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The Effects of Microlending on Women's Empowerment in Bangladesh

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“Strengthening women’s economic roles gives them more autonomy and more control over important decisions affecting them and their families, as well as contributing to their self-confidence and their ability to plan for the future.”

(Schuler and Hashemi, 1994, p. 73)

In all parts of the world, financial security and access to capital are essential in order to provide for the basic necessities of life. Without them, life becomes consumed with the day to day struggle of basic subsistence and trying to survive with enough for just one more day. However, a large majority of the world’s population does not have access to such security and lives in extreme poverty. During the World Summit for Social Development in Copenhagen in 1995, the United Nations estimated that 1.3 billion people, almost a quarter of the world’s population, live in extreme poverty. There is a wide gap in poverty levels, however, between men and women. Of the 1.3 billion people living in poverty, some 70 percent are women, suggesting an underlying system within cultures that favors men over women with regard to accessing financial resources. This trend of higher poverty levels among women is especially evident in Africa and southeast Asia (United Nations, 1995).

In recent years, development and government agencies have started to focus attention on gender based poverty by implementing programs to try to alleviate the large number of women suffering in extreme poverty. One such approach that has been building momentum in recent

years is microcredit lending that specifically targets women. Because traditional credit has been denied to them, women have either been forced to borrow through black market money lenders at exorbitant interest rates, depend on loans from family members, or not borrow at all.

Programs that loan small amounts to women without collateral have revolutionized banking for women by giving them access to credit and thus helping them to gain more economic security.

As part of the campaign to promote microlending to women, many agencies claim their programs have positive impacts on women. The lengthy list includes increased economic security and higher wages, better nutrition for the family, an increased likelihood that their children will remain in school, and increased contraceptive use leading to smaller families.

They further affirm that their programs lead to greater empowerment for women within the familial and community spheres: “Women are increasingly becoming able to manage their time and their own human resources. . . . There are new subjects of discussion between spouses . . . It creates a context of a more egalitarian debate led by the wife” (Mongbo, 1997). FINCA (1997) cites case studies of women using their services who have increased their self-esteem and self-reliance and now have aspirations for a better future. Self Employed Women’s Association (SEWA), operating in India, claims that their program “builds self-esteem and self-confidence among women” and “raises the status of women in their communities” (Informal Credit, 1997). One of the Women World Bank’s (WWB) effects on women is that they “secure a political voice” (Vincent, 1997). These are just a small sampling of the claims of microlending agencies on the empowerment of the women involved in their programs.

However, these claims seem most often to be based on anecdotal reports. Empirical evidence exploring the connection between empowerment and women’s microcredit appears less

often and shows mixed results, in spite of the self-laudatory reports. Although programs can be empowering in certain spheres, unintended disempowering consequences can also occur as a result of women's involvement in microcredit programs. Furthermore, although the term is widely used, empowerment can be a hazy concept due to its use of describing a variety of behaviors and attitudes, making measures of overall "empowerment" somewhat meaningless. Thus, it is much more useful to consider specific dimensions of empowerment and use corresponding indicators to measure them.

This paper focuses on the positive and negative effects of specific aspects of microcredit lending programs on six dimensions of empowerment involving rural women in Bangladesh: mobility, economic security, decision making within the family, political and legal awareness and action, freedom from domination by male family members, and women's amount of work in traditional spheres (Carr, Chen, and Jhabvala, 1996; Hashemi and Schuler, 1996). In light of prior research, this paper shows that when developers seek to minimize disempowering aspects of microlending programs and emphasize the empowering aspects, women can be benefitted to the greatest possible extent, given current gender roles and culture.

BACKGROUND

Bangladesh, a country in southeast Asia with a population of 128,251,000, is among the poorest 10 percent of all nations, with a \$208 per capita GDP and over 80 percent of the inhabitants below the poverty line. In spite of modernizing influences, 80 percent of the population live in rural areas. Nearly eleven percent of all babies die before their first birthday, and life expectancy is a mere 53 years. Although the total fertility rate has decreased substantially from 7.0 in 1970-75, it still remains moderately high at 4.7 (United Nations, 1995).

The situation for Bangladeshi women is bleaker, even more so than for the general population. Most women have no independent income source because they have low education levels, few marketable skills, marry at an early age, and do not own land or property. A strong patriarchal system due to the interaction of patrilineal descent, patrilocal residence, and the religious belief of *purdah*, which upholds social standards of modesty and morality for women, serves to isolate women in the home and the near proximity, thereby limiting their access to market areas and financial resources (Islam and Ahmed, 1984; Abdullah and Zeidenstein, 1982).

These factors all combine to place men in a dominant economic position and women in a dependent economic position: economically, women are considered a burden to either their fathers, husbands, or sons. Domestic violence is seen as an acceptable method to discipline or control these “economically unproductive” women when they fall short of their husbands’ role expectations, incur expenses, or behave unacceptably (Schuler, Hashemi, Riley, and Akhter, 1996). Because men and sons provide the bulk of economic input to the family, they receive first priority when it comes to valuable food, health care, or clothing. Women and daughters, therefore, must often go without (Chen, 1983).

This deprivation and discrimination is clearly noted in national statistics. Higher infant and child mortality rates exist for female children. Additionally, female children are three times more likely than male children to be severely malnourished. Although, women live longer than men worldwide, in Bangladesh the life expectancy for both women and men is the same at 53 years, suggesting gender inequality in access to and availability of health services. While overall illiteracy remains high, women’s rates are 18 percentage points higher than men’s (United Nations, 1995).

Because of the cultural constraints placed on women in Bangladesh, formal work outside the home is not a feasible option for most females. Thus, rural women tend to engage in economic activities within the informal spheres of home-based microenterprise. These include livestock and poultry raising, paddy husking, homestead cultivation and petty trade (Chen, 1983; Goetz and Sen Gupta, 1996). Furthermore, combining income generating work with domestic chores and childcare enables women to fulfill all their responsibilities within the home and allow for flexible hours, which is seen as beneficial and advantageous by both the wife and husband.

Tinker (1995), in her essay on the human economy of women, suggests that women have different economic values than do men, mainly because of their role in nurturing children. In less developed countries, men often are drawn into an economic world focusing on the maximization of individual profits, while women are left behind to struggle with caring and providing for the children. Because of this role, their behavior does not follow a purely economic rationality, but instead looks for the greatest benefit to the family as a whole. Thus, home based economic activity can be seen, according to Tinker, as a marriage between the benefits of bringing an income into the family and caring for the needs of the children at the same time.

Thus, the low status attributed to poor rural women, combined with their informal economic activities, have made it difficult for them to receive credit from traditional banking systems to support the development and growth of their income generation efforts. Banks perceive poor women, as well as men, to be high risk groups with limited ability to pay back their loans (Mayoux, 1995b). Furthermore, the poor generally desire small loans which are not even sufficient to cover the bank's transaction costs (Berger, 1989). In some systems, a

husband's approval and signature are required in order for a loan to be approved for a woman (Tomasevski, 1995; Berger, 1989). When banks are located in urban centers, time and geographic mobility are necessary to make multiple trips to the bank in order to complete the lengthy application and approval process. These become major constraints for women, particularly because of traditional propriety and seclusion norms (Berger, 1989; Mayoux, 1995b). Illiterate women are also unable to fill out the multiple forms, and the whole process of applying for a loan tends to be foreboding to a rural, uneducated, poor woman without previous experience in dealing with the formal lending sector (Berger, 1989). Collateral requirements are especially difficult for women to achieve, as the custom exists to register property in the names of male household members and to pass land from father to son (Tomasevski, 1995; Berger, 1989; Todd, 1996).

Organizations in Bangladesh such as the Grameen Bank and Bangladesh Rural Advancement Committee (BRAC), as well as other smaller NGOs, have sought to create programs to overcome these barriers women encounter when accessing credit. Collateral requirements are replaced by giving loans to clusters of women who act as peer groups in order to give support and exert pressure for repayment. Banks workers come to the villages to meet with the women and disburse loans, thus eliminating the need for women to travel to unfamiliar urban areas. Furthermore, women are specifically targeted and sought after to receive loans (Todd, 1996). This motivation to loan to females stems not only from the desire to help the poor, rural women themselves, but to also help their families: when women have their own income or control over the household income, they are more likely to spend money for food, health, and education for their children (Sebstad and Chen, 1996; Tomasevski, 1995). Thus, by targeting

poor women, development programs feel they have tapped into a way to help the family as a whole. Within the context of these bleak opportunities and constraints for women in Bangladesh, it is especially important to consider the effects of microcredit programs on women's empowerment.

POSITIVE EFFECTS OF MICROLENDING ON THE EMPOWERMENT OF WOMEN

Microcredit lending to women in Bangladesh has been found to be associated with several empowering behaviors including increased mobility, greater economic security, a greater amount of decision making power in the family, and increased legal and political awareness and action.

Mobility

Participation in both BRAC and Grameen Bank have been found to be a significant predictor of increased women's mobility (Hashemi and Schuler, 1996; Todd, 1996). Because of traditional *purdah* beliefs that work to seclude women, females in Bangladesh are traditionally isolated at home with little social contact outside of their kin groups. However, both microcredit programs require that women travel to a weekly meeting within the village. Trips to the local program office and to an occasional training program also increase travel outside of the village (Hashemi and Schuler, 1996). This serves to expose women to a broader world and to increase their relationships with non-family members.

Economic Security

Through membership in microlending programs in Bangladesh, women have begun to make substantial contributions to the family income (Todd, 1996; Hashemi and Schuler, 1996). According to Mohammed Yunus (1997), founder of the Grameen Bank, women's income resulting from Grameen loans have helped one third of Grameen families to move out of poverty and past basic subsistence levels; another one third are close to doing so, as well. Todd (1996) gives many examples from her ethnographic study of how Grameen loans have helped families to invest in land and other assets that they can fall back on in times of crisis. Additionally, both Grameen and BRAC require their members to invest weekly in a group savings fund and an emergency fund to cushion the women in times of economic difficulties. Grameen also has housing loans that women can apply for with the provision that the title to the land and home is in their name (Todd, 1996). All of these combine to provide a more secure financial base for the family.

Decision Making

Sociologists have argued that the balance of power within a marriage is influenced by the resources that each bring to the partnership. Those with more resources are generally theorized to have more power (Mizan, 1994). Thus, as wives contribute more to the family income, their power relative to their husbands should increase. Power can, in part, be determined by considering who has the decision making authority within a family.

Women's membership in microcredit programs and their subsequent greater economic contribution to the family income have helped wives to gain more leverage in family decisions (Sebstad and Chen, 1996; Todd, 1996; Mizan, 1994; Hashemi and Schuler, 1996). In Todd's

(1996) ethnographic study of two Grameen villages, 68 percent of the women sampled were central in household decision making, compared to only 23 percent of the control group.

Other studies additionally found that as the duration of membership increased, the likelihood of participation in household decision making consequently increased (Hashemi and Schuler, 1996; Mizan, 1994). Mizan (1994) theorizes that women with a longer membership in Grameen have gained verbal skills, expertise, and self-confidence. Since the majority of the bank workers in the Grameen Bank are men, this interaction with male, authority figures helps women gain more self confidence and voice their opinions (Hashemi and Schuler, 1996). Furthermore, they have increased exposure to the outside world and the opportunity for leadership within their loan groups. These all contribute to increase their decision making ability and confidence in taking an active role in making decisions within the family instead of deferring all authority to the husband.

Furthermore, findings show that larger loans and the subsequent higher total percentage of contribution to the family income increases women's decision making power (Hashemi and Schuler, 1996; Mizan, 1994). Although membership in credit programs does increase the amount women contribute to the family income, findings show that the relative contributions are still fairly modest (Hashemi and Schuler, 1996). Nevertheless, in times of extreme scarcity, even a small input to the family income can make a substantial difference. "It often means that a family can eat two meals rather than only one meal a day during the lean season, or eat one meal a day rather than going hungry if the husband falls ill and can't work" (Hashemi and Schuler, 1996, p. 646).

One major area of husband and wife decision making that have evoked much research is in the area of contraceptive use. The underlying assumption behind this research is that when women gain power, they will seek more autonomy over their fertility decisions (Mizan, 1994). The literature consistently shows that women in microcredit programs are more likely than non-member women to use contraception, even when controlling for prior use (Schuler and Hashemi, 1994; Mizan, 1994; Schuler, Hashemi, and Riley, 1997; Amin, Ahmed, Chowdhury, and Ahmed, 1994; Todd, 1996). Furthermore, as membership duration and number of loans increase, contraceptive use also increases (Amin, et al., 1994; Schuler, et al., 1997).

Explanations for the influence of microlending on contraceptive use vary. Mizan (1994) theorizes that Grameen membership enhances women's self-confidence and communication skills. This increased communication between husband and wife leads to the discussion and adoption of contraception. Schuler, et al., (1997) found that increased mobility, freedom from domination by the family, and economic security and contribution all attributed to microcredit program membership explained part of the effect of microlending on increased contraceptive use. The ways these dimensions of empowerment affect contraceptive use are not difficult to imagine. As women have more freedom to move about the village, they can more easily access information, advice, and other types of assistance about family planning. Furthermore, women who are less dominated by family members "tend to be more autonomous and more likely to control reproductive decisions" (Schuler, et al., 1997, p. 571). Economic security contributes to women's feelings of independence and self-esteem, which affect the ways women perceive fertility and the cultural pressure to have many children.

Schuler, et al. (1997) hypothesize other ways microlending impacts women's contraceptive behavior. Bringing women together on a regular basis provides a forum where the diffusion of ideas can take place. BRAC's Seventeen Promises and Grameen Bank's Sixteen Decisions, which must be memorized and recited by the women at all bank meetings, reinforce family planning themes.

Another interesting finding concerning contraceptive use is that women who live in a village that has a branch of the Grameen Bank, but are not themselves members, are also more likely to practice family planning (Schuler and Hashemi, 1994; Schuler, et al., 1997). They hypothesize that as more women begin to use contraception, cultural and psychological barriers are removed and information and help are more easily available.

Mizan (1994) further finds that Grameen Bank women have a more active role in deciding the number of children to have and when to have a child. Contraceptive use provides a means whereby women can convert these desires into reality.

Political and Legal Awareness and Action

Another dimension of empowerment that is affected by women's involvement in microlending is their awareness of political and legal affairs and their subsequent political action. Measurements of this dimension include knowing the names of government officials, knowing laws governing marriage and inheritance, voting, political campaigning, and public protests. The results in these areas are mixed.

Mizan (1994) found that non-Grameen women were just as likely as Grameen members to vote. However, he suggested that the non-correlation could be due to methodological

problems with his sample. He found religion and education to be stronger predictors of voting behavior.

Hashemi and Schuler (1996) found that although membership alone in either Grameen or BRAC does not have a significant impact on women's campaigning or public protesting, duration of their membership does. Thus, the longer a woman has been a member of a microcredit program, the more likely she is to participate in political action. They further found that membership is linked to political and legal knowledge.

In her ethnographic study, Todd (1996) found that Grameen women were not empowered through collective action. She recounted a story told by one of her informants about a group of Grameen women who banded together to oust a group of thugs threatening to damage the house of a Grameen member. However, the problem with the story is exactly that—it is only a story. When double-checking with the family and other center members, it became apparent to Todd that this incident never occurred. Although she had heard of many such collective action incidents, she became increasingly convinced that they were myths that did not accurately represent reality. "Overt confrontation is too risky for the women involved" (Todd, 1996, p. 163).

The research previously reported is very promising. It seems that microcredit programs are indeed successful in alleviating poverty, as well as working to change traditional gender roles and structures that have been harmful to women and their children in the past. However, there is another side to the story. Unintended consequences have occurred as the result of women's membership in microcredit programs.

NEGATIVE EFFECTS OF MICROLENDING ON THE EMPOWERMENT OF WOMEN

Freedom from Domination

Perhaps the most severe negative consequence is the absence of strong, consistent impact on domestic violence and women's inability to maintain control of loan money, land, and livestock.

In one study on the influences of credit programs on men's violence against women in Bangladesh (Schuler, et al., 1996), findings show that although microcredit membership significantly predicts decreased violence against women, the result needs to be interpreted cautiously in light of the ethnographic work also done. As shown previously, women with access to credit become empowered in many ways, including increased self-confidence and a stronger voice in the home. Women who are less empowered typically feel more insecure about themselves and their relationship with their husbands, and will go to great lengths to avoid conflict and provocation of their spouses. However, when women begin to earn an independent income, they tend to develop greater autonomy and will speak out against what they perceive as unfair and oppressive behavior by their husbands. This can lead to greater conflict and violence within the family. As one elder of a village stated, "Our wives would not be beaten so much if they were obedient and followed our orders, but women do not listen to us, and so they get beaten often" (Schuler, et al., 1996, p. 1739). In this same study, the highest levels of domestic violence occurred in the village where the greatest gender transformations were under way.

