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Microfinance for the Poor: Can Miracles be Repeated – in the Philippines, Kosovo, and elsewhere?
Paper prepared for the Herald Tribune, 1999
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Bangladesh is one of the poorest countries in the world; and women in that country are among the poorest of the poor. In the late 1970s, a man performed a miracle there. With a few loans out of his own pocket in 1976, Professor Yunus proved to himself that even the most downtrodden are able to pull themselves out of dire poverty. By planting a vegetable garden, buying a cow or opening a small store, these women are able to make a profit, feed their family and repay their loan with interest. He then took his message to Rome where the International Fund for Agricultural Development (IFAD) had just been established, with the mandate of poverty alleviation in the poorest countries. With his enthusiasm, he convinced IFAD that a loan to the Grameen Bank, as he called his venture, would be a good investment and greatly help to reduce poverty in Bangladesh. IFAD's loan turned out to be a door-opener for many other donors, including the World Bank. Today, some twenty years later, the Grameen Bank is one of the world's most successful financial institutions banking with the poor. It provides standardized loans to some two million women, organized in small groups of women who mutually guarantee their loans and repay them in 54 weekly instalments.

Prof. Yunus has many admirers who are trying to imitate his success around the world, including the US and, with support from the Italian government, Kosovo. But can miracles be repeated? Staff at IFAD recently took a close look at the experience of the country which first replicated Grameen banking on a broad scale: the Philippines. The downfall of the Marcos regime in 1986 led to a movement of people's organizations, among them 27 Grameen replications. Hoping to have found a key to poverty alleviation in a country of extreme inequality and rampant poverty, the Agricultural Credit Policy Council evaluated their performance in June 1993. Repayment performance was good: 96.8%, far better than any government program. Yet, the overall picture was dismal: savings mobilization was negligible; donor money had made the replicators complacent; and costs were exorbitant. Administrative costs alone amounted to 47% of every Peso lent and 170% of every Peso saved. The report found that several institutions had already closed down; the remaining ones were not sustainable and did not reach a significant number of poor people. It warned that, "any attempt… to replicate or expand… should be carried out with great caution." End of the story? No, just the beginning!

Last year in August I met Dolores Torres, Chief Executive Officer of the Center for Agriculture and Rural Development (CARD), in a workshop on microfinance in the Philippines. She explained that we should not draw premature conclusions from the study; the problem was not Grameen banking, but uncritical replication without adjustment to a particular country. We decided to jointly write the story of CARD.[1]

Initiated in 1986, CARD received two small loans in January 1988 which were handed out to 150 borrowers organized in seven associations. This turned out a false start: only 68% of the loans were repaid. Then the president of CARD visited the Grameen Bank and was deeply impressed. Upon his return, he reorganized the associations into groups of five and centers of 30 members each and

[1] H. D. Seibel and Dolores Torres, Are Grameen Replications Sustainable, and Do They Reach the Poor? The Case of CARD Rural Bank in the Philippines. Journal of Microfinance 1/1, Fall 1999: 117-130

imposed a rigid weekly repayment discipline. The male members reacted with disgust; but 98 poor women stayed on for a pilot phase. The result was stunning: annual repayment rates of 98-100% ever since 1994!

Then started the phase of adjustment and innovation. CARD substituted 6-months first-loans for the annual loans; requested minimum self-financing of 25% from repeat borrowers; introduced a mutual life and accident insurance fund; offered multipurpose loans for prime borrowers; added voluntary withdrawable savings, even though this was not permitted by law; introduced a staff incentive scheme; and developed its own training scheme. By 1996, membership had grown to 6,844: poor women only!

Then came the big jump. In December 1996, the Center became a bank. This allowed CARD Rural Bank to expand its financial products and vigorously mobilize savings. Membership soared to 10,868 by December 1997 and 26,369 by June 1999. Plans are to reach 50,000 active members by 2,000 and 150,000 by 2,000. In 1992, CARD had covered 25% of its operating expenses from its income; by June 1999, under the watchful eye of the central bank as its regulator and supervisor, CARD Rural Bank covered its expenses at a rate of 109%.

The success of CARD is based on its social capital. One part of it originates from the Grameen bank: high moral commitment of leaders reinforced through training; peer selection; and credit discipline. The other part is innovative and represents its own adjustment to the situation in the Philippines: rural bank status; vigorous deposit mobilization through differentiated products with attractive interest rates; and demand driven loan and insurance products which cover all costs and risks. The principal lessons: (1) banking with the very poor can be profitable; and (2) only viable institutions which mobilize their own resources and cover their costs can substantially increase their outreach to the poor. IFAD recently gave a grant to CARD Rural Bank to spread that message by training other institutions in the art of banking with the poor adjusted to their cultural and economic environment. Perhaps that message will also reach the Grameen replicators in Kosovo.