

**Microenterprise and
Transformational
Development :
A Christian Perspective -
Makonen Getu**

GC Relief and Development Masterclass

June 2004

Present Scenario in Brief

- From a short-term survival mechanism to a long-term development strategy – from a minute corner to an integral part of world development
- From a negligible to a multi-billion dollar industry
- 8000 MFIs serving 38 million – half being served by the ten top
- From no government attention to global attention (Bilateral donors, UN, World Bank, IMF)
- From no bank interest to enormous bank involvement
- From informal NGO operations to regulated formal operations
- From a secular activity to an integral mission activity
- From the “poorest of the poor” to the “upper poor”
- From the “easy to reach” to the “hard to reach”
- From single economic product to multifaceted (holistic) products (E.g., MDGs)

1. HISTORY

Three phases:

1.1. Subsidy phase

1.2. Innovation phase

1.3. Commercialisation phase

1.1. Subsidy phase

- Agriculture was the focus
- Poor farmers (men) were the target groups
- Purpose was to raise productivity/income
- Loans were made to small and marginal farmers at subsidised rates
- In most cases administration was done by Govt. institutions
- Credit schemes began to be politicised
- The rich & powerful benefited most while the poor gained little or nothing
- Inefficiency was rampant & most loans were not repaid

1.2. Innovation phase

- Informal/non-agricultural sector was the focus
- Poor women were the main target groups
- Purpose was to create employment and generate income and improve well being
- Loans were made at commercial rates
- Lending methodologies and terms suitable to the conditions of poor borrowers were piloted and evolved

Innovation Phase (cont'd)

- Credit (hands up) and not charity (handout) proved to be more developmental
- High repayment rates were achieved & practitioners proved that the poor were reliable and bankable
- MED was recognised as a credible poverty alleviation tool
- Numerous int'l & national MFIs emerged
- Donors & banks began showing interest
- Focus was on credit not savings services

1.3. Commercialisation phase

- Conversion of NGO MED programmes into banks and regulated (formal) financial institutions
- Privatisation of ownership through the sale of shares
- Savings mobilisation and commercial loans
- Rationale: service, capital, outreach, sustainability, performance, independence

2. Definition

- MED is defined as a developmental strategy that provides a broad package of financial (savings, credit, insurance) as well as other business development services (business training, marketing assistance, etc.) to entrepreneurs to enable them to operate their own productive economic activities

Definition (cont'd)

- Microfinance is a component of MED involving savings, credit and insurance

3. Components of MED

3.1. Financial services

- Credit – Provision of working capital
- Savings – Mobilisation of mandatory and voluntary deposits
- Insurance products – Life insurance and emergency funds

3. Components (cont'd)

- 3.2. Non-financial services - BDS
- Business management training
- Trades skills training
- Marketing services
- Ancillary services (e.g. adult literacy)
- Spiritual education
- Advocacy

4. Methodologies

4.1. Definition

Lending methodology/technology is about tailoring conventional banking to the unique characteristics of the informal sector.

Methodologies (cont'd)

Lending methodology involves such

Activities as:

- Client selection & screening
- Application, appraisal & disbursement processes
- Product design
- Terms & cycles
- Repayment monitoring
- Delinquency management
- Institutional structure & human resource policies

Methodologies (cont'd)

4.2. Individual lending

Target: mixed levels; mainly men clients

Risk assessment: direct inspection & recommendations.

Loan sizes: \$500-1500/cycle

Collateral: guarantees, business assets, appliances, insurance

Loan term: 12-36 months (usually)

Borrowers: existing or graduated clients

Structures: direct LO-client relationship, monthly monitoring visit

Methodologies (cont'd)

4.3. Village banking

Target: the poorest of the poor esp. women

RA: Self-selection, inspection, recommendations

Loan sizes: \$50-150; increasing re-loans (stepped loan system)

Collateral: Savings managed by the group, mutual/peer guarantee, insurance

Loan term: 4-12 months

Borrowers: Mainly existing but also new clients

Structures: groups of 20-50 members, democratically elected leaders, weekly meetings not always attended by loan officers

Methodologies (cont'd)

4.4. Group of Groups (Grameen Bank)

Target: The poorest especially women

Loan sizes: \$30-100, staggered loan approach – 2 first and 2 after 2 months repayment by the first 2 and then the last person (often the leader)

Collateral: savings deposited with Grameen Bank, mutual guarantee, insurance

Loan term: 12 months, working capital

Borrowers: both existing and starters

Structures: Groups of 5 each for a centre of 20-25 clients, memorize 16 GB principles, weekly meetings always attended by bank officer

Methodologies (cont'd)

4.5. Trust Bank

Target: Poorest of the poor (economically active) especially women

Loan sizes: \$50-150; stepped loan approach

Collateral: peer/mutual guarantee, savings managed by the group

Loan term: 4-12 months

Borrowers: Mainly existing but also new clients

Structures: Elected leaders manage group activities including loans and savings; 5-7 groups of 5-7 members each forming a trust bank/centre of 25-40 members, weekly meetings attended by loan officers

Methodologies (cont'd)