However, after a certain period of readjustment, it appears that levels of domestic violence may begin to decrease. "The most empowered women typically emerge from a period

of conflict with a new definition of their roles and status in the household” (Schuler, et al., 1996, p. 1739). This statement describes a minority of the women, those who were the most successful economically. However, the majority of the sample only contributed 20 percent to the family income.

Another aspect of this same phenomena is that women have a difficult time maintaining control over their property, goods, and loan money. Hashemi and Schuler (1996) found that neither membership nor membership duration diminished male domination and control of women’s time and resources.

One specific area that has attracted attention is the amount of control that women have over loan money and how that affects their empowerment (Mayoux, 1997; Goetz and Sen Gupta, 1996; Hashemi and Schuler, 1996; Todd, 1996; Teare, 1997; Wheat, 1997). One such study found that 63 percent of their sample, consisting of BRAC and Grameen members, maintained only partial, limited, or no control over their loan.

Women who are able to maintain control over loan money are characterized by several factors. If the money is being used in areas that are traditionally women’s, such as livestock and poultry raising, women are more likely to maintain control (Goetz and Sen Gupta, 1996; Hashemi and Schuler, 1996). Women who are either divorced, widowed, or separated are more able to keep control. Furthermore, it is more difficult for women to keep control over loans if the amount of the loan is higher or duration of membership with the microlending agency is longer (Goetz and Sen Gupta, 1996).

When women give up control of loan money to men, they are less likely to be empowered (as measured by a composite scale) (Hashemi and Schuler, 1996). Expenditures for

women and children on consumption items, health, and education are lower when men control women's loans (Goetz and Sen Gupta, 1996; Sebstad and Chen, 1996). However, the women who do not have control of loan use have better nutritional status, spend more on clothing and medical needs, and are more empowered compared to those who have no loan access at all (Goetz and Sen Gupta, 1996; Hashemi and Schuler, 1996). Thus, it appears that women who maintain full loan control and earn an independent income are the most empowered, followed by women who give up loan control and ending with the least empowered women who have no credit at all.

Todd (1996) suggests that women willingly "pipeline" their loan money to men in their kin groups in order to achieve higher return rates women cannot traditionally access markets, and there are many limitations to the activities that women can use to generate income. Thus, men's activities tend to be more profitable than women's, and giving up loan control is seen as good business sense on the part of the women. Hashemi and Schuler (1996), however, did not find this same pattern. They found that men were more likely to take control of loan money in situations where opportunities and resources were most scarce.

Goetz and Sen Gupta (1996), in considering the issue of loan control, theorize that women give up control of their loans in order to preserve familial and marriage stability, and to assure greater economic security for themselves because of their husband's greater economic capacity. Thus, women give up loan control in order to avoid the risk of being deserted by their husbands.

However, giving up loan control can exacerbate conflict within a marriage, as well. If women have little or no loan control, they must resort to pressuring their husbands to give them

money to make the weekly payments (Wheat, 1997; Goetz and Sen Gupta, 1996). This can reinforce new dependency patterns in a marriage.

Some critics even suggest that agencies realize men will control loan use, but women are being used as unpaid debt collectors mediating between development agencies and men (Mayoux, 1997; Goetz and Sen Gupta, 1996; Teare, 1997). Because women have so much better repayment levels than men, programs that target women are only acting out of rational, economic sense. Women are usually much easier to locate and less mobile than men, which makes collecting overdue loans much easier. Furthermore, women are not as prone to react in violent and confrontational ways when a loan officer arrives. (Teare, 1997; Goetz and Sen Gupta, 1996). Thus, the household and women are internalizing the high costs of loaning to men. This serves to reinforce cultural notions of womanhood as the moral guardians of the household (Goetz and Sen Gupta, 1996).

These results suggest that although men appreciate and desire more income for the family, they are unwilling to let go of their dominant position, and still seek to show this by maintaining control over women physically by resorting to domestic violence and by forcing women to relinquish control of money and resources (Mayoux, 1995b). New privileges given to women in the form of credit access are not matched by corresponding changes in the underlying gender structures that legitimize men's superiority. As Goetz and Sen Gupta (1996) state, "Women's responsibility for credit is not matched by their economic and political resources in the family" (p. 54).

Increased Work Load in Traditional Areas

Another problem that exists with Bangladesh microlending to women is that the amount of time they spend in work increases (Wheat, 1997; Teare, 1997; Mayoux, 1997; Sebstad and Chen, 1997). Among the general Bangladeshi population, women spend an average of 53 hours, compared to men's 46 in both economic and domestic work (United Nations, 1995). With a lack of childcare and a domestic infrastructure that lessens women's time in traditional work, time spent in microenterprise only serves to increase burdens and pressures on women. Although there is anecdotal evidence of men with wives who are members of a microcredit program increasing their time spent in domestic responsibilities, this finding has not been substantiated (Todd, 1996). Another study in Bangladesh found that credit to women increased their hours of work in remunerative activities, but reduced men's. On the other hand, credit to men had no effect on the amount of time in the labor supply of women and also reduced men's (Sebstad and Chen, 1997). Furthermore, if men have control of women's loans, women can face an increase in work and responsibility without a corresponding increased control over production, income, time, and expenditure (Wheat, 1997).

In her ethnographic study of Grameen Bank members, Todd (1996) refutes the idea that an increased work load is detrimental to women or something disagreeable to them. The women interviewed suggested that they liked to do income generating work and that they could manage their time to do both. She concludes, "Since this increased workload is associated with a new prosperity and particularly with a supply of food piling up in the store, it is not surprising that it is a source of pride rather than resentment amongst the GB women" (p. 218).

Her findings suggest that women continue to feel it is their responsibility to complete all their traditional domestic chores. When men help, it is seen as a pleasant surprise. They don't

feel, however, that a shift in the division of labor needs to take place (Todd, 1996). However, others argue that women are not becoming empowered if the traditional division of labor remains uncontested (Goetz and Sen Gupta, 1996).

A related issue considers the work which women do after accessing credit. When women maintain control of loan money, they most often use it for women's conventional activities. This serves to further reinforce the underlying gender roles and divisions (Wheat, 1997; Teare, 1997; Goetz and Sen Gupta, 1996). With a Marxist perspective, Teare (1997) states, "The fact that women are still trapped in such home-centered drudgery suggests that Grameen Bank loans act more as an affirmation of the status quo than a breakthrough for female emancipation" (4).

CONCLUSION

Grameen Bank and BRAC have implemented many good things into their programs that have been empowering to women. These include village meetings that allow women the chance to interact with other women and to move about more freely in the village. Interaction and dialogue with bank officials further helps women to develop their self-confidence and to communicate with people who are seen as having power and authority. Rotating leadership in group centers gives many women a chance to learn administration and leadership skills that can be translated into the familial sphere. As women recite and learn either BRAC's Seventeen Promises or Grameen's Sixteen Decisions, they become more aware of social and political issues around them.

Microcredit has additionally been associated with disempowering consequences to women. These, however, can be minimized by program policy. First of all, loan use and control

needs to be more strongly regulated by loan officers to assure that women are using the money in the manner they desire. Furthermore, regulations for loan use should be widened to include more than women's traditional economic activities. Many women report different uses for their loan than how they really intend to allocate it, such as land investment, because they fear their loans will not be approved (Todd, 1996). This should be combined with mandatory monthly meetings with both husband and wife in attendance in order to discuss loan use with a bank worker. This could further increase the couple's communication. Thus, by joint agreement on loan use and increased communication, domestic violence could decrease and women could more easily retain loan control. This could further lead to a more egalitarian relationship where the husband and wife work together in both economic and non-economic work. As with all other aspects of a microlending program, any method should be tested after implementation to consider its impact on women.

The perspective of critics who say that microlending in Bangladesh is not empowering to women can be summarized by their contention that when a development program serves to reinforce traditional gender divisions and roles, women are not empowered by involvement. This camp is generally made up of structural feminists who advocate social change by the overthrow of all patriarchal and capitalist structures. In order to do this, women must organize to break the system that oppresses them. They assert that It is not enough to make individual gains. Since the Grameen Bank and BRAC are not directly combating the structures which exploit women, they believe women in general will not be empowered, but will always be dominated and discriminated against (Todd, 1996).

With the research cited here, it is apparent that the gender norms and practices in Bangladesh that discriminate against women have remained intact, for the most part. Men still use domestic violence to control their wives. Early marriages, complete with a dowry payment, still send young girls into households where their husbands are generally more educated and where they find themselves on the lowest status rung. Many public areas remain inaccessible to women.

However, this perspective emerges when looking at the nation as a whole. If the scope of focus shifts to a household level, relationships and power structures have begun to be transformed as women have become members of microlending groups. Women have gained mobility and have been able to help their families gain economic security. They have started to acquire a greater voice in the household decision making process and are beginning to be more aware and involved in the political forum. Because of these gender transformations, tensions have begun to mount as men see the power of their supposed superiority erode. However, any time social change occurs, conflict will take place as well. Change at a macro level, as structural feminists would advocate, is often impossible to achieve. But, as gender roles are changed within the household, the overall structure of society will be impacted, leading to broader attitudes and greater opportunities for future women. Grameen and BRAC mothers are influencing their daughters' aspirations through greater empowerment. Transformations in gender norms at the structural and cultural levels of the society might not occur during the lifetime of these pioneering women, but their daughters and future generations of Bangladeshi women will be able to more fully reap the advantages of increased status because of their mothers' efforts.

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4

Diversity In A Cambodian Micro-Credit Landscape

Shane H. Harrison

Cambodia is an ancient country located in the heart of South East Asia. Twenty-five years of civil war decimated the country, and left the ugly specter of poverty as ruler of the masses. The United Nations' sponsored elections in 1993 not only brought a semblance of stability and centralized control, but also a hope of poverty alleviation to the rural masses. Literally hundreds of international and non-government organizations rushed to help the beleaguered Cambodians over the next several years. This influx of energy and financial support germinated an equal number of indigenous non-government organizations(NGOs). The methods and approaches used by the different NGOs are as varied their organizations. Micro-credit activities have become the preferred development strategies to lift the poorest rural villages out of poverty. This paper will look at how diverse micro-credit organizations come to operate in one country.

Despite the recent political regression caused by the coup d'état by Second Prime Minister Hun Sen in July 1997, progress has, and continues, to be made towards improving the living standards of the rural masses. Much of this can be attributed to the various rural micro credit programs in operation throughout the country.

Preview the Landscape

The complex landscape of organizations doing development work in Cambodia can be understood when viewed from a distance. The different types of organizations

<u>International</u>	<u>Cambodian National</u>
UN Agencies	Royal Cambodian Government
Foreign Embassies Organizations	Umbrella/Coordination
International Organizations	Local NGOs
International NGOs	Community Based Organizations

doing development work can be summarized as follows:

In this paper we will look very briefly at what is being done by each of the different types of organizations. By way of introduction to the different micro-credit activities shaping the Cambodian landscape, we will look at only a few specific examples. Creating an overview forces a broad, yet shallow, approach. This method provides for a concise overview of activities, but regrettably requires omission of much relevant data.

United Nations Agencies

A number UN agencies have functioning offices in Cambodia. They are each involved in different aspects of development. Some UN agencies deal with refugee repatriation, civil society building, and agricultural improvements, while others tackle promotion and protection of human rights. Still others promote issues affecting women and children. The United Nations Development Programme (UNDP), as the development arm of the UN, focuses their efforts in Cambodia through the CAREERE program.

CAREERE is an acronym for Cambodia Area Rehabilitation and Regeneration Project. CAREERE is operational in 7 provinces, and is a 5 year socio-economic

development plan working in concert with the Royal Government and local communities. The project is an attempt at “decentralized planning and financing of integrated local development projects” (www.unops.org/procure/prac0.html). The multi-million US dollar budget is spent on projects such as landmine removal, agricultural development, and support for local NGOs. It is through support for local NGOs that UN monies are funneled into working rural credit schemes. Although different UN agencies support local NGOs in various ways, the UN's main efforts at building grass-roots micro-credit endeavors is through CARERE.

International Organizations

There are a number of international organizations also in operation in Cambodia. Most are supportive in both resources and funds for local NGOs. Several also promote specific micro-credit activities. Two notable programs are AusAid, supported by the Australian Embassy, and Canada Fund, supported by the Canadian Embassy. These programs provide technical and financial support to a number of local NGOs with micro-credit activities. The Asia Foundation also provides financial support to select local NGOs, some of which engage in micro-credit activities.

International Non-government Organizations

As mentioned above, there are a large numbers of international non-government organizations operating throughout Cambodia. Most of these have sectoral specific objectives driving their activities. Some of the larger international NGOs, though, have the capacity to provide both technical and financial support.

The International Cooperation for Development and Solidarity (CIDSE) is a Catholic church sponsored organization promoting sustainable development, local

NGOs, capacity building, and gender (www.cidse.be/). They provide financial support to large numbers of local NGOs, with a majority of the support going towards micro-credit activities.

Church World Service (CWS) is, “the overseas relief and development arm of the National Council Churches of Christ in the U.S.A., and is comprised of 33 Protestant and Orthodox communions from across the United States. CWS focuses on people-centered projects, partnered with grassroots agencies and ministries to facilitate emergency relief and community development” (<http://ihaglobal.org/iha/cws/>). Among their various projects, CWS provides technical and financial support to a variety of local NGOs. A majority of these projects are either micro-credit or micro-enterprise activities.

The Royal Government of Cambodia

The Royal Government of Cambodia was established as a shaky coalition of former battlefield opponents in 1993. Their internal disputes and poor revenue collection systems have created a dearth of capital. The government has conducted feasibility studies and has tentative plans to help the poor, and particularly smiles upon micro-credit activities. Yet, they are incapable of implementing a national or regional program of their own. There is very little government regulation of financial functions in the country, including micro-credit activities. There are no government reporting or accountability requirements placed on international or national micro-credit activities. This reduces administrative burdens for organizations engaged in micro-credit activities, yet allows unscrupulous individuals to prey upon unsuspecting micro-credit applicants.

A pending NGO registration law is restricting many micro-credit activities, especially at the grass-roots level. The law, still under debate, requires new and

already existing organizations to submit, among other things, a constitution, a list of board of director members, and project activity outlines. These highly structured, and foreign, requirements make it difficult for small indigenous organizations to get established or start new projects. New tax laws, effective as of July 1997, have also annoyed some international NGOs.

The Royal Government toes the line of supporting all forms of development, including micro-credit. But, in many areas, local government officials do not want a change in traditional power structures. On some occasions, they feel threatened by micro-credit activities and have taken an almost adversarial role towards implementing such activities.

Umbrella/Coordination Organizations

In looking at the organizational landscape of Cambodia, we should also note the special role of umbrella or coordinating organizations. The first coordination organization was the Cooperation Committee for Cambodia (CCC). It is,

involved in facilitating information exchange between NGOs represented in Cambodia, towards strengthening cooperation and dialogue among NGOs, helping NGOs to formulate adequate policy positions on important development related issues, representing members and facilitating NGO input to various aid coordination meetings. It provides a forum for NGO coordination on issues of common concern, organizing, where possible, representation to Cambodian authorities, international agencies and other relevant bodies (<http://pactok.net.au/docs/ccc/ccc.htm>).

The CCC has been joined by several different umbrella organizations, such as The NGO Forum, and The Federation of Ponlue Khmer, a umbrella organization of over 100 local NGOs.

There have also been a number of sectoral specific groups organized in Cambodia during the past several years. It is unclear whether or not any such groups specifically focus on micro-credit or not. But, the Cambodian NGO Support Network (CNSN) brings representatives from international funding agencies and non-governmental organizations together in an attempt to better coordinate funding efforts towards local organizations. A majority of these efforts are micro-credit related activities. It is a wonderful opportunity for diverse organizations to share insights into their successes and failures in implementing such activities.

Local Non-Government Organizations

Almost all micro-credit activities in Cambodia are directly implemented by native Cambodians through their own indigenous organizations. The size, scope, funding, and effectiveness of their micro-credit activities vary dramatically. Some organizations, such as the Cambodian Human Rights and Development Association (ADHOC) have tens of thousands of volunteers in every province of the country. Other organizations consist of 2 or 3 women trying to organize their melon village production.

