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INRULED
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Training Manual for Local Governance and Women Group Representatives

Module IX

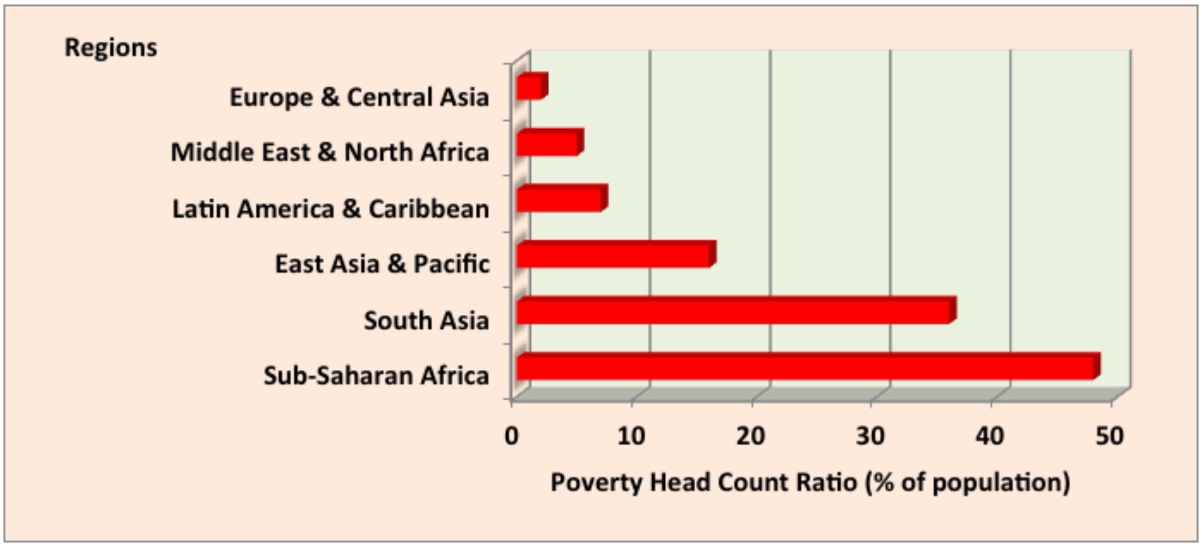
Financing Rural Entrepreneurs: Micro-Finance and Micro-Credit

1. INTRODUCTION

There are an estimated 800 million poor women, children and men who live in rural areas in the world. They live with a daily earning of less than US $ 1.25 per day (Figures 9.1 and 9.2). They tend to live in remote areas that are far away from the nearest markets and basic social services. A majority of them are labourers, subsistence farmers, herders, and migrant workers. They struggle to meet basic everyday needs, such as feeding their families at least two meals a day, or taking their children to a clinic when they have fallen ill. Their children are denied the basic facilities such as access to education and health services. They work in insecure and relatively low-paying jobs, have little education, and may experience discrimination as women and as members of ethnic minorities. In short, they are "poor" because they are "poor" – the victims of vicious circle of poverty.

The following photo depicts how poor families struggle in their lives so as to obtain a simple but honorable living.

Figure 9.1: Percentage of People Living at US $ 1.25 a Day (PPP) by Major Regions



Empowering the rural poor is a critical step in advancing any poverty alleviation effort. While addressing their poverty, the initiative must come from their own willingness and capacities to provide for their family and to forge a more dignified, better future. This requires financial and other assets from which to build sustainable livelihoods. Not only this, it also requires how to put those assets to good use, and a safe place to save to continue building those assets and to cope with future hardships.