4.6. Solidarity Group

Target: poor entrepreneurs

Loan sizes: \$150-600

Collateral: individual guarantee, savings not used within the group

Loan term: 6-12 months

Borrowers: Existing or graduated clients

Structures: Groups of 4-7 members, weekly meetings less required, repayment collected by group treasurer

5. Best Practice Standards

5.1. Who sets the standards?

- a) CGAP: Being a creation of World Bank, major donor agencies and industry leaders (a consortium of 28 agencies), CGAP has emerged as “a potent convening platform to generate global consensus on standards and norms.... CGAP is a resource center for the entire microfinance industry, where it incubates and supports new ideas, innovative products, cutting-edge technology, novel mechanisms for delving financial services, and concrete solutions to the challenges of expanding microfinance.”

Best Practice Standards (cont'd)

b) SEEP: As a network of 32 US-based international service providers, the Small Enterprise Education Programme (SEEP) was established to “promote professional standards of practice, conduct and education program for practitioners, and create publications for field use”

Best Practice Standards (cont'd)

c) Microcredit Summit Secretariat:

The formation of the global microcredit summit in 1997 and subsequent regional summits has also made significant contributions in the establishment and dissemination of international best practice standards through consultations, training and development of researched tools.

Best Practice Standards (cont'd)

d) Donor Agencies:

Major bilateral donors like USAID and DFID have also played a major role in pushing for and supporting the establishment and application of international best practice standards.

Best Practice Standards (cont'd)

5.2 What are the most common standards?

- Outreach – scale (larger number) and depth (poorer clients and regions)
- Quality - arrears rate (amount past due divided by amount outstanding) of 5% and under and portfolio at risk (outstanding balance of loans with payments past due divided by amount outstanding) of 10% and under
- Impact – long-term socio-economic changes
- Sustainability – operational and financial

Who was the
greatest investor
in the Bible?

Noah. He was
floating his stock
while everyone
else was in
liquidation



L
A
B
U
R
G
E
H
A
T
K
E
R

Group Discussions

1. Two institution groups: Assume you represent an MED institution. Discuss the respective advantages and disadvantages of individual and group lending methodologies
2. Two client groups: Assume you are clients. Discuss the respective advantages and disadvantages of individual & group lending methodologies
3. Discuss the advantages and disadvantages of commercialisation/formalisation

6. CMED & Transformational Development

6.1. Biblical basis

Behold, I will create new heavens and a new earth.....for I will create Jerusalem to be a delight and its people a joy.

Never again will there be in it an infant who lives but a few days, or an old man who does not live out his years...They will build houses and dwell in them; they will plant vineyards and eat their fruit....For as the days of a tree, so will be the days of my people; my chosen ones will long enjoy the works of their hands. Isaiah 65:17-25

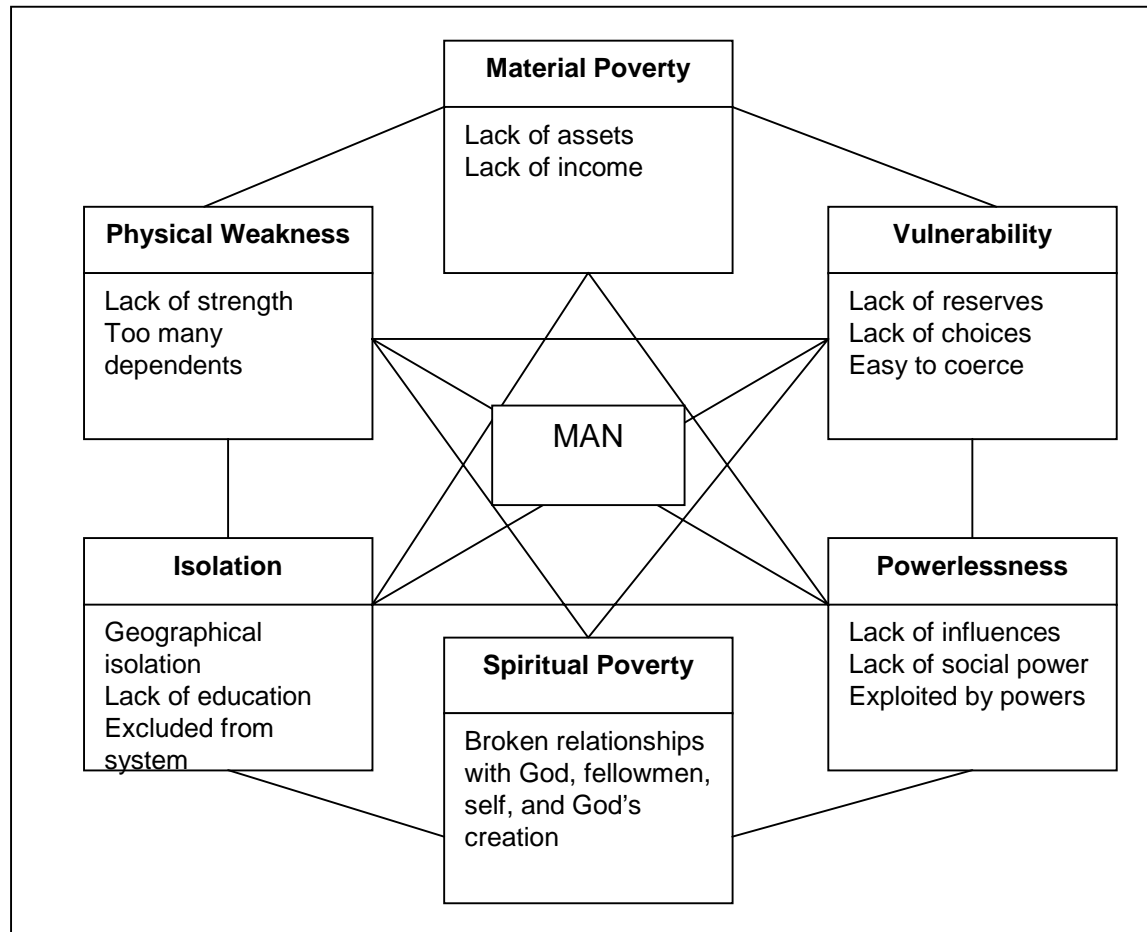
Biblical Basis (cont'd)