There have been a few local NGOs focusing solely on micro-credit issues. The Association of Cambodian Local Economic Development Agencies (ACLEDA) was, “established in 1993, as a national NGO for micro and small enterprises development and credit. It became a Financial Institution for the Poor in March, 1996”

(<http://www.soc.titech.ac.jp/titsoc/higuchi-lab/icm/country/acleda.html>). In 3 years ACLEDA has disbursed more than 4 million US dollars in loans to more than 20,000 clients. They have a 97 percent recovery rate, with 90 percent of their loans going to women. They provide loans for up to US \$4,000 and try to establish neighborhood and village banks.

There has been some criticism, though, that ACLEDA only loans to individuals already with employment, thus precluding participation in their programs by the poorest of the poor. Despite this, they have been hailed as a success in their focused sphere.

It may be useful to look at the interconnectedness of ACLEDA as an example of a successfully operating local NGO in Cambodia. It seems that an organization must have multiple funding sources and several partners to be able to operate effectively in Cambodia.

ACLEDA is Supported By:

United Nations Development Programme (UNDP)
 Government of the Netherlands
 European Union (EU)
 Caisse Franaise de Developpement (CFD)
 SHELL Company of Cambodia
 International Labour Organisation (ILO)
 United Nations Population Fund (UNFPA)
 Cambodia Resettlement and Reintegration Programme (CAREERE)
 New Zealand Government
 PRASAC

ACLEDA Collaborates With:

Partnership for Development in Cambodia (PADEK)
 United Nations Industrial Development Organisation (UNIDO)
 Ministry of Industry, Mines and Energy
 Ministry of Rural Development
 Carl Duisberg Gesellschaft (CDG)
 Asian Institute of Technology (AIT)
 World Bank (WB)
 Credit Committee for Rural Development (CCRD)
 Ministry of Women Affairs (MoWA)

Once international organizations and governments entered Cambodia, local NGOs sprouted up throughout the country. Some, such as ADHOC, are very successful. Others exist only in name. Except for the most focused few, the local NGOs have in accord integrated micro-credit/entrepreneur activities into their dossier of activities. This can be attributed to shrinking international development budgets and local drive for viability -or simply just to keep rice in the bowl. International agencies and governments see micro-credit activities as a sort of panacea to their ills: a program

which requires revolving funds, impacts many individuals, and reaches down to the bottom-most layer of society. The local organizations see funds available for activities involving micro-credit schemes, and accordingly mold their activities, or even organizational mission, to meet the requirements for these funds. Although the projects submitted to donor organizations are supposed to be of local origin, they often turn out to be donor driven.

Community Groups/Buddhist Temples

Community action and support groups in Cambodia have followed the lead of their international counterparts and attempted to organize themselves into viable NGOs. Many college students, who having seen 'how things are done in the outside world,' return to their home villages and try to organize their communities along Western organizational models. The success of such ventures often depends on the charisma and talent of the organizing leader. Successful organizations are evident throughout Cambodia in small NGOs with the stated purpose of developing a specific village. These new movements may gain access to micro-credit funds. Traditionally, though, rural villagers had access to credit only by borrowing money from their neighbors or the 'Chinese' lender at exorbitantly high rates.

In rural Cambodia, village communities are traditionally centered around the Buddhist temple. In times of duress or celebration, the temple serves as a community action and organizing center. The temples may not involve themselves directly in

micro-credit activities, but they will often provide space within their temple complex for meetings of such groups.

Future of Micro-Credit in Cambodia

It is a complex landscape of organizations providing funding or implementing micro-credit activities in Cambodia. The dynamics of these activities are at present driven by foreign funds channeled through UN agencies, international embassies or international organizations. Micro-credit activities are designed and implemented, with careful oversight by their donors, by local NGOs.

To maintain the micro-credit programs already established, or expand these efforts, international funds must continue to be made available for micro-credit activities. This is not viable in the long-term, but will serve as a much needed stop-gap measure. The Royal Government is unable at this time, or in the near future, to be able to engender such activities. Hopefully, local organizations will increase their effectiveness and ability to profitably manage micro-credit activities. This is one key that can be used in eliminating Cambodia's poverty. Hopefully, someday soon, micro-credit activities in Cambodia will be self-sustainable.

5

The Emergence of Microcredit in China

Michael D. Williams

During the last half of this century, China's rural poor have seen many improvements in their lives. Life expectancy doubled from 34 years in the 1950s to 67 years in 1988; infant mortality rates decreased dramatically from 236/1000 to 58/1000 during the same time period; and adult illiteracy dropped from 80 percent in 1950 to 31 percent in 1988 (The World Bank, 1992). However, even with these dramatic improvements, a long road of change and development still lies ahead of China's millions of rural poor. Most of China's poorest peasants live in resource poor areas concentrated mainly in upland sections of the interior provinces of northern, northwestern and southwestern China. The destitute in these areas face many problems. In most cases they have land, but it is so infertile that they cannot achieve subsistence levels of crop production. As a result, 50 percent of the children are malnourished, and iron, vitamin A and other micronutrient deficiencies remain a severe problem. The infant and maternal mortality rates in these areas, 10 percent and 0.3 percent respectively, are at least 50-100 percent greater than the national average. Fifty percent of boys and nearly 100 percent of girls don't attend school and most of those are illiterate. Incidents of infectious and endemic diseases such as tuberculosis and iodine disorders are concentrated in these poor and remote areas (The World Bank, 1992).

According to the 1992 World Bank Report, *China: Strategies for Reducing Poverty in the 1990s*, "broad participation in strong rural economic growth brought about a tremendous reduction in absolute poverty in China during 1978-1985" (The World Bank, 1992). The World Bank estimated that the number of absolute poor decreased in China from 270 million (one-third of the population) in 1978 to 97 million (less than one-tenth of the population) in 1985. However, the World Bank also observed that no further reductions in poverty were achieved during the second half of the 1980s. Furthermore, a new revised report of the World Bank, *Poverty Reduction and the World Bank: Progress and Challenges in the 1990s*, suggests that although the number of destitute poor has decreased to less than one-tenth of the population, as many as 350 million people may still be classified as living just above the poverty line (China Development Briefing, 1996).

China's rural economic and social reforms of the early 1980s succeeded in raising millions of rural poor above the poverty line. These successes were in a large part due to increases in peasant incomes caused by the Chinese government's support of new income generation activities among peasants through rural enterprise and credit programs. However, the numbers of poor rising out of poverty after 1985 stagnated. While many factors may have contributed to this stagnation, one important factor was the inability of the Chinese government's rural enterprise and credit programs to reach the 97 million absolute poor in China's countryside. In the last few years, international non-governmental development organizations have used microcredit and microenterprise programs to begin to fill the gap between the government credit system

and China's poorest peasants.

This chapter seeks to provide information useful to organizations seeking to implement microcredit programs in China. It is composed of five parts. Part one briefly outlines the historical background of the Chinese Communist Party's rural economic policies, especially those policies which shaped China's rural enterprise and credit sector into what it is today. Part two discusses the rural enterprise and credit programs developed by the government during the 1980s, the gaps left between these credit programs and the poorest peasants, and the role of these programs today in extending rural credit. Part three discusses the current efforts of international non-governmental organizations to work in conjunction with Chinese government credit organizations to extend credit to the poorest peasants and to address social development needs. Part four outlines the microcredit programs currently being implemented by the Grameen Trust Foundation in China as an illustration of how one international microcredit organization functions in China. Hopefully, the information included in this chapter will provide organizations with information which will allow them to begin implementing new microcredit programs in China. While microcredit does not provide solutions to all of China's development needs, it does provide an effective way to help millions of China's poor to improve their lives and to free themselves from the bonds of poverty.

PART ONE: BRIEF HISTORY OF COMMUNIST CHINA'S

RURAL ECONOMIC POLICIES

The Chinese Communist Party's rural development policies of the past fifty years

have played a major role in the evolution of rural enterprise and rural credit in China. In order to gain an understanding of the current trends in rural enterprise and credit in China, it is helpful to have a basic understanding of their evolutionary process. For this reason, the rural development policies that have shaped China's countryside into what it is today are briefly outlined here.

"When the Chinese Communist Party came into power in 1949, its leaders' fundamental long-range goals were to transform China into a modern, powerful, socialist nation" (Dept. of Commerce, 1994). In the countryside, these objectives meant industrialization, improvement in standards of living, narrowing of income disparities and increased agricultural production. During the next thirty years, the economic policies formulated to achieve these goals were dramatically altered several times in response to "major changes in the economy, internal politics, and international political and economic developments" (Dept. of Commerce, 1994).

During the period between 1949 and 1952, China's chief goal was to restore China's war damaged economy to normal working order. To accomplish this goal, the government nationalized and centralized the banking system, and tightened access to and distribution of credit. Private enterprises were also gradually brought under government control. By the early fifties, any remaining private rural enterprises consisted mainly of small handicraft workshops (The World Bank, 1992). In the agricultural sector, the government redistributed land from rich landlords to landless peasants, and encouraged farmers to cooperate with each other in some phases of their agricultural production by organizing themselves into mutual aid teams of six or seven households each. By 1952, the government had succeeded in establishing price

stability, reviving commerce and restoring agricultural production (Dept. of Commerce, 1994).

Having stabilized China's war damaged economy, the government next embarked into its "First Five-Year Plan" an "intensive program of industrial growth and socialization" (Dept. of Commerce, 1994). The First Five-Year Plan adopted the Soviet model of development, which included "state ownership in the modern sector, large collective units in agriculture and centralized economic planning" (Dept. of Commerce, 1994). The main objective of the Five-Year Plan was rapid economic growth. Primary emphasis was placed on development of heavy industry and capital intensive technology at the expense of agricultural development. The government increased state control and ownership of industry and organized handicraft workers into cooperatives. In the agricultural sector, farmers were organized into increasingly large and socialized units. The mutual aid teams organized during the war recovery period were advanced into collectives in which all farmers contributed their land to the collective. Farmers received income from the collective based solely on the amount of labor they contributed to the collective. Members of the collectives were allowed to retain small plots of land to grow vegetables, fruit and livestock for private use. By 1957, about 93.5% of all farm households had joined collectives. (Dept. of Commerce, 1994) The First Five-Year Plan was successful in terms of economic growth, however, agricultural production and growth was sluggish.

Near the end of the First Five-Year Plan, the imbalance between industrial and agricultural growth, among other factors, convinced the communist leaders that the Soviet model of development was not appropriate for China. In 1958, the government

launched China into the Great Leap Forward, a development approach “that relied on spontaneous heroic efforts by the entire population to produce a dramatic 'great' leap for all sectors of the economy at once” (Dept. of Commerce, 1994). The government sought to make up for the lack of sufficient funds to invest in agriculture and industry by tapping into rural labor resources to support the industrial sector. Farmers were organized into huge teams to build vast irrigation and water control works, and thousands of small-scale, low-technology, “backyard” industrial projects were set up in farm units to produce machinery needed for agricultural development and components needed for urban industries. (Dept. of Commerce, 1994)

Between April and September of 1958, 98 percent of the farm population was organized into people's communes by combining twenty or thirty collectives (of about 20-30 thousand people each) into one centralized commune. Communes sought to improve the efficiency of rural agriculture and industry by “moving farm families into communal dormitories, feeding them in communal mess halls, and moving whole teams of laborers from (work) sight to (work) sight” (Dept. of Commerce, 1994). Communes acquired all land ownership and ownership over the productive rights of all members of the commune. Commune, brigade, team, county and township leaders made all agricultural and small industry decisions for the members of the commune. The 1992 World Bank Report, *China: Strategies for Reducing Poverty in the 1990s*, summarizes how the commune system affected rural enterprise development:

The egalitarian ideology of the time required that enterprises be collectively owned and, consequently, enterprise scale was in general not too small. The minimum scale was several employees – enterprises that might work best as single proprietors simply were not allowed to function during the commune era.

A variety of activities were profitably undertaken in this environment, including the production of building materials and some farm inputs, subcontracting of various sorts, and some simple processing of agricultural outputs. Overall, however, industrial and sideline production was subordinate to agricultural production, and rural enterprise development was quite modest during the commune era (The World Bank, 1992).

During the commune era, some rural credit was provided by the government; however, these loans were given solely to communes for development of commune level industry and not to individuals for small enterprise development. Although some minor changes occurred in the commune system over the next twenty years, the communes remained intact until the early 1980s (Dept. of Commerce, 1994).

The “Great Leap Forward” resulted in a severe economic crisis. "Adverse weather conditions, improperly constructed water control projects, and other misallocation of resources that had occurred during the overly centralized communization movement resulted in disastrous declines in agricultural output" (Dept. of Commerce, 1994). Famine swept across China. Between 1958 and 1961, 14 million people died of starvation, and the number of births was 23 million lower than normal. Industrial output plummeted as a result of “the excessive strain on equipment and workers, the effects of the agricultural crisis, the lack of economic coordination, and . . . the withdrawal of Soviet assistance” (Dept. of Commerce, 1994).

Faced with the economic collapse of the early 1960s, the government adopted "agriculture first" policies between 1961-1965, investing first in agriculture, second in light industry and third in heavy industry. Commune control over agriculture was decentralized into much smaller production teams “responsible for making nearly all

decisions concerning production and distribution of income to their members” (Dept. of Commerce, 1994). Private plots of land were given back to farm families for individual use. Control over enterprises was given to provincial and local governments and material rewards were used as incentives for production rather than revolutionary enthusiasm. During this period of readjustment and recovery, economic stability was restored, including both agricultural and industrial output. An important source of this growth was the spread of rural small-scale industries including coal mines, hydroelectric plants, chemical fertilizer plants, and agricultural machinery plants.

The Cultural Revolution halted industrial production between 1966-1968 by involving the students and workers in political activities and by placing unqualified people in managerial positions. Economic growth was temporarily restored between 1970 and 1974 only to be slowed again by the political instability created by the Gang of Four between 1974-1976. In spite of the fluctuation in China’s economic growth during these periods, the rural economic policies implemented in the early sixties remained largely intact until the 1980s. After the fall of the Gang of Four, Deng Xiaoping launched China into the dramatic reform of her economic system during the 1980s.

PART TWO: DEVELOPMENT OF RURAL ENTERPRISE AND CREDIT

Introduction

By the 1980s, the Chinese Communist Party, led by Deng Xiaoping, had become convinced “that state control over the rural economy had grown so pervasive and intrusive that it was stifling development” (Kelliher, 1992). Privatization became the

new formula for success in developing China's rural economy and raising China's rural poor out of poverty. The communist government abolished the commune system, putting the land back into the farmers' hands, and leasing or selling the commune enterprises to private investors. Management of small enterprise was turned over to peasant entrepreneurs and farmers. The privatization of the countryside during the first half of the 1980s led to a huge increase in rural enterprises. As private rural enterprises increased in number, so did the number of peasants in need of credit. To meet these credit needs and to further stimulate rural enterprise growth, the government reformed its rural credit cooperatives to distribute loans to peasant entrepreneurs. In spite of millions of dollars in loans being distributed each year, however, those in most need of credit were unable to obtain loans. A gap formed between the government credit programs and China's poorest peasants. Millions of poor were left without access to the credit that would provide them opportunities to escape poverty through microenterprise and sideline agricultural production.

Rural Enterprise Development during the 1980s

In 1979, the government dismantled the commune structure in rural China, replacing it with the contract responsibility system of production in agriculture. Under the contract responsibility system, individual farmers were allowed to work an individual piece of land and keep any profits they made above a set amount of produce which they were required to deliver to the collective. Beyond the produce that they contracted to deliver to the collective, farmers were allowed to choose for themselves what products they wanted to produce and how they wanted to go about producing them. The

government encouraged the opening of free farmers' markets in urban areas and in the countryside, allowing the farmers to make a profit on the extra produce which they grew. Farmers began to form their own microenterprises, selling produce, livestock, or home-produced goods.

As the government increased enterprise autonomy and flexibility, sideline production became an important source of income in the rural economy. Sideline production activities included hunting, fishing, collecting wild herbs, raising chickens or pigs, producing family handicrafts, farm machinery, bricks or fertilizer, and processing cotton, grain and oilseeds (Dept. of Commerce, 1994). Many rural families produced a scarce commodity or service from their home. Classified as specialized households, these small enterprises "operated in the classic pattern of the entrepreneur, buying or renting equipment to produce a good or service that was in short supply locally" (Dept. of Commerce, 1994). "Many of the specialized households became quite wealthy relative to the average farmer" (Dept. of Commerce, 1994). A national survey taken in 1985 showed that "specialized households had more than twice the earning power of other peasant households" (Kelliher, 1992).

