicates a great deal of operational efficiency achieved by these programmes. It should also be remembered that the cost of microcredit programmes mainly consist of employee salaries. That is hardly any cost from the society's point of view, given the large reservoir of unemployed educated youth. On the other hand, the high operational costs in the formal banking system are largely due to large portfolios of bad loans representing real loss to society in the form of funds misused and badly invested.

What about the commercial viability and self-reliance of the microcredit programmes? It is true that without having access to public deposits, these programmes need start-up funds as grants or concessional loans, but these programmes also demonstrate that there is huge untapped potential of channelling rural savings into productive uses. Already, nearly one-fourth of the revolving funds of the microcredit programmes come from the savings of their members.

Can microcredit remove poverty? The additional family income generated by microcredit may be small, but it often makes the difference between survival and destitution. The increased coping capacity of the borrowers at times of stress is well documented. There is also evidence that microcredit can help the poor families to break out of the poverty cycle through accumulation of assets and improvement of human capital; but there is a need to better understand those longer term impacts.

(Extracts from Introduction in Salehuddin Ahmed and M. A. Hakim (eds.), *Attacking Poverty with Microcredit*, PKSF and University Press Limited, 2004.)

WAHIDUDDIN MAHMUD
Chairman, PKSF

The Role of Palli Karma-Sahayak Foundation (PKSF) in Poverty Alleviation

Since its inception in 1990, Palli Karma-Sahayak Foundation (PKSF), the world's largest apex microcredit fund, has been working to cater to the credit needs of the poor and developing microfinance institutions in Bangladesh. PKSF is significantly contributing to poverty alleviation by helping the poor to gain access to resources for their productive self-employment and encouraging them to undertake income generating activities. PKSF is directly responsible for and involved in institutional development of its Partner Organisations' (POs). PKSF's standards, guidelines, strong monitoring tools and modalities are being studied and shared by various countries such as India, Pakistan, Nepal, Maldives, Uzbekistan, Argentina, Mexico and South Africa in order to develop their microcredit sector.

After setting up of PKSF the microcredit movement in the country received a boost. The major achievement of PKSF is the transformation of NGOs into self-reliant financial institutions through the provision of fund, and institutional loan. PKSF has disbursed about US\$ 300 million through 210 POs to cover 3.8 million borrowers, of whom 90% are women. The POs have lent equivalent to US\$ 1900 million at the field level to the borrowers through revolving fund, adding savings and own resources.

PKSF follows a policy of learning by doing and is ready to incorporate innovations. In order to cater to the varied needs of borrowers, PKSF has diversified its programs covering rural microcredit, urban microcredit, hard-core poor microcredit, microenterprise and special credit for poultry and livestock development. PKSF is working for enhancing disaster coping capacity of borrowers through different programs.

PKSF is very much committed to achieve the Millennium Development Goals (MDGs). It has emphasized on formulating strategies for attacking poverty with microcredit in an effective and sustainable way, and has prepared a strategy paper titled "PKSF: Emerging challenges". The paper has identified programme priorities focusing on growth possibilities of microcredit sector in three strategic segments, namely, extending extreme poor coverage; deepening existing microcredit; and micro-enterprise development. The strategy paper will help PKSF chart its future course of actions consistent with the MDGs.

Microfinance: macro benefits

Lennart Bage

Most of the world's poor lack access to basic financial services that would help them manage their assets and generate income. This is especially true for the 900 million extremely poor people who live in rural areas of developing countries. Good management of even the smallest assets, such as livestock, can be crucial to very poor people, who live in precarious conditions, threatened by lack of income, shelter and food. To overcome poverty, they need to be able to borrow, save and invest, and to protect their families against adversity. With little income or collateral, poor people are seldom able to obtain loans from banks and other formal financial institutions.

Microfinance is one way of fighting poverty in rural areas, where most of the world's poorest people live. It puts credit, savings, insurance and other basic financial services within the reach of poor people. Through microfinance institutions such as credit unions, financial non-governmental organizations and even commercial banks, poor people can obtain small loans, receive money from relatives working abroad and safeguard their savings.

The microfinance revolution started with the recognition that poor people needed access to loans and that they could use these funds productively. It has also changed the perception that poor people are not credit worthy. Records have shown that, instead, they are a good risk, with higher repayment rates than conventional borrowers. In some of the most successful microfinance institutions, repayment rates are as high as 98 per cent.