Figure 9.2: Defining the Poor

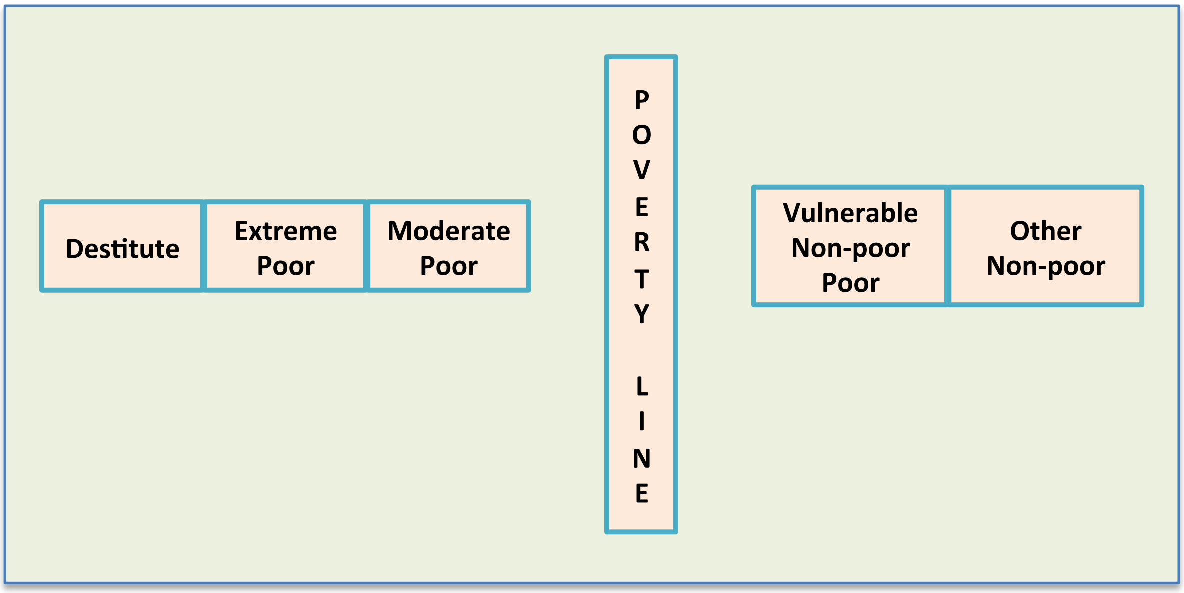


Figure 9.2 highlights where poor people stand in terms of poverty

For improving their living conditions and reducing poverty, they must have regular and sufficient income. They need micro-finance loans for their working capital requirements. But financial institutions in the formal sector are shying away from making available credit access to them in view of many risks. This limits the availability of credit to the agriculture sector. Other sources, consisting of semi-formal institutions and non-government organizations (NGOs) as well as the informal lenders have limited funds to match the seemingly huge demand for credit.

This module highlights the importance and role the micro-finance and micro-credit play in rural transformation, i.e. improving the livelihood standards of rural people engaged in both farm and non-farm activities. It outlines the relevant features and characteristics of micro-credit:

- Meaning and concepts of micro-credit.
- Problems faced by rural people during accessing the micro-credit.
- Conceptual and theoretical issues relating to entrepreneurship and the micro-credit.
- Roles of micro-credit institutions in promoting entrepreneurship in rural areas.

As financial services are becoming increasingly available to rural people in recent years, there is need to increase their access to information and training. This is particularly true for micro-credit borrowers. The module contains vital information that all borrowers should know and understand:

- A sample micro-credit loan application.
- Importance of reading and understanding a micro-credit loan agreement.
- Resources to assist micro-credit borrowers with their concerns and grievances.
- Common terms used by micro-credit lenders.
- The consequences of not paying a micro-credit loan.

After the completion of this module, you would be able to:

Objectives

- Understand why rural people need micro-credit.
- Understand the role, the concept of micro-credit and the types of micro-credit institutions in your area for providing credit facilities.

- Design, manage and operationalize the micro-credit facilities to set up your own small-scale enterprises in your community.
- Understand the mechanisms and modalities to handle and approach micro-credit facilities available in your community.
- Understand the role of Self-help Groups (SHGs)
- Plan, manage and handle the diverse micro-financial products.
- Prepare need-based micro-credit plan to set up your own business.
- Appreciate innovative approaches in micro-credit for rural people with the possibility of replication.

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2. UNDERSTANDING MICRO-FINANCE AND MICRO- CREDIT

2.1 Problems faced in growth of rural entrepreneurs

Poor people manage to mobilize resources to develop their enterprises and their dwellings slowly over time. Financial services could enable the poor to leverage their initiative. They help them in accelerating the process of building incomes, assets and economic security. But the conventional finance institutions seldom lend money to serve the needs of low-income families and women-headed households. Rural poor are very often denied access to credit for any purpose making the problem of high interest rate irrelevant.