The service sector also provided a huge arena for rural enterprise development. Largely neglected during the Cultural Revolution of the 1960s and 1970s, the service sector did not meet the demands of the population as China entered the 1980s. With the legalization of private enterprises, thousands of rural businesses filled in the holes left in the service sector, catering, entertainment and barbering. The number of people engaged in the service trades grew from only 6.1 million in 1978 to over 25 million in

1985, of which 21 million were either collective or individual enterprises” (Dept. of Commerce, 1994).

Rural Credit

“With individual farming and independent entrepreneurship on the rise, the development of a private credit market was the natural next step. A whole new territory opened for individual credit after the new land tenure system left farmers to fend for themselves” (Kelliher, 1992). With the end of the communes, farming prices were shifted from the community as a whole to individual peasant families. As a result, peasants now needed credit to farm. “In the 1980s, the Chinese government experimented with a variety of ‘poverty lending’ programs, some directed to small and medium scale enterprises with a view of creating job opportunities, some directed at individual households. Interest on these loans was invariably low, the standard rate being 2.88 percent. Repayment rates on household loans were not good, averaging around 40 percent nationally” (China Development Briefing, 1996).

The two main branches of the rural credit system were the Agricultural Bank of China and the rural credit cooperatives. The functions of the Agricultural Bank of China were the mobilization of rural savings, extension of loans for agriculture and rural development, management of state funds for agriculture and rural development, provision of long term loans to township and village enterprises, and regulation and supervision of the operations of the Rural Credit Cooperatives (Manoharan, 1992). Most of the loans from the Agricultural Bank of China were directed to state and

collective commercial enterprises, township and village enterprises, and rural commerce and industry. Only about five percent of the Agricultural Bank of China's loans were given as poverty alleviation loans to farmers (Kelliher, 1992; Manoharan, 1992). Most of these loans were for agriculture, animal husbandry, fishery, rural handicrafts and small-scale mining. In 1988, nearly 60 percent of such loans were extended directly to rural households (Manoharan, 1992). Projects and households selected for rural credit were recommended by local loan officials and village leaders, and then approved by the administration of the Agricultural Bank and Rural Credit Cooperatives before the loans were granted.

During the 1980s, the main sources of credit for farmers were the rural credit cooperatives. "Rural credit cooperatives were small, collectively owned savings and lending organizations that were the main source of small-scale financial services at the local level in the countryside. They handled deposits and short-term loans for individual families, villages, and cooperative organizations. Subject to the direction of the Agricultural Bank, they followed uniform state banking policies but acted as independent units for accounting purposes" (Dept. of Commerce, 1994). Rural credit cooperatives were funded almost exclusively by rural deposits, and by small amounts of short term borrowing and aid allocated from the Agricultural Bank of China to rural credit cooperatives in poorer localities. A national survey conducted in 1987 of 1,200 rural households from 5 different provinces found that credit from the rural credit cooperatives was extended predominantly on a short-term basis and loans were utilized mainly for seasonal agricultural production purposes, with comparatively small

percentages utilized for fixed asset formation. Between 1985-1990, Rural Credit Cooperatives began to direct more of their loan money to township and village enterprises (larger scale enterprises run by more wealthy peasants), reducing the amount of loans allocated to rural households.

Success of China's Rural Credit Programs in Poverty Alleviation

The Main Goal of the 1980s was a rise in income. Officials, rich households and poor households alike identified the rise in cash income as the single most important change that could occur in peasants' lives. A rise in cash income meant an immediate increase in availability of and access to goods and services (Croll, 1994). Average net income per capita in rural areas increased dramatically between 1978 and 1985 by an actual growth rate of 132.4 percent. This dramatic increase in income was due to the privatization of rural industry and agriculture and the corresponding increase of rural credit provided by the government. Croll found that rural household incomes correlated with the number of sideline productions they were involved in and with their access to capital through credit. Farmers who had the greatest amount of resources had, for the most part, obtained them as a result of access to credit (Croll, 1994).

As a result of this dramatic increase in income, China's number of absolute poor dropped from 270 million in 1978 to 97 million (or 12 percent of the rural population) in 1985 (Croll, 1994). This overall rise in average rural income was accompanied by an increase in disparity between the incomes of the rich and poor. Though average income continued to increase from 1985-1990, no significant decrease in the number of

absolute poor occurred and the income disparities between rich and poor continued to rise (Croll, 1994; World Bank, 1992). These statistics show that while China's rural credit programs have helped millions of China's rural peasants to become richer, they have been miserably unsuccessful in reaching China's poorest millions. A huge gap has formed between government credit programs and China's poorest peasants. There are several ways that the government's rural credit programs have denied credit to the poorest peasants, including, the centralized control of credit, the reallocation of credit funds away from individual households to industry and town and village enterprises, the bias of local leaders in extending loans, and the high requirements which must be met in order to obtain a loan.

China's centralized credit system has succeeded in keeping loan money and decision making out of peasants' hands. Beginning in 1984, the Rural Credit Cooperatives were supposed to be "people organized" and not "administration organized" (Manoharan, 1992). "But in fact," critics charged, "the Agricultural Bank has always treated the credit cooperatives as their own primary-level organs. The credit cooperatives have no authority over personnel, finances, or business, and basically, they have no autonomy" (Kelliher, 1992). Almost all of the credit cooperatives' funds were obtained from interest on farmers deposits. But even much of this money was directed away from the farmers who were most in need of credit. Credit Cooperatives were required to deposit 30 percent of their funds in the Agricultural Bank reserves. Since the majority of loans from the Agricultural Bank went to rural industry and commerce, farmers did not even have access to credit from the funds their rural credit

cooperatives had invested in the Agricultural Bank. In addition, the Agricultural Bank was required to deposit a certain amount of reserves in the People's Bank of China, which removed farmers savings from the rural economy completely (Kelliher, 1992).

In 1989, the state further restricted rural loans by setting ceilings on credit cooperatives' lending. Even if credit cooperatives raised funds exceeding their credit limit, they were not allowed to extend more credit to farmers in need, but instead had to turn the remaining money over to the Agricultural Bank. "In their subordinate relation to the Agricultural Bank, the credit cooperatives could never be what they were supposed to be: genuine cooperatives controlled by peasants for peasants' interests" (Kelliher, 1992).

Beginning in the late 1980s the government cut back on its funding for loans to farm households. The World Bank Report on China observed that "originally household loans were common. However, these proved administratively costly and difficult, leading the Agricultural Bank of China to direct its lending instead to 'economic entities' (most commonly, township economic committees and county, township and village enterprises)" (World Bank, 1992). Yang noted that while government investment in loans to large scale town and village enterprises and industry increased, the loans to rural households did not increase with the same proportions (Yang, 1996). "By 1991 most household poverty lending had ceased. Residual poverty lending tended to amount to cheap credit for industry" (China Development Briefing, 1996). Today, rural government credit is "directed more to industry and commerce, and less to agriculture; more to rich families, and less to poor ones; more to short term projects, less to mid and

long-term projects” (Du, 1996). Government leaders claimed that reinvesting credit resources into large scale rural enterprise and industry would benefit the poorest people even though they did not directly receive the loans. The ‘economic entities’ which received loans were to “in turn provide poor households with credit in the form of fertilizers, planting materials and other inputs” (World Bank, 1992). Enterprises receiving credit were also often required to employ a specific number of poor people. However, the actual adherence of enterprises to these stipulations has been questioned (World Bank, 1992). Steve McGurk, who heads a program on agricultural finance run by the Ford Foundation, said that this type of “trickle-down credit is not effective because the money goes to the ones who have power. To solve the problems of its poor people China must create a program of micro-finance, finance directly to poor farmers.” (Sisci, 1996).

The Agricultural Bank of China and the Rural Credit Cooperatives required loan recipients to have collateral and guarantors in order to take out a loan. Because the poorest farmers have no capital or land (all land is owned by the state) to act as collateral, and they have no guarantors, they are not deemed credit worthy by the government system and are unable to receive loans. Croll observed in several villages that the households which were unsuccessful in their application for a loan were unsuccessful mainly because they were categorized as “not having the ability to repay their loans” because of their lack of collateral and loan guarantors (Croll, 1994).

Another problem limiting the ability of the poorest farmers to obtain credit from government sources was the bias of local leaders in selecting who receives credit.

Local leaders and loan officials decided who would receive loans and then gained approval from the Rural Credit Cooperatives or Agricultural Bank before they issued the loans. Local leaders often favored larger industries and enterprises that would bring more capital to the local government. They also tended to favor larger enterprises because of the high profile which could be obtained for the village if these enterprises were successful. Rozelle observed in his study of projects in Hubei and Jiangsu that local leaders were one of the main detriments to the poorest peasants receiving credit. When asked if he could obtain credit, one peasant replied, “No Way! How could anyone get credit in Erlidagou (the name of the local township)! I am the veterinarian in this area. They will not even give me a loan to buy medicines, much less for farming. The money in the rural credit cooperatives is allocated to those projects and people who are favored by the local officials” (Rozelle, 1994).

In her study of several rural development projects in China, Croll observed that in addition to the poorest households being barred from credit because they were judged not credit worthy, the poverty alleviation loans did not aid the poorer households in the villages largely because poorer households did not want to apply for the loans. Peasants had seen too many examples of households who could not repay the loans issued to them because of the failure of their investments due to the investment animals or trees dying. The inability of many of the farmers to pay back their loans due to the failure of fruit trees and animal husbandry in these and other areas shows a lack of technical assistance backing the government loans (Croll, 1994).

Although in some areas farmers expressed a fear of credit because of possible failure in their income generating activities, “there was a noticeable proportion evincing

a desire for further credit” (Manoharan, 1992). Rozelle made the following observations in his study of several rural areas in Hubei and Jiangsu:

In some of my study sites I found fairly active formal credit markets. In others, credit came from rudimentary, informal institutions, or there was none at all. In the Jiangsu study sites only ten households borrowed money from the state’s rural credit cooperative or the local agricultural bank branches. In Hubei only 18 farmers received loans from government sources. Even when informal sources (mainly families and friends) are included, 33 percent of the Jiangsu sample and 37 percent of the Hubei sample had no access to any source of credit. Over 75 percent of these households would have been willing to pay more than the current interest rates for their funds. (Rozelle, 1994, p. 6)

Manoharan noted that the government was especially inefficient in meeting the long term credit needs of farmers. Since capital was the single most important factor in farm households establishing sideline productions which generated income to lift them out of poverty, having no access to credit left millions of peasants unable to meet their subsistence needs. “Private credit became the only way out for peasants all over China. Given the inadequacy of the official credit system to meet the needs of millions of newly independent farmers and rural entrepreneurs, a private loan market became . . . ‘an objective necessity’” (Kelliher, 1992).

Because of the demand for credit and the inability of the government to provide it, the private sector became an important venue for obtaining credit. Households, enterprises and collective administration joined together to form small cooperative like organizations which could combine resources to extend as credit (Manoharan, 1991). These private financial organizations often charged usurious rates of interest, up to 40 percent annually. But because there was no other credit available, farmers turned to the informal sector for credit. These unofficial and semiofficial “investment funds” have

helped to fill the gap left by the government credit programs by meeting the poorest peasants' demands for credit (Sisci, 1996). However, a huge gap still exists between access to credit and the poorest peasants.

Recent Reforms in the Government Credit System

Professor Du Xiaoshan, one of China's foremost experts in the field of microcredit, argues that because of China's rural finance and credit system's inability to reach poor rural households, it is in need of further reform. He states that "reforms should be aimed at promoting the rural economy and continuously improving rural living standards as basic goals, by securing the self development of finance and credit institutions. The finance and credit system should integrate policy finance, cooperative finance and commercial finance in clear organizational strictures of mutual benefit" (Du, 1996).

The government has begun to take steps in that direction. In 1996, the government announced plans to reorganize the Agricultural Bank of China and the Rural Credit Cooperatives. The Rural Credit Cooperatives will become independent bodies no longer under the Bank of Agriculture. According to Ma Delun, director of the governor's office of the People's Bank of China, "the rural credit cooperatives will be transformed into credit organizations run directly by the farmers and in some relatively rich areas they will become rural cooperative banks with farmers as customers" (Sisci, 1996). Under this new financial system, there will be three independent categories: "rural business finance, dealt with by the Agricultural Bank; cooperative finance, dealt

with by the credit cooperatives, and policy finance, the remit of the Agricultural Development Bank” (Du, 1996). It remains to be seen if these reforms will succeed in meeting the credit needs of the poorest farmers or if they will succeed only in widening the income gap between China’s rich and poor.

Another evidence of reform in China’s rural credit system is an experimental program in the Luliang district of Shanxi province which is giving microcredit loans to the area's poorest women. The program was launched by the Agricultural Bank of China in 1989 when it extended 135,000 yuan (\$16,625) worth of loans to some of the poorest women in the province whose annual incomes were under 400 yuan (\$48). In 1992, the loans reached 500,000 yuan (\$60,000) and other provinces began to follow Luliang’s example. In 1995, the loans hit 7.8 million yuan (\$939,000) to women whose annual incomes were under 680 yuan (\$81), living in 50 areas designated as poverty districts in Shanxi” (Reuter, 1995). Yan Dianshan, vice chairman of the Women’s Federation in Shanxi, said of the project, “We usually do not give money directly to poor women. We give them chicks, rabbits, piglets and other materials to make it easy for them to repay or we lend money to better-off women responsible for poverty relief work for poorer women” (Reuter, 1995). The loans are signed by the Agricultural Bank, given at an interest rate of 2.4 percent and repaid in three years. Repayment rates are high, between 95-98 percent, much better than the 40 percent repayment rate on national household loans. Senior executives of the Agricultural Bank of China have recommended wider implementation of the scheme “in defiance of entrenched official nervousness over loaning money outside the state system” (Rueter, 1995). Hua

Ruoming, one of the Agricultural Bank's executives called on the government to "set requirements on policy banks to help women" (Reuters, 1995). These types of projects and reforms have the potential of lifting many of China's poorest out of poverty if the Chinese government will continue to adopt policies which stimulate and increase their propagation.

One of the most promising reforms in China's rural credit system has come as a result of the introduction of development projects. Development projects began as a result of new agreements between the Chinese government and foreign development agencies. "Ten years ago, in a new and surprising gesture after decades of 'self-reliance,' the Chinese government both permitted and encouraged international government and non-governmental agencies to provide for development programs and later to establish development projects in China" (Croll, 1994). Many of these international organizations have begun microcredit projects in an effort to help lift China's poorest peasants out of poverty and to develop an effective credit mold for the government to adopt its own credit initiatives.

PART THREE: INTERNATIONAL NGO MICROCREDIT PROJECTS IN CHINA

About the time government credit programs began to issue loans mainly to industry, externally funded microcredit organizations began to implement programs in China in an effort to fill the credit gaps left by government credit programs. The main goal of each of these projects was to develop a model that could be replicated in many other areas of China by government and nongovernment programs alike. There are six

main issues that externally funded microcredit organizations have had to address as they work in China:

1. What relationship the international organization will have with the government.
2. How the program will ensure that the poorest peasants are the credit recipients, but at the same time maintain good repayment rates.
3. Whether the microcredit program will be accompanied by entrepreneurial and/or agricultural training.
4. Whether the program will be subsidized by outside funds or paid for by local interest on loans.
5. How long the credit program will stay in a certain area- will it be a permanent or temporary establishment
6. Whether the credit program will include social objectives as well as financial objectives.

There are at least fourteen different microcredit programs which involve international organizations in funding, program development, technical training and/or implementation. These programs involve the following international organizations: AusAID, Canada Fund, CARE Australia, CIDA, Evangelische Zentralstelle für Entwicklungshilfe, Ford Foundation, Grameen Trust, GTZ, Heifer Project International, IFAD, Oxfam Hong Kong, Trickle-Up Program, UNDP, UNFPA, UNICEF, UN World Food Programme, World Bank, and World Vision International. These organizations are addressing the six issues mentioned above in different ways. I will first outline how each of these issues is being addressed by international organizations in China. I will then outline the micro-credit program currently being

implemented by the Grameen Trust as an example of how a microcredit program might function in China.