For I was hungry and you gave me food; I was thirsty and you gave me drink; I was a stranger and you took me in; 'I was naked and you clothed me; I was sick and you visited me; I was in prison and you came to me'. Then the righteous will answer him, saying, 'lord, when did we see you hungry and feed you, or thirsty and give you drink? When did we see you a stranger and take you in, or naked and clothe you? 'Or when did we see you sick or in prison, and come to you?' And the king will answer and say to them, 'assuredly, I say to you, inasmuch as you did it to one of the least of these my brethren, you did it to me.'" Matt 25:35-40

Meaning of Transformational Development (TD)

TD deals with the development of the whole person and sees poverty as being holistic in nature.

Holistic Poverty Map



Transformational Development - Definition

- “I use the term TD to reflect my concern for seeking positive change in the whole of human life materially, socially and spiritually” (Myers 1999).
- “A deeply rooted change in people’s economic, social, political, spiritual and behavioural conditions resulting in their enjoyment of wholeness of life under God’s ordinances” (OI 2000) – abundance, empowerment, character and service

Transformational Development - Components

- TD is about abundance – sufficiency
 - Relative increase in income generated by the poor
 - Improved standard of living (meeting basic needs and beyond)

Transformational Development – Components (cont'd)

- TD is about empowerment
 - Increased self-confidence
 - Increased political participation & influence
 - Increased gender equity

Transformational Development – Components (cont'd)

- TD is about character
 - Strengthened Christian faith
 - Improved family relationship
 - Improved stewardship
 - Improved community harmony

Transformational Development – Components (cont'd)

- TD is about service
 - Increased level of giving and sharing
 - Increased level of employment
 - Increased number and/or quality of social services

Transformational Development – Some Qualifications

- TD is a value-loaded concept
- TD is a process – a journey with no endpoint
- Spiritual conversion (acceptance of Christ) is the key to TD

7. The Role of CMED in Kingdom Building

7.1. MED is Biblical

- Kingdom building is about wealth generation (body/physical) and spiritual (mind and soul) transformation & MED is about doing these
- MED is an activity of co-creation and hence a response to the Creation Mandate: Till, tend and eat – multiply and be fruitful
- Selling & buying, making profit, charging interest, making money are all biblical
- MED is Good News in itself and an inseparable part of the Great Commission

The Role of CMED in Kingdom Building (cont'd)

7.2. CMED and material poverty alleviation

Material poverty is fundamentally related to the production of wealth

- Capital unleashes local potential and increases productivity
- Capital injection increases aggregate demand with macroeconomic impact (employment, income and purchasing power and effective demand)
- Increased income also brings social, political and spiritual empowerment

The Role of CMED in Kingdom Building (cont'd)

7.3. CMED and the Local Church

Generally speaking Christian business is likely to be the new way of doing mission

- The old mission receiving countries are increasingly becoming mission-sending
- The “unreached” nations do not seem to welcome people whose sole purpose is to plant churches and preach the gospel
- “Mission in disguise” is increasingly becoming difficult and dangerous

The Role of CMED in Kingdom Building (cont'd)

- Capital is more neutral and faces less border limitations (social groups, religion, countries)
- Capital less ideological and antagonistic – more invisible
- Capital moves faster and bears more tangible results
- Christianity spreads faster when Christians are not just proclaiming but also modelling (demonstrating) the gospel
- Capital has capacity to reach more people

The Role of CMED in Kingdom Building (cont'd)

TB is likely to create conducive environment for strengthening the local church

- Increased Church revenues
- Improved skills and exposure
- Wider network base and opportunities
- Increased population of believers

Laughter Break

Who was the
greatest
female
financier
in the
bible?

Pharaoh's
daughter.
She went
down to
the river
Nile and
drew out a
little
prophet



Group Debate

Should the church be involved in CMED?
For and against.

Is charging interest Biblical?