The fundamental problem is not so much of unaffordable terms of loan. In fact, it is the lack of access to credit itself. There are several factors leading to lack of access to credit for the poor. There are also practical difficulties related to their styles of operation that is followed by financial institutions (Table 9.1).

Table 9.1: Roots, Indications and Consequences of Farmers' Low Status in Rural Communities

Reasons	Indications	Consequences
Culture of dependence	Low self esteem	Low contribution to household and community development
	Afraid to take risk	Role in decision-making in household and society is limited or small
Traditional thinking	Short-term vision	
Many children	Mother and child health poor	Time for productive activities limited
		Quality of life generally poor
	Heavy burden	Quality of children not so high
Lack of technical skills	Low productivity	Poverty; inefficient use of resoures
Limited business skills	Income generation limited	Limited or small contribution to household income
		Limited experience in business
Low literacy	Lack of creativity	Narrow world view
Lack of funds	Income generation limited	Contribution to household income limited
Lack of organization	Local resources not tapped	Waiting for government to help

Rural entrepreneurs face peculiar problems like illiteracy, fear of risk, lack of training and experience, limited purchasing power and competition from urban entrepreneurs. Problems faced by rural entrepreneurs can be summarized as follows:

Scarcity of funds

Rural entrepreneurs fail to get external funds due to absence of tangible security and credit in the market. The procedure to avail the loan facility is too time-consuming. Its delay often disappoints the rural entrepreneurs.

Competition

Rural entrepreneurs face severe competition from large sized organizations and urban entrepreneurs. They incur high cost of production due to high input costs.

Middlemen

Middlemen exploit rural entrepreneurs. For marketing of their products, the rural entrepreneurs are heavily dependent on middlemen who pocket large amount of profit.

Legal formalities

Rural entrepreneurs find it extremely difficult in complying with various legal formalities in obtaining licenses due to illiteracy and ignorance.

Procurement of raw materials

Procurement of raw materials is really a tough task for rural entrepreneurs. They may end up with poor quality raw materials. Sometimes they also face the problem of storage and warehousing.

Risk element

Rural entrepreneurs have less risk bearing capacity due to lack of financial resources and external support.

Lack of technical knowledge

Rural entrepreneurs suffer from a severe problem of lack of technical knowledge. Lack of training facilities and extension services creates a hurdle for the development of rural entrepreneurship.

Lack of infrastructural facilities

The growth of rural entrepreneurs is not very healthy in spite of efforts made by governments due to lack of proper and adequate infrastructural facilities.

Poor quality of products

Another important problem is the inferior quality of products produced due to lack of availability of standard tools and equipment and poor quality of raw materials.

Negative attitude

The environment in the family, society and support system is not conducive to encourage rural people to take up entrepreneurship as a career. It may be due to lack of awareness and knowledge of entrepreneurial opportunities.

From the above analysis, it is clear that the problems faced by rural entrepreneurs basically relate to economic characteristics and financing needs of low-income households. For instance, commercial lending institutions require that borrowers have a stable source of income to pay back the principal and the interest on loan according to the agreed terms. But the income of many self-employed households in rural areas is unstable. And in most cases it is very low.

A large number of small loans are needed to serve the poor. But lenders prefer dealing with large loans in small numbers to minimize administration costs. Lenders also look for collateral (land, household property and other assets for mortgage) with a clear title. Most low-income households in rural areas do not have such collaterals. On top of this, bankers consider low-income households a bad risk imposing exceedingly high costs on operation.

The small and medium scale entrepreneurs in rural areas lack the necessary financial services, especially credit from the commercial banks. This is because they are considered not credit worthy. Thus for seeking credit, rural poor depend on families, friends and other informal sources of funds to finance their businesses.

These problems are further compounded by a general feeling among the micro-credit institutions that rural poor people, when given access to responsive and timely financial services at market rates, do not repay their loans. They use the proceeds to increase their income and assets. Thus, the only realistic alternative for rural people is to borrow from informal market (family, friends and village money lenders) at an interest rate much higher than market rates. Community banks, NGOs and grassroots savings and credit groups have shown that these micro enterprise loans can be profitable for borrowers and for the lenders, making micro-credit one of the most effective poverty reducing strategies.