NGO-Government Relationship

International organizations are providing increased amounts of donations to fund microcredit projects in China. However, for the most part, these projects are carried out by Chinese institutions and involve some degree of Chinese government counterpart funding. In all cases, the international organizations have close relationships with local government structures (China Development Briefing, 1996). In her studies of several development projects in China, Croll noted that “compared to many development experiences in other societies . . . the role of foreigners is minimized and normally limited to short periodic visits to do with innovation, advice and evaluation.” The daily local management of the project rests “almost entirely in the hands of local cadres and locally appointed project directors” (Croll, 1994). She further comments on NGO-government relationships saying, “Although in China, ‘outside’ knowledge and inputs are usually mediated by Chinese cadres, project managers and technicians, ‘the project’ is still a recognizable space demarcated by the boundaries of special intervention and inputs made in the name of development via ‘outside’ help” (Croll, 1994). While NGOs working in China are not allowed to operate free of government involvement and supervision, in many cases they are still able to maintain a certain degree of autonomy as they implement development projects. Some international NGOs have refused to become involved in development projects in China because they are not willing to affiliate themselves with the

Chinese government. Other international NGOs, however, have participated in a variety of ways to implement projects with all different levels of government involvement.

For the most part, international NGOs work in partnerships with different Chinese government organizations. As part of their development projects in China, AusAID and CARE Australia provide US \$1.67 million for lending in microcredit programs and US \$274,000 for technical assistance and training to support both microcredit programs and village level income generation activities. The Agricultural Bank of China is then responsible for distributing the credit through its township level offices. AusAID and CARE Australia have worked together with the Agricultural Bank of China to develop loan distribution methods which will ensure that the loans reach the poorest people (China Development Briefing, 1996). Other international organizations have worked in conjunction with the local Department of Foreign Trade and External Cooperation, local governments, local Women's Federations, the Chinese Academy of Rural Development Institute, the Rural Development Institute of the People's University, and township level rural credit cooperatives. International organizations provide financial funding, microcredit program models, social development projects, training in agriculture, animal husbandry and small enterprise development, or a combination of these factors depending on the stipulations of the individual projects. No matter how much control the government exercises over specific projects, nearly all international organizations provide aid and other services under the stipulation that credit be extended to the poorest peasants.

Extending Credit to the Poorest Peasants

One of the main dilemmas facing international organizations participating in microcredit programs in China is how to ensure that the loans reach those most in need, while at the same time ensuring good repayment rates. Croll found that one of the most important factors for success in a development project hoping to improve the incomes of poor households was extending credit directly to the poorest peasants (Croll, 1994). In evaluating one project, Croll discovered that one of the main criteria for deciding who would receive loans was the applicant's capacity to repay the loan. Having the "capacity to repay a loan" usually meant that a household had to have an income sufficient for subsistence in order to be considered credit-worthy. This prevented the poorest peasants from receiving loans as they did not have income necessary for subsistence. Croll noted that if an organization was to direct resources to the poor, "it would have to target strictly various categories of households" that had "low annual per capita gross incomes and few income generating activities alternative to livestock raising" (Croll, 1994).

Organizations use several methods to determine which households are the poorest in a village. Sometimes village members must consent to a means test. Other times, they must exhibit a specific need such as suffering a grain deficit or having an annual per capita income of less than Y120-Y280 (depending on the area), as in the case of Oxfam's microcredit programs. Organizations will often issue loans that would not attract anyone but the poorest peasants. CARE Australia, for example, charges higher interest rates and provides smaller loans than local banking systems in order to keep those who already have access to credit through the banking system from participating in their microcredit program. In an effort to reach the poorest peasants and ensure high rates of return on loans, many organizations have targeted poor women with their credit programs. Since many of the poorest peasants without capital are women, loaning to

women ensures credit is given to those with the greatest need. Women also have proven to have much higher pay back rates on loans than men. CARE Australia, Grameen Trust, UNICEF, UNFPA, UNDP and IFAD form lenders into small groups which act as guarantors for each other. If one member of the group fails on a loan, the entire group is ineligible for further credit. This eliminates the need of peasants to have guarantors or collateral before they can receive loans, opening credit to the poorest peasants. Forming villagers into these types of solidarity groups responsible for each others' loans also has resulted in high rates of loan return (90-95 percent). Grameen Trust has a repayment schedule that starts very soon after the loan is made, also contributing to high rates of return. UNICEF maintains high rates of return by requiring lenders to make regular savings deposits, of however small amount, for no less than four months before they are eligible for a loan, as a confidence builder among lenders and as a test of commitment (China Development Briefing, 1996).

Training to Accompany Credit

Nearly all of the microcredit programs being implemented in China involve training in animal husbandry, sideline agricultural production, or small enterprise development. Training is an essential part of microcredit programs so that peasants will have success in their investments. Croll noted that one of the major reasons the poorest peasants did not apply for loans was that they had seen too many fellow peasants fail on their loans. These failures were often caused by trees or animals dying due to a lack of training in proper animal husbandry and agricultural techniques. Nearly all international organizations provided training either directly or indirectly in skills specific to their project's needs. World Vision uses local county technicians to train

villagers in animal husbandry and agricultural techniques. Heifer Project International provides training in livestock production technology to farmers participating in their animal husbandry microcredit program. Training is CARE's Du'an project's primary focus, the aim being "to assist the Du'an women to improve their technical competence in income generating areas with which they have some experience but also to encourage the women to share new skills acquired" (China Development Briefing, 1996).

Source of Funds

Many of the international organizations participating in microcredit programs in China independently fund their own projects. Some organizations, such as UNICEF, require that the Agricultural Bank or the local government match UNICEF's grants. Other projects are working to help microcredit facilities to become self-sufficient from participants' savings and interest accounts after a several year period. Grameen Trust expects each of its project sites to be sustainable at the end of its third year of operation, with between 1500 and 2000 member households.

Duration of Credit Programs

International organizations' length of involvement varies significantly from project to project. Some organizations have a set number of years they will be involved, while others simply go until funding runs out. Still others help the project to become self-sustainable before

leaving. Most international organizations work closely with local organizations which take over the project when the international one pulls out.

If the poorest peasants are to be reached, it is important that projects are long term enough that they can find and identify the poorest peasants and then help them participate in the credit program. If projects are in an area for only a short time, often only the peasants which receive the information about the project first will have a chance to receive loans, leaving many of the poor who did not have access to that information with no chance to receive a loan.

Social Objectives as well as Financial Objectives

Social development goals are an integral part of many microcredit programs. UNICEF asks participating counties and townships to “set their own social development objectives using a number of social indicators suggested by UNICEF—e.g., a certain percentage reduction in infant and mortality rates and percentage increase in school enrollment rates for female children. Women forming groups to participate in the credit scheme are also asked to pledge ‘eight commitments’ embracing hygiene and health behavior as well as financial management” (China Development Briefing, 1996). The Trickle Up development organization has developed a microcredit program in connection with the International Crane Foundation and local environment protection authorities to provide credit to people living on the borders of protected areas for endangered species, helping them increase their incomes in ways which are in harmony with preserving the protected land. UNFPA uses 30 percent of the project money in the formation of women’s groups, skills training, and literacy programs.

As organizations address each of these six issues, it is important that they remember that what is most important is the replicability of the program they develop (China Development Briefing, 1996). A model of an effective microcredit program being implemented in China today, the Grameen Trust, is described below.

PART FOUR: THE GRAMEEN TRUST

The following is an excerpt from China Development Briefing, (1996) reviewing the Grameen Trust- Ford Foundation—Canada Fund microcredit program. It is given here as an example of how an NGO working in microcredit in China might function.

In 1994 the Rural Development Institute of the Chinese Academy of Social Sciences (RDI-CASS) initiated China's first sustained emulation of the Bangladesh Grameen Bank microcredit model in a project financed by grants from the Ford Foundation (US \$110,000) and the Canada Fund (US \$6,000). After a year of operation the Grameen Trust added a loan of US \$50,000 to the original project site, and subsequently loaned a further \$350,000 as the project developed to other sites.

Principle features of the model are that money is loaned at near commercial rates of interest to households belonging to small, mutual support associations or cooperatives and that, shortly after receiving the loan, borrowers start to repay in regular installments.

The first project site was established in Yixian County, Hebei, in May 1994. With the support of local government and under the guidance of the RDI-CASS Project Group, participants formed voluntary, self-managed groups of five households with responsibility for mutual support and supervision. Members consented to a means test, to ensure that only poor households were targeted. Every six groups of five households comprised a center which held

regular meetings, disbursed loans and collected repayments and savings. Loans were disbursed sequentially: the first two borrowers had to start repayment before the next two could take out loans. Once loans were repaid in full and on time members were eligible for repeat loans.

As of June, 1996, 745 households from two townships in Yixian had formed 145 groups organized into 18 centers. Some 85 percent of beneficiary households were represented by women. A total of Yuan 1,078,100 (\$130,000 approx.) had been disbursed in loans, and Y446,160 (\$53,750) recovered. The maximum first loan was Y1,000 (\$120), the second Y1,500 and the third Y2,000. Interest on all loans is charged at 8% per annum nominal rate, the effective rate being about 16%. RDI-CASS calculates that most loans, mainly used for animal breeding and marketing, brought returns to the borrowers of between 0.5 and 1 times higher than the value of the loan.

Last year project sites were also established in Yucheng and Nanzhao counties, Henan. In Yucheng all the member households are represented by women; in Nanzhao, 80% of them. By June, 1996, 525 households had formed 105 groups (17 centres) in Yucheng; and 225 households had formed 41 groups (7 centres) in Nanzhao. A total of US\$83,800 had been disbursed in loans, with repayments of \$24,800. So far there had been no defaulting on repayment schedules, and group members had deposited a total of \$8,726 in savings. In 1996 a further project site was established in Danqing County, Shaanxi. Each site is expected to become sustainable at the end of the third year of full operation, with between 1,500 and 2,000 member households.

CONCLUSION

In order to provide information useful to organizations seeking to implement microcredit programs in China, this chapter has outlined the historical background of the Chinese Communist Party's rural economic policies relevant to the development of the current rural enterprise and credit sector, discussed the government's rural enterprise and credit programs and their inability to reach the credit needs of China's poorest peasants, discussed the current efforts of international non-governmental organizations to extend credit to those poor not reached by the government system, and outlined the Grameen Trust microcredit program as an example of how a microcredit program might function in China.

In conclusion, although China's rural reform programs have succeeded in lifting millions of people out of poverty during the last 18 years, millions still remain. Professor Du Xiaoshan, one of China's foremost experts in microcredit, estimates that China's financial institutions have not developed sufficiently to meet the demand for credit from 200 million farm households (Du, 1996). Many of these farm households without credit can be classified as China's poorest poor. The recent efforts of international non-governmental organizations in microcredit programs have made progress towards helping China's poor to raise themselves out of poverty through credit.

Organizations which seek to set up microcredit programs in China with the intention of filling the credit gaps left by government financial organizations should develop loan strategies which will ensure that loans are extended only to the poorest peasants, consider peasants' short term and long term credit needs, include training in agriculture, animal husbandry and small enterprise development, and address important social objectives as well as financial objectives. Most importantly, organization should seek to develop microcredit programs which can be replicated in areas throughout China by both government and nongovernmental organizations.

Microcredit provides a very real solution to China's poverty problems. Microcredit loans to invest in agricultural diversification, animal husbandry or other income generating projects provide a long awaited escape route from poverty for China's poorest poor.

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6

Filipino Strategies for Economic Self-Reliance: Microenterprise and Micro Credit

Warner Woodworth

The photo opposite this page conveys the exuberance of a young girl in Davao, the large southern island of the Philippines. Alisa Alag and her parents appear to enjoy a good quality of life, but this was not always the case. Several years ago, Van and Virginia Alag struggled on a daily income of just a few pesos, usually allowing only a bowl of rice per day for each of their six children.

Alisa's father purchased an old bicycle, known as a "pedicab," and he would bike passengers around town, dodging cars and buses, bouncing over potholes, sweating profusely in 90 degree heat and humidity. By night he would stagger into bed in the small shanty, too exhausted to eat even if there was sufficient food.

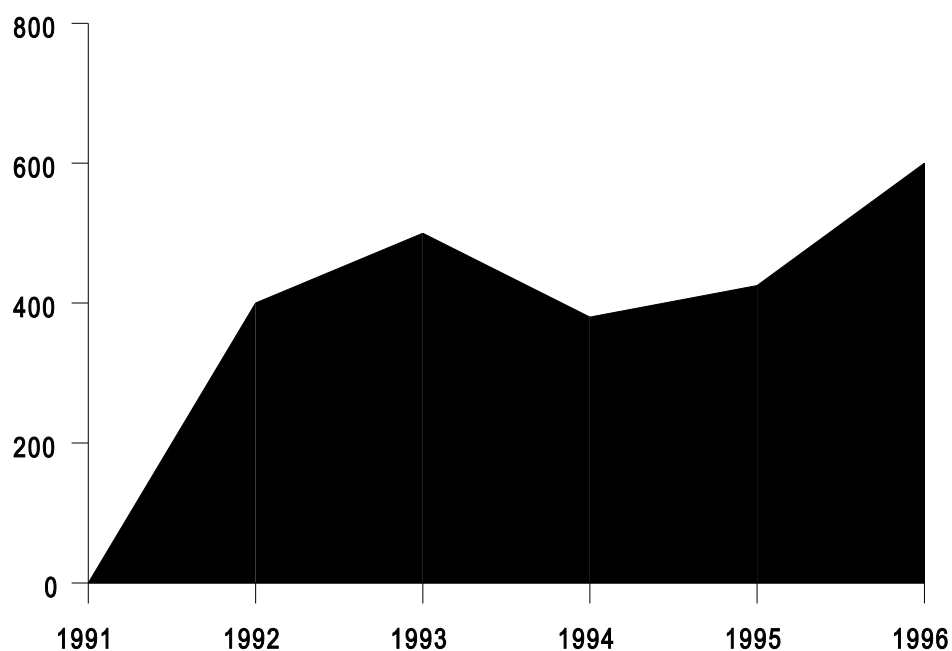
Upon learning about a micro lending program called the Mindanao Enterprise Development Foundation (MEDF), Van and Virginia signed up for a microenterprise course to learn basic business competencies. Upon completing the course, Van was eligible to receive a micro loan in order to purchase a motor for his pedicab, enabling him to double the number of passengers from before—more customers, speedier service, and an easier job. Now, at the end of the day, Alisa's father is in a better mood and has greater energy to play with his offspring. More food and better nutrition are also now available each day. The Alag's have fully paid off

the loan at market interest rates, so that other loans can be channeled to more poor Filipinos.

They have pride in their success and new dignity as small business people.

The experience of a single family, the Alags, in Davao, is expanding exponentially in the Philippines in recent years. Nongovernmental organizations (NGOs) have been established in Davao, Cebu, and Manila as partner organizations to a U.S. NGO—Enterprise Mentors

Jobs Created

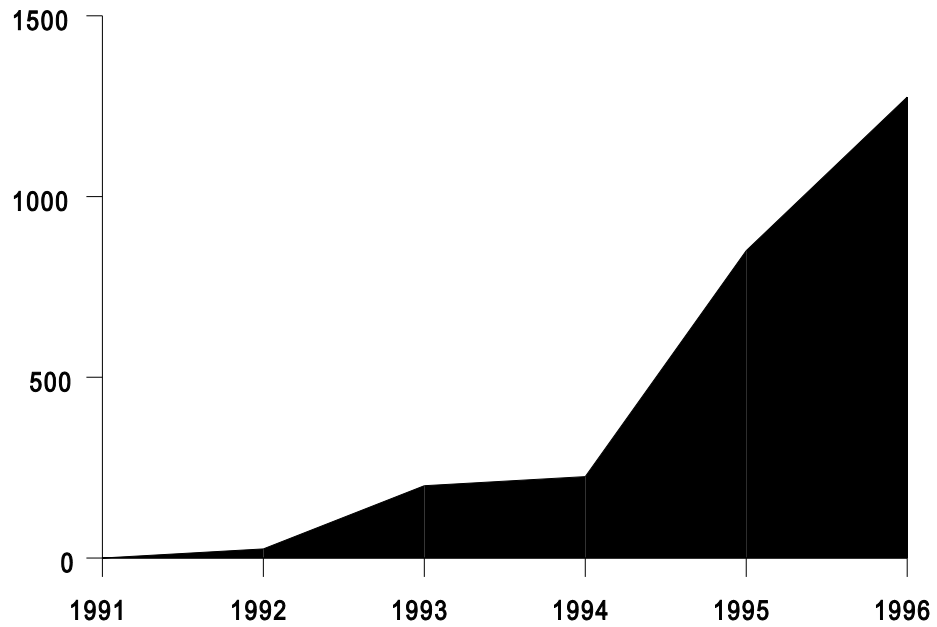


International.