As microfinance has evolved, there has been an increasing recognition of the importance of savings, often referred to as the "forgotten half of microfinance". During the 1990s we came to realize that there was a pattern emerging in how poor people were using the very large microfinance networks. In the networks that offered both credit and savings services, there were often as many as five savers for each borrower. While credit is important, it is only one of the many different kinds of financial services that poor people need to improve their lives.

For example, the Unit Desai of Bank Rakyat Indonesia, which has been one of the most successful providers of microfinance services in the region, counts more than 28 million savers, for only three million borrowers. The large financial cooperative networks in West Africa also have many more savers than borrowers among their members.

It has been argued that savers in those institutions are usually not the poorest people. Although this is true in many institutions, evidence has shown that even the poorest people value and need access to some form of savings. What characterizes the poorest is not only their very small income but also the irregularity of this income. This can actually discourage very poor people from taking a loan that comes with the obligation of a regular repayment schedule. Conversely, data gathered from money collectors around the world show that the poorest people often use their services to save, even when it comes at a high cost - demonstrating the importance that poor people attach to saving.

The Microcredit Summit Campaign has the ambitious objective of reaching 100 million of the world's poorest families by the year 2005. By the end of 2001, more than 2000 microfinance institutions were involved in the campaign, providing financial services, mostly loans, to almost 55 million individuals or groups. More than 21 million of those clients were women.

There is an urgent need for microfinance institutions to improve their ability to reach the poorest families and to satisfy their growing demand for a range of financial services. This includes the safe and flexible savings services that poor people need and value. One way to meet the objectives of the Microcredit Summit Campaign is to help microfinance institutions that are legally authorized to provide simple savings services ensure that these services are available to very poor people.

Although the amounts involved may be small, the loans, savings and insurance options that microfinance offers can give millions of rural men and women an opportunity to find their own solutions.

(Lennart Bage is the President of the International Fund for Agricultural Development (IFAD). Since it began operations in 1978, the Rome-based UN agency has invested US\$ 8.5 billion in loans and grants in 653 rural development projects and programmes in 115 countries and territories throughout the world. A further US\$ 14.8 billion in cofinancing was contributed by partners including governments, bilateral and multilateral donors, and non-governmental organizations. Microfinance is an important part of these efforts. About 75 per cent of IFAD projects and programmes provide financial services to the rural poor.)

Challenges of Microcredit: Looking Ahead

Microcredit has been playing a crucial role to achieve the objectives of poverty alleviation around the globe including Bangladesh. The success of microcredit has been mainly due to properly addressing the credit needs of the poor. The most imminent challenge of microfinance sector is to formulate strategies to achieve the millennium development goals (MDGs). A range of issues that include outreach of the poorest, upscaling of microcredit to microenterprise, providing new financial products, developing regulatory framework for the sector, mobilizing savings from non-members are being seriously considered for meeting the challenge. The international seminar on Attacking Poverty with Microcredit, organized by Palli Karma-Sahayak Foundation (PKSF) in January 2003 outlined three major challenges for the sector which include: (i) reaching more poor people through microcredit particularly, the hard core poor, (ii) delivery of microcredit services in a sustainable way, and (iii) balancing the social objectives with the financial objectives of microcredit.

The poor are a diverse group with diverse livelihoods, needs and potential that change over time due to life cycle events, new opportunities and external shocks. So there is a need to encourage more experimentation on new ideas to develop appropriate financial products for the poor and the hard-core poor. To expand the outreach of microcredit program and to maintain standards, apex organizations need to be promoted.

Microcredit should be brought to the mainstream of the economy by establishing backward and forward linkages. Therefore, macro policies (fiscal, monetary etc.) should be reoriented to achieve goals of reaching all the poor with microcredit. Governments should create an enabling legal and administrative environment for microfinance institutions (MFIs). Consideration should be given to create microfinance banks, with a mandate to mobilize savings from non-members. Facilitated by research and development microfinance will enter into new frontiers covering new products and services in social security, such as pension plan, life and health insurance, and financial products, e.g., loan for disaster coping, housing, education, and various poor-friendly savings products.

Microfinance industry and a great majority of development practitioners share the common view that permanent poverty eradication requires addressing multiple dimensions of poverty. The promise of microfinance as a strategy for attaining the MDGs through greater outreach, far-reaching impact, and financial sustainability can make it a unique development intervention.