But the scene has been changing. An increasing number of governments have come up in the recent past with special rural biased programmes. The principal target of these programmes is the overall development of rural enterprises with special consideration on small and medium scale enterprises and also to empower rural dwellers. The micro-credit lending programmes now range from agricultural development projects (ADPs), the establishment of agricultural credit banks (ACB) to better life programme for rural women, programmes for the development of non-farm enterprises and the like. It is unfortunate that most of these programmes have not been successful in achieving the desired result.

Despite the success of micro-credit institutions, only about 2 per cent of world's roughly 500 million small entrepreneurs is estimated to have access to financial services (Barry: 1996).

If you ask the small-scale entrepreneurs in your community, you will notice that there is always an effective demand for credit by poor and women at market interest rates. But you will find that the volume of financial transactions of micro-credit is limited. It is not at a reasonable level to make micro-credit institutions become operational and self-sustaining. This limits the accessing capacity of rural people to these micro-credit institutions.

The institutional structures of micro-credit institutions in rural areas are also very weak. They are hardly providing an easy access to credit to the poor.

In summary, we can say that in rural areas of the developing countries, access to formal credit is a major problem facing the small and medium scale entrepreneurs. It is primarily due to the prevalence of factors such as delays in loan disbursement on the part of the financial institutions and payment defaults on the part of the beneficiaries.

2.2 How does micro-credit help the poor?

Micro-credit is recognized as an effective tool to fight poverty by providing financial services to those who do not have access to or are neglected by the commercial banks and financial institutions. According to an estimate, nearly 58 million people around the world have access to micro-credit in 2005 (Table 9.2). This number is expected to grow steadily in the future since the target is to reach 150 million poor people with credit by the end of the year 2015.

Table 9.2: Status of Micro-finance

Big Business

The Microcredit Summit Campaign states that micro-finance has shot up globally in just the past six years.

Year	Number of institutions verified	Number of poorest clients verified (million)
2000	78	9,2
2001	138	12,8
2002	211	21,8
2003	234	35,8
2004	286	47,7
2005	330	58,5
2006	420	64,0

Source: State of the Microcredit Summit Campaign Report (2006).

Banks and other financial institutions have to seek different ways to focus on the needs of the poor. It is essential because the poor do not own physical assets to present as collateral to the banks. They have to combat the popular impression that they cannot repay loans extended to them. Further, many small loans involve huge transactional costs. Governments will have to provide more and more micro-credit facilities to poor people (Box 9.1).

Box 9.1

Equity Bank, Limited, Kenya:

Equity Bank, Limited, (previously Equity Building Society until it received a bank license on 31 December 2004) provides micro-finance services to more than 250,000 low- and moderate-income citizens in Nairobi and in Kenya's Central Province via a network of branch offices and mobile banking units. After a decade of extending long-term mortgage loans to an untargeted clientele with meagre results, Equity altered its approach. In 1994, it began tailoring its loan and savings products to a micro-finance market, eventually adding two loan products for tea and dairy farmers that are secured by agribusiness contracts. By the end of 2003, the deposit base of Equity had grown to US $ 44 million, and its outstanding loan portfolio topped US $ 22 million.

Equity initiated a mobile banking programme in 2000 with the goal of efficiently reaching more clients in remote rural areas. Mobile banking operations have been introduced successfully, and by the end of 2003 accounted for more than US $ 1.3 million in deposits, serving over 12,000 clients in 30 rural communities.

This case study outlines the strategy – including mobile banking – employed by Equity to expand its rural outreach.

Source: IFAD, Emerging lessons in agricultural micro-finance Selected case studies.

We all know that micro-credit helps the poor to increase income, build viable businesses, and reduce their vulnerability to external shocks. It is a powerful instrument for self-empowerment. It enables the poor, especially women, to become economic agents of change.