With newly acquired skills, capital and confidence, many client entrepreneurs create new jobs as they grow. Between 1991 and 1996 a total of 2,281 new jobs have been established.

The number of loans accessed by EMI clients has increased dramatically in the past two years. In 1996 EMI partner foundations provided 1,284 loans to growing micro and small businesses. Since 1992 over \$450,000 has been granted in small loans.

Loans Accessed



The table below shows the impressive results of the past two years.

Two-Year Survey

1996 and 1997

	Manila	Cebu	Davao	Totals
Existing Consulting Contracts	346	316	265	927
New Contracts	260	313	292	865
Loans Accessed	1,084	281	456	1,821
Training Seminars Held	186	91	33	310
Seminar Attendees	2,384	742	164	3,290
New Jobs Created	131	171	633	935

Businesses Represented	84	80	118	282
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The combined strategies of training the general public and consulting with specific microentrepreneurs has led to nearly a thousand more jobs and capital to improve or expand those businesses of channeled through some two thousand loans. Based on the Philippine government projections, each new job benefits a family of five. So the total impact benefits roughly five thousand Filipinos whose lives are improving. The additional income from micro business expansion and access to credit leads to more family revenue for food, and a reduction in malnutrition; more pesos for education and a better future; savings for future medical emergencies due to accident or illness; and greater economic self-determination. Importantly, from an LDS perspective, well over half of all beneficiaries of these programs are Church members. They are among the “poorest of the poor.” A few dollars can go a long way in empowering them with new skills and jobs.

The importance of the Philippines is a key to understanding the growth of the LDS Church world-wide. In recent years, this island nation has averaged about ten percent of all converts to Mormonism around the globe. Yet while the gospel is expanding, LDS Filipino families have become more and more poor. The country as a whole in the 1970s used to be Asia’s Number Two economy, but by the 1990s it had dropped to second from the bottom.

Unfortunately, Latter-day Saints in the Philippines tend to be worse off than the typical non-member Filipino—lower household income, higher unemployment, greater percentages of squatters, shanties lacking plumbing, and so on. While pinpointing the causes of economic

decline is beyond the scope of this chapter, a brief history of the origins of LDS strategies to start and to expand microenterprises may be useful.

COMBATTING ECONOMIC TRAVAIL

In early 1989, I traveled to the Philippines with Ruben Lacanienta, a native Latter-day Saint who had emigrated to America, but wanted to help his countrymen. We met with government officials in the top echelons of the Manila government— cabinet members such as the Secretary of the Treasury, the Minister of Trade and Industry, officials of the Asian Development Bank, economists in academia, LDS general authorities, and others.

Meanwhile, at Brigham Young University, during the winter of 1989, I put together a team of graduate students to study the culture and socioeconomic conditions of the Philippines. Over time, our team began to design the setting up of a nonprofit foundation for job creation. The plan was to create an organization based in the U.S, and then launch affiliates in the Philippines. It would be known as an NGO, a key new tool for Third World development that has grown in global popularity in recent years. NGO programs are a stark contrast from typical development institutions such as U.S. AID, the World Bank and other huge, government-based efforts. After months of literature-based research and planning, the four of us traveled to Manila and began surveying LDS wards and stakes, interviewing members and leaders. We also met with businesses, NGOs, and government experts in development. Needs were assessed, problems identified, and change strategies began to be formulated.

The BYU team organized a two-day working conference in Manila in August 1989 to report results of our research and to propose the creation of a new LDS-related NGO for

livelihood and technical assistance. The meetings were attended by general authorities, key Filipino church leaders including several mission presidents, stake officials, regional representatives, Relief Society leaders and professionals in business. We also included several non-LDS academics and/or development experts, as well as a couple of U.S. executives and officials from church headquarters in Salt Lake City.

The study team proposed focusing on methods for creating jobs and businesses among the Filipino poor, both LDS and others. Developing business skills through competent training would provide personal growth for such individuals and enable them to move toward self-reliance, an objective congruent with the church's purposes for earthly happiness. Over the two days of discussion and debates, a mission statement was defined, objectives became spelled out, and services and programs were established for target populations. A pilot program was proposed for the Metro Manila region, staffing needs were designed, along with an initial budget and funding sources. Projections for management training participants and new jobs and other services were targeted for the first two years and a time line for official startup was established. Other components and considerations were identified including legal requirements for incorporation, makeup of governing boards, as well as cultural issues such as dependency, diversity, local community involvement, and ethics.

Ultimately in January 1990, our NGO was incorporated in the U.S., now known as Enterprise Mentors International. Simultaneously an indigenous NGO was launched in Manila, the Philippines Enterprise Development Foundation (PEDF). Each had its own board, staff members, offices and on-going projects. A second foundation was established two years later in Cebu, the Visayas Enterprise Foundation (VEF), and MEDF began a year afterwards.

Currently, the U.S. NGO's primary role is fund-raising, communicating with groups in the Philippines, creating policy and evaluating foundation progress. Enterprise Mentors started with a small board of eight but today the group has over twenty directors, consisting mostly of LDS executives. Its chairman is Marion D. Hanks and the President is Richard Oscarson, a former business executive.

Enterprise Mentor's mission is stated as follows:

“To build self-reliance and entrepreneurial spirit within those who struggle for sufficiency in developing countries. We do this through the principle of a ‘hand up, not a hand out,’ for those who are committed to building their livelihood, their families and community through micro and small scale enterprises.”

Rather than becoming spread too thin, or trying to assist everyone regardless of their values or capacity to succeed, EMI's change efforts focus on certain targets. According to a recent brochure, its basic operating principles are thus: “Enterprise Mentors is founded upon the fundamental premise that meaningful, long-term success for an entrepreneur is unlikely unless he or she personally subscribes to and lives by sound moral principles.” The following qualities are requisite for each client: 1) morality - a commitment to ethical behavior; 2) mentality - the ability to grasp and apply basic business concepts; 3) motivation - a genuine desire for entrepreneurial accomplishment.

CONNECTIONS BETWEEN GROUPS

The basic structure of the relationship between Enterprise Mentors and its partner NGOs in Asia is one of building connections and relationships. The U.S. organization functions as a resource system of capital, equipment, expertise and legitimacy. Simultaneously, the Filipino

NGOs function as the users of such resources—the consumers, the doers, the implementors, PEDF, VEF and MEDF collect data, define problems, develop action steps, and carry them out. Strategic plans are formulated and proposed to EMI which then reviews and analyzes the feasibility of such plans. If and when the two parties agree on a budget, funds are dispensed to the Philippines for the coming year.

Drawing upon the research models of Havelock (1969) and others, at the University of Michigan's Institute for Social Research where I earned a Ph.D., the diagram below depicts the connections.

Resource System

User System

Enterprise Mentors International _____ – PEDF, MDEF, VEF

Money _____ Funds for Projects

Knowledge _____ Application of Knowledge

Business Skills _____ Skill Training

Administration _____ Client Consulting

Board Oversight _____ Staff Implementation

Research and Development _____ - Local Problem Solving

It should be pointed out that each NGO staff in the Philippines also has its own indigenous staff and local board of directors that acts as an intermediary with EMI to some extent and has ultimate fiduciary responsibility over local programs and projects. Another way to view the connections is as follows:



The boards consist of representatives from Filipino executives, bankers, government officials, academics or humanitarian groups. Each professional staff offers training, consulting and access to credit through micro lending methods. In Manila's PEDF, the executive director is Tony San Gabriel, a returned native missionary and young LDS bishop who earned a master's degree in International Development from the Asian Institute of Management, the premier graduate school for a Pacific education. Thelma Caparas directs the MEDF, created in 1993, drawing upon her formal education as a CPA and attorney, as well as considerable LDS leadership experience. The head of VEF, Ed Siadi, runs the program in Cebu. He is a successful Chinese - Filipino entrepreneur who does a good deal of foreign trade in Japan and other countries, as well as having served as a stake president.

With their able staff and board members, these three NGOs have had a significant impact for good among the LDS communities of the Philippines, and beyond. For instance, PEDF's director was interviewed on a one hour national talk show, ZNN Radio Veritas. Six PEDF micro entrepreneurs offered first hand testimonials about how PEDF improved their living, and the program was such a hit that call-in phone lines were jammed with reactions and requests for more information. The response was so positive from listeners across the islands that another hour long broadcast about PEDF occurred a month later (Philippine News, 1995).

PEDF has been awarded several contracts to train displaced workers from major Filipino corporations, including San Miguel Corporation, the largest company in the Philippines. The same NGO was also recognized with a major award from the International Labor Organization (ILO) in Geneva, Switzerland, a global agency of the United Nations that promotes international labor standards and cooperation between nations. By being so lauded, PEDF has clearly earned its reputation for value-based training and consulting. It was selected by the ILO over a number of other prestigious institutions including the federal government's Department of Trade and Industry, the Institute for Small Scale Industries, and the University of the Philippines (Philippine News, 1996).

These indigenous NGOs are not only impacting the Filipino society at large, but Latter-day Saints in particular. To some extent EMI and its parties operate in tandem with LDS Church efforts to improve people's lives. "A church-commissioned study indicated that 68 percent of Church members in the Philippines live below the official poverty levels in areas of income, housing and nutrition. This is substantially higher than the national poverty rate of 49.5 percent" (Anderson, 1992).

Combating the plight of poverty and alleviating its painful results, EMI seeks to complement the ecclesiastical activities of the Church. Mormonism has some of its most compelling tenets in the importance of temporal as well as spiritual well-being (Lucas and Woodworth, 1996):

- The spiritual and temporal are one.
- Any church that does not have the power to save its people in mortality cannot be depended on to save them in eternity.
- Socio-economic equality is a core value of the good society on earth and in heaven.
- True followers of Christ consecrate what they have to lifting the poor and building Zion.
- Work is noble and labor is essential—idleness among the poor and/or the rich is unacceptable.
- Each person has a sacred stewardship to be accountable to God for how they use their talents, skills, and resources to expand their capacity and bless the lives of others.
- Rather than accumulating wealth and engaging in conspicuous consumption, individuals and families need moral motivation—improving the world rather than profit-maximization, valuing cooperation over conflict and self-aggrandizement, building community rather than individual achievement.

Yet in modern Third World cultures there is no program to offer all the traditional LDS welfare services to poor, struggling saints. Nor is there likely to ever be such a system. “The

Church resources cannot offer programs to directly assist businesses or entrepreneurs, and the difficulties inherent in too much dependency and elevated expectations are very real” (Warner Woodworth, quoted in Anderson, 1992). So rather than the Church directly channeling money to sponsor new LDS-based micro enterprise start ups or village banking, EMI and its partners, operating at arms length, are able to do so. Yet the management training of EMI is not tied to a bishop's stewardship. One's assigned consultant may or not be LDS, or Catholic. And micro loans are processed by a credit cooperative or other such entity, not ward fast offerings or tithing funds. They require a signed, legal agreement and the payment of interest and principle until all monies have been repaid.

It should be pointed out that the Church looks favorably upon these efforts to the extent that some of EMI's initial capital was essentially a grant from LDS Humanitarian Services, now known as Latter-day Saint Charities. But Filipino clients are not informed of the source of such funding, or it might be construed or viewed as a hand-out, not necessitating repayment. Rather, PEDF and its sister NGOs operate as professional partners. Their goal is a hand-up, not a hand-out.

Donations to EMI in 1996 totaled \$728,475, a little over half of which was derived from individuals, 38 percent from foundations and churches, and eight percent from corporations. Results of that year's microenterprise and credit programs in the Philippines revealed that the monthly income of microentrepreneurs who received consulting, training and a small loan afterward enjoyed an increase by an average of 56 percent—a wonderful and significant outcome.

EMI's operational budget for 1997 was \$900,000. By far the vast majority of EMI's donors are successful Latter-day Saints who want to make a difference in the world. Small grants are occasionally promised from the Church. Recently EMI and its global partners have begun applying for and receiving grants from U.S. nonprofit foundations. For example, Levi Strauss has contributed thousands of dollars for micro credit financing efforts of PEDF in Manila. EMI received a donation and recognition from the Lord Acton Foundation. And grants from the Kiwanis clubs and Rotary International have also enhanced EMI's efforts to increase the impact of micro entrepreneurial and credit programs.

The genius of micro credit, or poverty-based lending, lies in its simplicity and capacity to empower the poor. Without a micro loan, poor rural or urban Filipinos are unable to successfully manage and grow their tiny, vulnerable businesses. Regular banks refuse to help because often the amount needed is a mere fifty dollars or so—too small for commercial banks to even justify doing the paperwork to process a loan. There are other concerns, also, such as the lack of collateral or documented credit history. Of course the poor have no credit report because they have never qualified for a Visa card. Some are illiterate. And with many being squatters, their family shack of cardboard and/or plywood would never qualify as collateral. Furthermore, most of these people will never own their own land, never receive a paycheck from a corporation, never enjoy health insurance, and never receive a pension or social security.

So for a truly enterprising Filipino, the only path to lift individuals and families is to subject one's self to the ravages of a local “loan shark.” Assume, for instance, that a small loan is needed in order to purchase handicraft supplies. Luisa has no capital, but she has expert basket weaving skills learned from her youth. Now a single mother with four children, she lives

in a shanty by the side of the road, having been abandoned by her husband. To generate an income, she is often forced to seek financing from a “5/6th lender.” This person agrees to loan Luisa 50 pesos in the morning with which to buy reeds and other materials for her crafts. She works rapidly and skillfully, completing seven baskets which she is able to sell in the market by 6:00 p.m. Charging twelve pesos for each basket, she generates revenues of 84 pesos by nightfall. With her hard-earned money from a long day's work Luisa must go back to pay off the loan shark. For the 50 peso loan at 7:00 a.m., she pays him 60 pesos with interest by evening. This amounts to a simple interest rate of 20 percent per day.

With such a painful penalty, it is no wonder that millions of the world's poorest people are trapped in a vicious and never-ending cycle of painful poverty. The loan sharks of the Third World get rich while the poor are ever dropping deeper into a destructive black economic hole. These 5/6th lenders in the Philippines make American “Quick Loan” finance companies appear as charitable humanitarians with their daily interest rates of “a mere one percent.”

The village banking approach of micro credit, in contrast, enables Luisa to break the cycle of poverty. She can access a loan with her peers even though she has no collateral or credit history. She works with people who can trust in her lending group, each of whom has their own business. They pay interest and principle daily, but not at exorbitant rates. After the first round of paying back her small loan, Luisa qualifies for a larger loan each successive time. With increasing profits, she is able to better feed her children, provide medical care when injury or illness occurs, and ensure that her children will have an education in the future. Being mutually responsible for the total amount of the loan ensures a payback rate of 97 percent. Coupled with micro enterprise training and hands-on consulting programs of EMI and its NGO partner groups,

this strategy to lift poor Filipinos is perhaps most important, not because of the aggregate statistics summarized at the outset of this chapter. More impressive is the tangible experience of each individual microentrepreneur—the single woman and her children, the poor LDS bishop with his little family business, the group of Relief Society sisters who collectively borrow to establish a women's co-op as a group, thereby leveraging their collective skills and energy.

A number of key features underlie the work and tactics of EMI and its affiliates:

- Objectives include helping the poor achieve self-sufficiency through self-help, mentoring, and training.
- Programs offer business training such as simple bookkeeping, marketing and management, as well as micro credit.
- The emphasis is not on creating a short-term project, but instead on building a long-term program that is truly sustainable.
- Participants are not viewed as mere pawns in an economic game, but as intelligent, creative individuals who may simply lack entrepreneurial skills or access to funding.
- The strategy is to develop the poor who are committed to building their livelihood, their families and communities through micro and small-scale enterprises.
- The methodology used is that of working through indigenously-staffed local NGOs rather than sending in U.S. experts to administer programs in a given country.