Poverty is multi-dimensional. By providing access to financial services, micro-credit plays an important role in the fight against the many aspects of poverty. For instance, income generation from a business helps not only the business activity expand but also contributes to household income, food security, children's education, etc. Moreover, for women, who, in many contexts, are excluded from public space, transacting with formal institutions can also build confidence and empowerment (Box 9.2).

Box 9.2

Mozambique: Cooperative League of the USA (CLUSA)

CLUSA has helped link small farmers in a number of developing countries with sources of credit from agribusiness and financial institutions. CLUSA launched its Rural Group Enterprise Development Programme in Mozambique in the mid-1990s, when the country was still overcoming a long period of armed conflict and settling into a market economy. As a supporter of market-oriented business associations, CLUSA focused its efforts on organizing impoverished, isolated farmers in the northern provinces, where the commercialization of cash crops (e.g., maize, cotton and cashews) was gaining momentum. CLUSA worked with local producers to form and strengthen farmer associations, then trained the associations to pool and market their crops to commodity traders, leading to higher farm gate prices and an 85% (inflation-adjusted) increase in average annual farm revenues. CLUSA also assisted the associations to establish better relationships with local agribusinesses that provide input credit and short-term crop advances to smallholder farms prior to purchasing their harvests. In addition, CLUSA brokered a partnership with financial services provider, Sociedade de Gestão e Financiamento para a Promoção de Pequena e Media Empresas (Management and Finance Company for the Promotion of Small and Medium Enterprises, GAPI), to offer loans to farmer associations for agricultural purposes. In 2003, 10,000 farmers in CLUSA-supported farmer associations accessed more than US $ 300,000 in agribusiness company credits and nearly US $ 100,000 in loans from GAPI, with average repayment rates of close to 100%. While the cost of CLUSA's support over a number of years may be high compared to the short-term benefits in terms of access to credit and increased sales for small farmers, the longer term benefits should be more significant if the enhanced production performance and creditworthiness of the small farmers are maintained.

Source: Ministry of Agriculture, Government of Mozambique.

Poor people are vulnerable to shocks such as illness of a wage earner, weather, theft, or other such events. These shocks produce a huge claim on the limited financial resources of the family unit. In the event of these shocks, an absence (non-availability) of effective financial services can drive a family so much deeper into poverty that can take years to recover.

The following box demonstrates how the process of Micro-Credit assists poor people in improving their status of life.

Micro-credit helps poor people:

- To stop exploitation of the poor caused by expensive informal credit;
- To provide small loans to poor people at relatively lower cost as compared to accessible informal loans;
- To finance economically and socially viable projects those cannot be financed otherwise;
- To empower women within households as decision-makers and in society through active economic participation;
- To adopt modern technology;
- To create maximum employment opportunities;
- To create self-sufficient and self-employed people; and the most im portantly;
- To reduce poverty, accelerate growth and improve the living standards on a sustainable basis.

In principle, even the world's poorest people can acquire savings and investment if they have access to capital. It has proven an effective and popular measure in the on-going struggle against poverty, enabling those without access to lending institutions to borrow at bank rates, and start small business.

Micro-credit loans are intended for those who cannot qualify for loans from traditional financial institutions. The loan terms are designed to help those who only need a small amount of capital to facilitate their micro-enterprise. The year 2005 was proclaimed as the International year of Micro-credit by The Economic and Social Council of the United Nations in a call for the financial and building sector to "fuel" the strong entrepreneurial spirit of the poor people around the world.

There are certain advantages and disadvantages of using your own money or raising a loan. Table 9.3 highlights the important ones.

Table 9.3: Taking a Loan or Using Your Own Money

	Taking a loan	Using your own money
Advantages	•You gain access to more money than you have in savings. •You get money quickly when you need it for emergencies.	•Less risk as you do not have to pay back whether growth is positive or negative. •You can avoid the cost of borrowing. •You are free to use your money as you wish. •There is no obligation to pay future loan repayment.
Disadvantages	•You bear the cost of borrowing (with in terest, fees and time to apply). •You are responsible for repaying your loan on time and face penalties for late payment. •You must meet the requirement of group membership if the loan is through group.	•You have limited access to needed capital. •Your business grows more slowly as of limited capital. •You have limited ability to respond to your opportunities.

Micro Finance Banks have some objectives to achieve in their businesses. In the following box, we provide the most prominent objectives.

Objectives of micro finance banks include:

- Providing financial products that facilitate small-scale businesses and cottage industries.
- Training lenders in managerial effectiveness.
- Extending low-cost lending to responsible citizens who seek funding.
- Operating on a reasonable profit level while ensuring that the general living standards of poor people improve.

Micro-credit programmes also have shortcomings. These programmes reach lesser number of farmers and the cost involved is high. This results in a poor credit culture, an over-dependency on subsidies and low recovery rates. Many government institutions, for instance, in Peru and Indonesia have collapsed under such pressure. The programmes that were designed had little impact on income levels and poverty alleviation.

2.3 Knowing the differences between micro-credit and micro-finance

The terms micro-credit and micro-finance are used interchangeably. But in reality, they differ in terms of scope, operational style, and the clients. It is, thus, important for you to understand the differences between the two concepts.

Micro-finance refers to loans, savings, insurance, transfer services and other financial products targeted at low-income clients. Traditionally, micro-finance was focused on providing a very standardized credit product. But we know that the poor, just like anyone else, need different types of financial instruments to be able to build assets, stabilize consumption and protect themselves against risks. Thus, we observe a broadening of the concept of micro-finance in recent years.

Micro-finance is a source of financial services for entrepreneurs and small businesses lacking access to banking and related services. The two main mechanisms of micro-finance for the delivery of financial services to such clients are:

- Relationship-based banking for individual entrepreneurs and small businesses.
- Group-based models, where several entrepreneurs come together to apply for loans and other services as a group.

Micro-finance is a movement whose aim is to reach "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers." Such access to credit helps poor people be out of poverty. Thus, micro-finance is a way to promote economic development, employment and growth through the support of micro-entrepreneurs and small businesses (Box 9.3).

Box 9.3

Micro Credit … A Bridge to Sustainability

Gerivaldi has quit his hazardous job of harvesting sisal. Manual labour in this drought area of Brazil is low paying and does not meet his family's daily basic needs. So Gerivaldi borrowed a small loan, about $600, from the

SHARE supported Santa Luz micro credit fund. He built a shed, bought 50 chickens and feed and converted 300 square meters of his back yard into a "profit centre". He is now on his third batch of chickens and can't keep up to demand. He was sold out at Christmas and has also added a flock of 70 egg layers and sells 48 eggs daily. "Actually," he says, "the income from the eggs pays the total feed bill so the meat bird sales are really all profit. And SHARE's agriculture technicians showed me how to use locally available plants which has reduced my feed costs."

Gerivaldi is one of 25 men and 29 women who have received a "hand up" thanks to SHARE's support of the micro credit fund managed by this farmers' association. Small loans are provided for the purchase of chickens, sheep, a cow, milk goats or garden inputs. The interest rates are 3% with 2% per year for the technical assistance. Success is evident. The defaults are nil and usually the recipients can go on to expand their small enterprises without the need of further credit, a final step to total self-sufficiency. The borrower signs a contract and a committee must approve all loans. Anyone with a "bad reputation" is rejected. This micro credit fund at Santa Luz is functioning well and is ideal support for many small farmers who would otherwise be condemned to a life of continuing poverty.

Source: S.H.A.R.E Agricultural Foundation

Micro-finance consists of five key goals:

- Assess and promote the contribution of micro-finance to the micro-finance institutions (MFIs).
- Make micro-finance more visible for public awareness and understanding as a very important part of the development situation.
- The promotion should be inclusive of the financial sector.
- Make a supporting system for sustainable access to financial services.
- Support strategic partnerships by encouraging new partnerships and innovation to build and expand the outreach and success of micro-finance for all.

The main features of the micro-credit institution which differentiate it from other commercial institutions are:

- A substitute for informal credit.
- Generally requires no collateral.
- Based on simple procedures and less documentation.
- Helps mostly group lending.
- Easy and flexible repayment schemes.
- Financial assistance to members of group in case of emergency.
- Most deprived segments of population are efficiently targeted.
- Group interaction with each other.

The concept behind micro-finance is a social one: providing the marginalized groups of society easy accessibility to financing options. Micro-finance banks derive their justification based on the concept of social equality in endeavouring to streamline lending processes and offer basic financial services to individuals at poor income levels.