- A basic premise is that consulting and training should not just be a “hand-out,” and that financial assistance ought not be merely a free grant. In other words, there is no something for nothing. Rather, all transactions are to be exchanged in order to reinforce a sense of responsibility. This means that usually there are small fees charged to clients for attending a workshop. Likewise, a reasonable amount of interest is paid on each loan, thereby ensuring that participants feel accountable for what they receive.
- Finally, beneficiaries must commit that down the road, after they have greater success, they will also teach others. Each client agrees to consult and help the less fortunate who may need assistance in the future, thereby giving back to the program.

A sampling of real flesh and blood cases can be briefly highlighted as follows:

Allan Tereno: He used to sell fish balls from a push cart on the city streets. With micro enterprise consulting assistance, he has now hired four additional employees besides himself and they operate three additional push carts.

David deLara: Having started a business in 1989, he collected used cooking oil from Filipino restaurants and processed it into large slabs of soap for use by industry. He needed more capital to expand, but could not qualify for a bank loan. With help from PEDF, he received a micro loan and now sells soap as an equipment lubricant to many Filipino companies, as well as giants like PepsiCo.

Anita Bernales: After years of laboring for other bosses, she sought technical assistance from MEDF in the southern city of Davao. Consulting advice and access to micro credit enabled her to buy equipment, hire several shoemakers with good experience, and begin production on the patio outside her little house.

The 1995 trip to the Philippines by Elder Marion D. Hanks (Boren, 1995), graphically describes a colorful picture of success:

We walked out about a half mile and up steps carved in a muddy hillside. This little person lived in a hut with no electricity. On an ancient treadle sewing machine she made shoe coverings, packed them in attractive packages and put them on her back. She would take a 'Jeepney,' then cross the River Negros to sell her backpack full of materials. She would pay some guy '6 for 5' or worse and have nothing left when she was finished. On Monday she would have to borrow money again. She had six or eight little children. [After a micro loan] she now pays a rational market rate and is feeding her children. She is able to pay two helpers and her children help, too. This really made a convert of me.

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7

A Few Dollars For A Matruschka: Micro-Enterprise Development in the Former Soviet Union

Jason Richard Beal

The year is 1993. A single mother, named Elizaveta, and her son are living in Kiev, Ukraine. Elizaveta is a painter who is trying to eke out a meager living painting Ukrainian eggs, wooden spoons, and matruschka dolls. Despite her superb craftsmanship she is unable to reach her full potential because she must work for a supplier. It is hard enough to make a living in the struggling economy of the former Soviet Union without having to pay half your income to a middleman. Elizaveta needs financial help in starting her little business. She is just one of the millions of informal workers in the former Soviet Union who is looking for financial help and counseling assistance to make herself a better life.

The Soviet Union was once thought of as one of the major economic and military super powers. However, in the 1980s, the facade of the command economy's indefatigability began to crumble. As the Berlin Wall and the Eastern European powers fell so did the fallacies about the strength of the Soviet economy. By 1990, the former Soviet Union followed its satellites in Eastern Europe and began privatizing its economy. But this shift to a more open economy has led to serious repercussions in terms of inflation, unemployment, and uncertainty about future economic stability.

In a little more than a decade the great Communist nation was transformed from a world power to a struggling uncompetitive nation. The problems that exist in the Russia make it

resemble one of the many developing nations of the world. A special report in *Business Week* stated “Russia is like a typical Latin American country with 90 percent poor, 10 percent middle class, and 1 percent superrich” (Galuszka, Kranz, and Reed, 1994). One significant difference between the New Independent States (NIS) and most developing countries is that there is a highly educated and skilled population. This advantage in human capital may be a key element in bringing the economy back to a stable or growing state. Nevertheless, there are many obstacles that need to be hurdled before the economies of the former Soviet Union are competitive on the world market.

One of the strategies the government has used to make the transition is to privatize many of the government-owned enterprises. However, many of these new businesses have gone under because they were based on a bloated, inefficient command economy. Privatization is one solution for the economic ailments, but it is not as effective at reaching the grassroots level of the economy.

Originally, development assistance from the international community focused on macro-enterprise. The World Bank, the International Monetary Fund (IMF) and many countries have given huge amounts of money to large businesses and projects to promote development. This has also been tried in Russia, but there are three essential drawbacks. First, funds coming from the IMF have many strings attached. A U.S. Senate hearing found “the conditional policies of the IMF and World Bank may be having an adverse impact” on the Russian economy (US Congress, 1994). A second problem of macro-development is the corruption of the government bureaucracy in Russia. This corruption is so extensive that it is speculated the average Russian never sees foreign aid because of government skimming. Finally, the theory that macro-

investment will eventually trickle down has never been shown to be true. Timothy Simmons, in his thesis on Russian micro business, stated “that after fifty years of practice, nothing has trickled-down” (Simmons, 1996). Considering these three major flaws it is useful to consider other possible modes of development.

Development literature recently switched its focus from the macro-businesses to more grassroots enterprises. Targeting microenterprise, or very small businesses usually consisting of a family or a few individuals, has been seen as an effective means of spawning sustainable development. The United States has recently added microenterprise as a focus of its development programs. In 1996, Congress passed the Microenterprise Act, which stated “development of micro- and small enterprise . . . is a vital factor in the stable growth of developing countries” and “it is, therefore, in the best interest of the United States to assist the development of the private sector” (U.S. House of Representatives, 1996). Another tool of development the United States has endorsed is microcredit. The same act urges AID administrators to focus certain “loans, guarantees and training programs on poverty alleviation for the poorest of the poor” with a “substantial proportion of the loans averaging \$150 or less” (Ibid). Could assistance to microenterprise ventures be used successfully to strengthen the economy in the NIS? What impact, if any, has microcredit had in promoting economic transition?

One of the problems in studying microenterprise development in the former Soviet Union is the paucity of information available. First, programs now in use are very new. Microenterprise was first publicized in a 1972 study by the International Labour Organization in Nairobi, Kenya. Since then, many countries have incorporated programs that assist microenterprise not only in their international development programs, but also in their domestic

policies (Raheim, 1996). There is much research on these older programs. However, these programs did not exist in the Soviet Union until the late 1980s when the economy shifted to less government control. There has been little scholarly research done on microenterprise in the former Soviet Union.

In researching this paper, the lack of information became immediately apparent. One of the most useful sources was a Masters thesis by Timothy Simmons, who researched small business development, particularly in the Moscow area. He also struggled to find current information. He explained that much of the information available is from Russian researchers, written in Russian. Furthermore, microenterprise development “research from US institutions is almost non-existent” (Simmons, 1996). Despite the lack of published information, Simmons was able to synthesize much of the current information on microenterprise in Russia during a research trip to Moscow, and came up with a valuable description of the current situation there. He also did some important original research, studying different programs that assisted microenterprises.

Another element of microenterprise to be considered is microcredit. Microcredit is “the practice of lending small amounts of money, without collateral to poor would-be entrepreneurs” (The Economist, 1997). Unfortunately, microcredit in the former Soviet Union suffers from an even greater scarcity of information. Though there are many institutions that lend small amounts to businesses, there are few institutions dedicated solely to micro-lending. Of these few groups there is very little written. One program there is information on is FINCA’s village banking program in Kyrgyzstan. This program, in connection with the other attempts to foster microenterprise, will be discussed.

FRAMEWORK FOR ANALYSIS OF MICROENTERPRISE DEVELOPMENT PROGRAMS

What are some of the microenterprise development programs being used in the former Soviet Union? What are they doing? Are they successful? To analyze these programs, their objectives must first be considered. In Simmons' analysis he uses a three-part approach to understand the different programs operating in the old Soviet republics. The three criteria he considers are what assistance is given, is the program sustainable and is the program effective using its techniques to promote microenterprise. These criteria will be briefly discussed, then four different programs will be evaluated.

First, Simmons identifies seven different types of assistance that are given to micro business: consulting, training, finance, incubator, networking, government assistance, and information. Consulting involves bringing in experts, often foreign, to assist businesses one-on-one or in groups (Simmons, 1996). Training, however, involves teaching business skills ranging from accounting, marketing, and finance to techniques in writing business plans necessary to gain assistance from western partners. Finance is also a key element because more Russian businesses need capital before they can use a high profile consultant, particularly in microenterprise (Simmons, 1996). Incubation is a style of development where an organization takes in a small business and works closely with it until it is ready to survive on its own. This approach integrates many development techniques from consulting and financing to low rent and information access (Simmons, 1996). Finally, development groups help similar businesses network, work to change government policies, and provide valuable business information

(Simmons, 1996). Different organizations use combinations of these different forms of assistance to promote their objectives. A close look at some development groups will show which combinations seem most effective.

Another concern when analyzing a development program is whether or not the program is sustainable. For a program to be sustainable it must first be able to support itself financially, and second, have strong indigenous management and control. Due to the tentative nature of foreign and government aid it is important that development organizations make themselves financially independent from their outside founders. Furthermore, foreign personnel assistance is expensive and often tentative. A development program is often better served by having indigenous staff who are aware of domestic problems. Therefore, a program must not only be effective in addressing its target constituency in the short run, but must see that it will survive to serve in the long run.

Finally, in considering these development projects, it must be determined whether or not they are effective in their desired objectives. Simmons defines effectiveness as “the ability of an assistance program to positively increase the primary benefits of small enterprises which directly seek help from the assistance program” (1996). To measure effectiveness he considered such elements as an increase in employees, client output, adoption of techniques, loan repayment, client opinions, and assistance program output. In a normal economy these variables are hard to measure, but there are special problems that make analysis even more difficult. Many businesses will not make full disclosure to avoid the 40 percent employee tax by the government, or try to maintain a low profile and avoid the mafia (Simmons, 1996). Though Simmons was able to get information on the effectiveness of different development programs, he warned that the validity

of many of his numbers are in question.

Therefore, using this three part analysis, four different programs operating in the former Soviet Union will be considered.

Deloitte & Touche and BSC

Deloitte & Touche (D&T) is the main contract organization sponsored by USAID to assist small business development in the former Soviet Union. D & T has established eight Business Service Centers (BSC) to aid in consulting, training, limited equipment leasing and small commodity assistance for small businesses (p.155). The D& T program has prepared to make its program sustainable by a three-step plan that will 1) “Russify” its staff, 2) completely train the Russian staff, and 3) make the BSCs financially self-sufficient by operating mostly on fees. The effectiveness of the overall program is shown by its ability to help 31 enterprises find nearly \$6 million in outside financing. However, the program is not without its flaws.

A careful look at the Smolensk BSC shows some weaknesses of the D & T program. Located in a rural city like Smolensk, this BSC has struggled to drum up business. It has engaged in activities like business seminars, networking of business, a legal hotline, and finding funding. However, this BSC faces serious difficulties in its future. First, it has few clients. Second, its indigenous staff suffers from a lack of training. Finally, it is not financially self-sufficient. It is currently able to help some small businesses, but if it expects to survive it must charge for its services, however, if it charges it will lose much of its small enterprise startup business.

Though D & T has been successful overall, its accolades must be tempered by the fact that not all its BSCs are successful.

Opportunity International

Opportunity International (OI) is a worldwide NGO that founded a project in Nizhny Novgorod, Russia. The premise of OI is to help clients solve their own problems by providing direct microenterprise assistance. It focuses on three critical elements in its integrated approach: small loans, training basis business skills, and regular consultation throughout the business growth. In promoting this program, OI works to have not only the businesses it supports be self-sustainable, but it also aims to have its projects free of outside financing.

The OI program provides three types of assistance: equipment leasing, business incubation, and financial assistance through a credit union. The most compelling of these is the business incubation. What OI did in Novgorod for its incubation program was lease a large building. It then rented space in this building to startup businesses at reasonable rents. Support services, training, consulting, marketing information were provided to these companies. But this program is founded on the principle that business should be weaned from their support. To this end OI has a policy where it steadily raises the rents on infant businesses to prepare them to move out into the real economy.

OI fulfilled its goals of sustainability and effectively met its goals. Because this program is based on sustainability, the project in Novgorod has been planning its own self-sufficiency since day one. With a predominately Russian staff and a large client base, OI claims that it has more clients than it can support, unlike the BSC in Smolensk.

The future for this program also looks bright because it is effective in administering its program. Simmons found that “many experts in the Russian small business development field felt that OI is clearly one of the most effective assistance programs operating” (Simmons, 1996).

The program has a strong Russian support staff, has a 99 percent repayment rate on leases and loans, and has been used as a model for new USAID programs. The staff of OI claim that much of their success comes from their strong relationship with each client. All of these reasons make the IO program a model of innovative assistance for microenterprise development.

Government Programs the MLC and MADE

Microenterprise development is also supported by two arms of the municipal government of Moscow. Under the Moscow Foundation for the Development of Small Business (“the Foundation”) there are two programs dedicated to assisting small business. They are the Moscow Leasing Company (MLC) and the Moscow Agency for the Development of Entrepreneurs (MADE). The MLC was founded to provide leases to small businesses, and provide consultation. The program has potential for sustainability due to the money it will receive from its leases. It was able to borrow cheaply to get started, which allowed it to be competitive and charge lower than market rates. However, the program has a small client base. MLC’s effectiveness shows in its 90 percent payback rate. The Director of MLC claims further that “one to eight new jobs are created for each lease made” (p. 190). However, MLC seems to lack concern for the success of small enterprise in favor of pursuing its own interests.

The second Foundation program, MADE, focuses almost entirely on providing information to businesses. It stresses high-quality consultations, reliable information, training possibilities and a link to government resources (p.192). This program, however, faces serious problems of unsustainability. It generates little money because the majority of its clientele are mainly start-ups. If MADE fails to receive more funding it will not survive, unless it begins charging fees or seeking foreign clients. Finally, because MADE mainly provides information,

its effectiveness is in part measured by whether it is getting the information out. However, because it is hard to quantify the effectiveness of this help, it is also difficult to say that MADE is very effective at helping budding microenterprises.

Microcredit in Kyrgyzstan

One of the most successful programs at providing primary assistance is FINCA's village banking program in Kyrgyzstan. This is a microcredit institution modeled after the ones used in Latin America, which provide small loans and assistance in microenterprise planning. In their brief, FINCA explains that the privatization of state-run institutions has caused rampant unemployment in Kyrgyzstan and that nearly two million of the newly independent states' five million residents are in poverty. There is, however, a highly educated populace among the unemployed, and FINCA's village banks "are the lone source of working credit for these micro-entrepreneurs" (FINCA, 1997).

How successful has this program been? The program has grown eightfold in the past fiscal year and maintains 194 village banks. The bank currently has 2,599 members with an astounding on-time repayment rate of 99 percent. The program seems to be successfully targeting microenterprises, as its average loan is \$55 and 84 percent of its loans are made to women. Only \$278,225 in loans were disbursed in 1996 with current growth rates. Though relatively new, this program shows definite potential for being sustainable and has been effective in lifting its target audience because it uses an integrated approach to target the very poorest.

Problems with Microenterprise Development

There are three major problems that affect any development program implemented in the former Soviet Union. These problems are government corruption, mafia influence, and the lack

of an established business infrastructure. Timothy Frye and Andrei Shleifer compare the growth of small businesses in Poland and Russia. Since both countries are reforming from command economies, they were trying to see which was more effectively making the transition. They determined it was Poland because they used the “invisible hand” model of limited government interference. Russia, however, was stagnated because it was using the “grabbing hand” model, where “the government consisted of a large number of substantially independent bureaucrats pursuing their own agendas, including taking bribes”(Frye and Sheifer, 1996). Government corruption in the regulation of business seriously hinders the growth of small enterprises.

A second major inhibitor of small enterprise development in the former Soviet Union is organized crime. Big and small businesses must be wary, keeping low profiles “to avoid shakedowns from Kalashnikov-toting mafiosi and to escape greedy and corrupt tax inspectors from Moscow” (Galuszka, Kranz, and Reed, 1994). From bribes to shady deals with the government, to murder of businessmen by rival gangs, the business atmosphere in the NIS is not always healthy (Simmons, 1996). It is hard enough for a small business to be successful fighting market forces, but when it must pay for protection against the mafia its ability to succeed is put in serious jeopardy.

The final major weakness to the growth of microenterprise is the lack of an economic infrastructure in the former Soviet Union. Some researchers point out it is vital that the factors such as governments, taxes, laws and regulations be favorable for a developing country to promote small businesses (Giamartino, 1991). In Russia many of these factors actually oppose the growth of small businesses. Grammatchikov states that, “ thousands of small firms... are facing an unfavorable economic climate at the moment in Russia. According to recent

government research, many of Russia's . . . small enterprises are on the verge of bankruptcy” (1994). If these government restrictions are too stringent it will be difficult for any micro-enterprise promoting program to be successful.

These problems may seem overwhelming. But many scholars argue that constant pressure to create legitimate small businesses will eventually overcome corruption and create a normal infrastructure for entrepreneurs (Brenner, 1992). Galuszka, et.al., argue that “some executives believe that the crime wave [in Russia] will lose steam as legitimate business gains momentum and society stabilizes” (1994). The present may be gloomy for small businesses, but as international pressure to support small businesses increases, many of the problems that inhibit growth may eventually be ironed out.

Conclusion

Can the Russian economy pull out of its nose dive caused by the transition to a market economy? Some success has already come in the regular business community by those with strong entrepreneurial spirit. For example, in 1990, some graduates from the Moscow Aviation Institute started their own airlines. Beginning with one flight a week they have grown to 75 flights in four years. They even offer first class service, previously unheard of in the communist world (Galuszka, Kranz, and Reed, 1994). Will microenterprise business also find a climate to grow in the turmoil of economic transition?

It has been shown that there are numerous programs established to foster the growth of microenterprise. They use techniques such as consulting, leasing, training, incubation and providing information that assist the micro businesses as they begin their first shaky steps. However, these programs also must show their viability by being self-sustaining. Finally, the

effectiveness these programs had on their target audience, by seeing if their assistance was useful to the microenterprises they were targeting, has been considered.

Using four cases, it is apparent that it is important to have an integrated approach. It is important to offer counseling, but if the institution is unable to provide funds it is much less successful. OI's incubation program has shown how the integrating of methods can be done very effectively with wonderful results. FINCA's village microcredit program has also shown how an integrated approach better serves the constituency and promotes sustainability. Another important factor of sustainability is the strong incorporation of indigenous managers. However, even native programs with a single approach like MADE are hard to justify because there is little proof of their success and they have not been very sustainable.

The problems in the former Soviet Union also seem to be very daunting. But, the analysts do not think the future is totally bleak. One writer claims that global pressure will eventually cut down on the influence of corrupt officials and the organized crime. "The international wheels of commerce are slowly—but inevitably—grinding away at the practice of bribery" (Simmons, 1996). As micro businesses grow in numbers and strength, they may eventually force corruption out of the mainstream.

Finally, the growth of small business bodes well for the Russian economy. They have a foothold, and "the most telling trend is the continual increase in Russian government support for small business . . . Small business is now well represented at the federal level"(Simmons, 1996). Though successful programs like OI and FINCA are growing in popularity and support, it is hard to say quantitatively what the effects of these programs will be. It is hoped that in the future, as reporting becomes more open and accurate, better assessment of the effects of these

programs will be achieved.

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8

Microcredit and Microenterprise Organizations in the United States

Todd Manwaring

Microenterprise programs in the United States started largely as an attempt to replicate the successes of similar endeavors in Third World economies. Like their Third World counterparts, United States microenterprise programs assert that they help alleviate poverty, "foster human capital development and entrepreneurship," and promote the development of the poor (Nelson, 1994).

In an article in *Inc*, Timothy Bates and Lisa Servon point out that though microenterprise loans "do create jobs," they are currently too few to revitalize poor communities (1996). However, microloan numbers are growing as microenterprise efforts continue to proliferate throughout the United States.

How do microenterprise efforts operate in the First World? This paper attempts to answer that question by surveying the state of microenterprise programs in the United States. This paper will describe the organizations primarily involved and provide information on their techniques. It will also identify the support organizations available to these primary organizations. The following section will discuss challenges faced by United States microenterprise practitioners. This will be followed by an analysis on the results of current efforts. Finally, a list of resources will be provided for additional information.

Organizations Involved

At the start of 1997 there were 328 active microenterprise programs in the United States. The oldest organizations have been active in microenterprise development in the United States for over ten years. Of the 328 existing programs, 220 have started within the last five years (Severens and Kays, 1997).

Severens and Kays further report that the 328 active U.S. programs have served a total of 171,555 loan and non-loan individuals, disbursing a total of \$126 million funds since their inception (1997). By contrast, the twenty-year old Grameen Bank has made more than 2 million loans worth a combined \$2 billion (Carbonara, 1997). As with Third World microenterprise organizations, the vast majority (92 percent) of U.S. groups target low-income individuals and minority groups.

Primary Organizations

Primary organizations are those groups providing direct assistance. Their microenterprise efforts utilize four main methodologies: group or peer microloans, individual microloans, technical assistance and training, and a mixture of these services. Figure 1, on the following page, shows the methodology breakdown of current U.S. programs. Microloans made by these primary organizations in 1995 have the following range and averages for the two loan methods:

<u>Program Method</u>	<u>Loan Range (Low-High)</u>	<u>Average Loan Size</u>
Group Lending	\$500 to \$25,000	\$1,597
Individual Lending	\$1,000 to \$500,000	\$9,248

(Microenterprise Assistance: What Are We Learning About Results?, 1997)

Group Lending Group or peer lending was the first type of microenterprise program to be

replicated in the United States. Early efforts in the United States and Canada

Figure 1

were aided by a 1988 Ford Foundation grant from the Ford Foundation office in Dhaka, Bangladesh. The grant provided funds for advisory services from various Bangladesh institutions to the newer U.S. and Canadian group lending organizations. This resulted in multiple conferences and visits that culminated in a meeting held in 1993. The Bangladesh participants in this knowledge exchange included the Grameen Bank, Bangladesh Rural Advancement Committee (BRAC), and Proshika. The U.S. and Canadian representatives included Accion, Calmeadow, Coalition for Women's Economic Development (CWED), Good Faith Fund, Harvard Institute for International Development, Lakota Fund, Nebraska Micro-Enterprise, North Carolina Rural Center, Shorebank Corporation, Working Capital, and Women's Self-Employment Project (WSEP) (Nelson, 1994).

Nelson's 1993 meeting report details that many of the U.S. and Canadian organizations were trying to find ways to adapt peer lending practices to local U.S. and Canadian needs. One primary adaptation involved adding individual lending services to their portfolios. The main reasons cited for adding individual loans to existing peer programs were because "interested clients had difficulty forming borrowing groups" and because "larger [loan] size generates higher revenues for the program" (Nelson, 1994).

Individual Lending Individual loans have become a favorite vehicle for assisting the disadvantaged in the microcredit community. A recent Wall Street Journal article by Paulette Thomas gives an example of individual lending in practice. James Metzgar and his family are

off public assistance (with the exception of subsidized housing) due to the aid of the Pike County Community Action Committee (a group of bankers and community leaders). Mr. Metzgar enrolled in an entrepreneur-training program and later sought an \$11,000 loan from the committee to further his scrap hauling side business. With the aid of the community committee, he has been able to punctually pay on the \$11,000 loan and receive an additional \$22,000 conventional loan from a local bank (1997).

Characteristics of this situation are similar to many individual microloan situations (as well as many group loans). First, the loan size is noticeably larger than what is expected with Third World microenterprise efforts. Second, the recipients usually have some public assistance helping to relieve part of the poverty burden. Third, multiple business and community organizations combine money and services to help microenterprise participants before, during, and after receiving loans.

Technical Assistance & Training The assistance and training provided by primary organizations is key to successful microenterprise efforts in the United States. The document, "Microenterprise Assistance: What Are We Learning About Results?", reports that 95 percent of all primary organizations provide some form of technical assistance and training (1997). Indeed, as in the case of the Metzgar example, most participants have gone through some business training classes by the time they receive their loans. Thirty-eight percent of all primary microenterprise organizations require a "minimum number of hours of training to obtain credit" (Microenterprise Assistance: What Are We Learning About Results?, 1997).

Examples of assistance and training vary from program to program. In one example, Darlene Sealls started a video-editing company with the assistance of the Chicago Women's

Business Development Center (WBDC). After banks turned her down for credit, she sought help through the WBDC. Sealls describes the help she received from the WBDC by saying, "Best of all, the WBDC was able to help me to refine my business plan and then channel my microloan request to an organization whose financing priorities fit my needs" (Inc, 1996).

In general, technical assistance and training programs offer classes or consulting services focused on "business plan development, financial statements, cash flow, marketing, credit management, [and] personal goal setting" (Severens and Kays, 1997).

Support Organizations

Severens and Kays' directory of U.S. microenterprise organizations lists sixty-six organizations that provide support to primary service organizations. These organizations offer organizational support or funding assistance. Examples of the assistance provided by these groups include "program development, technical assistance, training, research, policy advocacy, practitioner networks, trade associations, evaluation support, and financial assistance" (1997).

The Corporation for Enterprise Development is an example of a national organization that provides assistance to primary agencies. Started in 1979, it provides "a range of services including policy design, analysis, advocacy, demonstration and project management, consulting, technical assistance, training, research, information, and publication services—to public, private, nonprofit, and community organizations throughout the United States and internationally" (CFED, 1997).

The Charles Steward Mott Foundation is an example of a national funding organization providing \$1.5 million annually as grants for primary microenterprise funding. Their mission is to "nurture systemic change, create opportunities that empower people and identify new

paradigms for alleviating poverty, to build on successful efforts to advance entrepreneurship and enterprise formation among people in low-income communities" (Mott, 1997).

Challenges in United States Microenterprise Efforts

The United States microcredit community is facing many challenges. These challenges are mainly attributed to the relative inexperience of the organizations and the differing U.S. low-income landscape. For instance, many organizations realize that there are multiple categories of the economically disadvantaged: the working poor, the unemployed, the persistently unemployed, the dependent poor, and the indigent (O'Regan and Conway, 1993). Also, one may treat different minority groups within each of these categories differently. For example, the needs of unemployed native Americans might be different than the needs of recently unemployed immigrants to America. Other authors show specific challenges faced by microenterprise organizations.

In their book, The Practice of Microenterprise in the U.S., Elaine Edgcome, Joyce Klein, and Peggy Clark describe seven major "Challenges for the Future."

They are the following:

1. There is a need for greater stability in program funding.
2. Those programs that appear to be most cost-efficient are those that offer both short-term, targeted interventions to large numbers of people (such as weekend workshops, specialized training in key business areas to target groups of business people) with longer-term, more intensive strategies for a smaller number of clients (such as longer term training to welfare recipients, or long term credit relationships with small, yet established businesses).
3. One of the key unanswered questions about U.S. microenterprise programs is the scale of operations that might realistically be achieved, and how this scale relates to the segment of the small business or microenterprise market that the field is attempting to reach. Finding an answer to this issue of scale will require the creating and evaluation of

- various models for achieving greater scale in programs operations.
4. The microenterprise field needs to create performance measures.
 5. The field also needs to look in particular at how to evaluate its training effectiveness.
 6. Although the grass-roots, diverse nature of the U.S. microenterprise field is very consistent with our nation's traditions of local initiative and local control, the lack of a clear or compelling single methodology appears to have hindered the development of best practice management policies, staff skills, and methodologies.
 7. There is a need to support institutions that can provide for advancement of the overall practice and field of microenterprise development. (1996)

In addition, Severens and Kays mention the following three concerns held by U.S. microenterprise organizations:

1. The biggest issue of concern to programs is programmatic sustainability. 61 percent rank this [as] a key concern.
2. Fifty-six percent of programs rate diversifying and broadening their funding base as a key concern.
3. Forty-five percent of programs report that providing more advanced training and technical assistance is a key concern. (1997)

Results Of Microenterprise Efforts In The United States

In its study called the Self-Employment Learning Project (SELP; a longitudinal study of 405 microenterprise entrepreneurs), the Economic Opportunities Program reported the following results in their document "Microenterprise Assistance: What Are We Learning About Results?":

- Microenterprise programs effectively reach large numbers of minority and female clients." Sixty-two percent of participants are from an ethnic minority group and 78 percent are women.
- Large numbers of microentrepreneurs are 'patchers'—patching together more than one earnings source to make ends meet." Thirty-seven percent work at another job as well as their microbusiness and 16 percent receive public assistance as the primary or secondary source of income.
- Microenterprise programs serve a diverse group of clients including large numbers of low-income people." Forty-three percent have household income below the \$13,956 per year poverty line for a family of four.

- Twenty percent have household incomes below \$6000 per year.
- A typical microenterprise is a sole proprietorship that has been in operation for two or more years, with sales of less than \$12,000 per year. Most microbusinesses are in wholesale or retail trade or services, with some manufacturing and construction firms." Ninety percent are sole proprietorships where one-third employs other employees. Twenty-two are less than 1 year old, 17 percent are 1-2 years old, 18 percent are 2-4 years old, and 27 percent are more than 4 years old. Forty percent have gross sales of less than \$1000 per month, 21 percent have gross sales between \$1000 and \$2499 per month, and 25 percent have gross sales of \$2500 or more per month.
- Over time, microbusinesses show high survival rates (78 percent), gains in net worth, and employment generation. Profitability over time fluctuates.
- A large majority of poor microentrepreneurs show income gains over time (55 percent), and 25 percent had income gains large enough to move out of poverty. Those who moved above the poverty line had an average household income increase of \$14,674. Sixty-three percent did not collect Aid For Dependent Children (AFDC) benefits. (1997)

Results from the 266 primary support agencies mentioned in the "Microenterprise

Assistance: What Are We Learning About Results?" report show the following:

- Total program costs range from \$411,128 - \$880,839 per year.
- Cost per client ranges from \$941 - \$1,998.
- Cost per dollar lent ranges from \$0.30 - \$2.01.
- Programs with the smallest average loan size have higher cost per dollar lent ratios.
- Costs can only be fairly assessed in terms of strategy type, client group and goals of program.
- Repayment rates range from 65 percent to 89 percent.
- Loan loss rates range from 0 - 9 percent (1997).

Resources For Additional information

In addition to the reference material cited at the end of this paper, the following world wide web sites offer resources to those pursuing information on U.S. microenterprise efforts.

- <http://www.aspeninst.org/>. The Aspen Institute's home page. The Aspen Institute's Self-Employment Learning Project provided much of the material for Severens and Kays as well as Edgcomb, Klein, and Clark's books.

<http://www.aspeninst.org/dir/polpro/SELP/SELP1.html> describes the various Aspen Institute policy programs.

- <http://www.accion.org/programs/>. Accion's Programs web page. This page provides information on both Accion's U.S. and Latin American programs.
- <http://www.vita.org/trickle/usaprog.html>. Trickle Up's USA web page. This page provides information resources on their program.
- <http://titsoc.soc.titech.ac.jp/titsoc/higuchi-lab/icm/icm-documents.html>. Informal Credit home page. A site with a plethora of information, resources, publications, and other web pages on U.S. and international microcredit organizations and efforts.
- <http://www.action.org/resources.html>. RESULTS' resource web page listing multiple organizations and other resources on microcredit.

Conclusion

As various microenterprise organizations throughout the United States mature, they continue to have a positive impact on their low-income and minority clients. Though they may not be revitalizing entire poor communities, their impact is being felt by the clients whose lives (and the lives of their employees) have improved.

How do microenterprise efforts operate in the First World? From the survey of literature presented here, O'Regan and Conway's assessment of how to operate a successful U.S. microenterprise program seems a good summary. They wrote, "Most successful programs arise out of the local context, rather than top-down replication strategies, and develop through independent, usually non-profit entities that become very specialized in what they do?they are

not bureaucracies, and normally not mainstream CDCs or Community Action Agencies. They are led by 'social entrepreneurs,' most often local leaders who combine social vision, and political acumen with the tenacity and business management skills needed to perform in this very difficult arena, and through very difficult times" (1993).

In assessing their results with recent U.S. microenterprise efforts, Accion reports on the findings of 203 microentrepreneurs tracked in a two year study:

These results show that microenterprises are not only viable, but are a growing source of wealth and income in low- to moderate-income communities. Within two years, the 203 microenterprises in New York, New Mexico and San Antonio experienced an average increase per business of \$5,332 in assets, \$1,639 in monthly business revenue, and \$441 in monthly take-home income. It is interesting to note that while take-home income increased \$441 per month, total household income increased only \$360 per month, suggesting that these microenterprises are becoming an increasingly important source of income in households where income from other sources is falling. For these 203 businesses, the results total over \$1 million worth of new assets, over \$300,000 of additional business revenue per month, and nearly \$90,000 of additional monthly household income, in communities and households that more typically experience capital flight and financial insecurity (1997).

Is microenterprise a viable development tool in the United States? Yes. Is it easy to do? No. However, with the increasing numbers of microenterprise organizations over the past five years, there is an ever increasing amount of excellent practices that are available to those organizations, as well as to new organizations entering this area of U.S. development.

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