Micro-credit, on the other hand, is the extension of very small loans (micro-loans) to impoverished (poor) borrowers who typically lack collateral, steady employment and a verifiable credit history. It is designed not only to support entrepreneurship and alleviate poverty, but also in many cases to empower women and uplift entire communities by extension.

In many communities, women lack the highly stable employment histories that traditional lenders tend to require. Many are illiterate, and therefore unable to complete paperwork required to get conventional loans. As of 2009 an estimated 74 million men and women held micro-loans that totalled US $ 38 billion. Grameen Bank reports that repayment success rates are between 95 and 98 per cent.

Micro-credit is part of micro-finance. It provides a wider range of financial services, especially savings accounts, to the poor. Micro-credit focuses on the rapid disbursement of subsidized loans.

Modern micro-credit is generally considered to have originated with the Grameen Bank founded in Bangladesh in 1983. As of 2012, micro-credit is widely used in developing countries and is presented as having “enormous potential as a tool for poverty alleviation”.

Micro-credit targets the building up of local, sustainable institutions to serve the poor. It has largely been a private (non-profit) sector initiative. Micro-credit has outperformed virtually all other forms of development lending.

The defining criteria of micro-credit are:

- Size: Loans are micro or very small in size.
- Target users: Target users are micro entrepreneurs and low-income households.
- Utilization: The micro-credit funds are used for income generation, enterprise development, and also for community use such as health, education, etc.
- Terms and conditions: Generally, terms and conditions for micro-credit loans are flexible and easy to understand. They are well suited to the local conditions of the community.
- Micro-credit departs from traditional rural banking in three main ways:
    - *It aims at a more marginalized group of borrowers than credit institutions typically do.*
    - *It generally includes non-credit services.*
    - *It employs a group lending approach.*

In simple terms, micro credit lends small loan (money) to entrepreneur at very low rate of interest for self-employment. It aims to provide credit to eligible borrowers. It helps those people who are not able to access credit. Even the poorest people can acquire savings and investment if they have access to capital.

Micro-credit loans are intended for those who cannot qualify for loans from big commercial banks and other traditional financial institutions. The loan terms are designed to help those who only need a small amount of capital to facilitate their micro-enterprise. It ignites or "fuel" the strong entrepreneurial spirit of the poor people.

Through alternative cost effective solutions, the approach aims at providing micro-credit at a lesser cost. It emphasises that the government should provide a facilitating environment for the smooth functioning of financial markets. It is based on the role of the government as a monitoring authority rather than being a micro-credit provider.

For instance, Bank for Agriculture Cooperatives in Thailand and Bank Ryat in Indonesia and Grameen Bank in Bangladesh exemplify the success of micro-credit institutions in Asia. The reasons for their success are:

- Autonomy and freedom to management in formulating operational policies.
- Accountability, investment in human capital and rewards for sound financial performance.
- Autonomy in determining interest rates.
- Control over administrative costs.
- Development of an effective Management Information Systems.
- Supervision by independent agencies.
- Innovative low cost delivery systems.

But in reality, micro-credit institutions have serious limitations:

- They are often not innovative.
- They follow very rigid rules and regulations in granting loans and saving products to rural poor people.
- They hardly have diversified loan portfolio.
- Their financial products are targeted at a specific niche taking into consideration the possible use of credit.
- They hardly extend technical assistance and credit support to members of the credit society to have diversified income-generating activities.
- They target the rural poor to a very limited extent.
- Their financial counselling services to make the members choose sustainable income generating activities are extremely limited.
- They do not focus on strict control of overheads.
- The loan recovery process is often not rigorous.
- Some micro-finance banks to have below-par professional management systems and information systems in place.
- Their financial assets and funds are dependent on donors.
- Their financial constraints can limit outreach activities.

Micro-finance banks differ from regular financial banks in various respects:

- Use of small loan denominations.
- Absence of collateral.
- Simplicity of operation.
- Institutional role to connect the marginalized strata of society with larger national systems in developing countries.
- Direct involvement in rural transformation.
- Facilitation and promotion of banking culture and savings manage ment between low-income individuals and groups.
- Formation of linkages with development banks; specialized lending institutions and other micro-finance banks.

2.4 Who are micro-finance clients?

Who are micro-finance clients? Much depends on the local development situation. The rural poor are not a homogeneous group. One important way to classify the rural poor is according to their access to agricultural land: cultivators have access to land as small landowners and tenants and non-cultivators are landless, unskilled workers depending on daily wages. Sometimes there is an overlapping in this classification.

Cultivators

Cultivators, who form the bulk of the rural poor in developing countries, are directly engaged in producing and managing crops and livestock. Since these households cannot sustain themselves on the small parcels of land they own or cultivate, they provide labour to others for both farm and non-farm activities inside and outside their villages. Some members of these households migrate to towns or cities on either a rotational or a long-term basis. In many countries, both small landowners and tenants are under increasing pressure to get out of the agriculture sector altogether.

Non-cultivators

Non-cultivators are perhaps the poorest among the rural poor. Their numbers have been rising rapidly because of the natural increase in population and declining interest in farming. These workers depend on seasonal demand for labour in agriculture and in rural informal, small-scale industries and services. The landless rural workers are vulnerable to fluctuations in the demand for labour, wage rates, and food prices. They find it even more difficult than small landowners and tenants to gain access to public infrastructure and services. In addition, unlike their counterparts in urban areas, they are often excluded from public sector safety nets (food rations, for example).

Rural women

Rural women tend to suffer far more than rural men. Their poverty and low social status in most societies are a major contributor to chronic poverty. Substantial evidence from many countries shows that focusing on the needs and empowerment of women is one of the keys to human development.

What do the poor own? For this reason we have to look at the assets that the poor own or to which they have access, and their links to micro financing.

The economic conditions faced by the rural poor are affected by a variety of assets (and the returns on them) held at the household, community, and supra-community levels. Poor people own:

The poor's physical assets include:

- Natural capital (private and common property rights in land, pastures, forest, and water).
- Machines and tools and structures.
- Stocks of domestic animals and food.
- Financial capital (jewellery, insurance, savings, and access to credit).

Their human assets are:

- The labour pools—comprising workers of varying ages, genders, skills, and health—in the households and communities.

Their infrastructural assets are:

- Publicly and privately provided transport and communications.
- Access to schools and health centres, storage, potable water, and sanitation.

Their institutional assets include:

- Their legally protected rights and freedoms.
- The extent of their participation in decision making in households and communities, as well as at the supra-community level.

Physical and human assets are largely regulated through formal and informal networks among individuals and communities. Most rural people, particularly women and those in landless households, are greatly handicapped by inadequate assets and the low and volatile returns on them.

All of the rural poor are engaged in the production of both tradable and non-tradable goods and services. Artisans and unskilled workers provide many non-tradable services. Small cultivators also provide some non-tradable products, such as staple foods. Only cultivators, however, have access to small parcels of land through ownership or (share-cropping) tenancy. They are also the only groups of poor people who own or rent physical capital such as tools, implements, and machinery.

Artisans and small-scale farmers have very limited amounts of physical and financial capital. They acquire financial capital largely through informal agents or institutions, except for tenants, who can use their landlords as providers to formal credit. Borrowed capital is often costly and is used to maintain consumption during hard times or to buy supplies and equipment needed for farming. Households' labour is used both within the family—for work done by unpaid family members—and to earn the wages paid to landless, unskilled workers in farm and non-farm activities.

All groups of rural poor are vulnerable to a serious risk owing to changes in weather, health, markets, investment, and public policy. The resulting fluctuations in the prices and quantities of their assets and of what they produce can either deepen their poverty or give them opportunities to escape from it. The main reason is that the rural poor have a very low capacity to absorb abrupt financial shocks. In addition, economic crises and natural disasters can bring about sharp increases in poverty and make it more difficult for the poor to escape it.

Generally, the rural and agricultural clients or micro-finance demanders are the individual farmers or groups, owning or operating micro-farm businesses and/

or off-farm micro-enterprises. Normally, these clients could hardly access to financial services of institutions in the mainstream or formal market and, in most cases, are the main borrowers of the informal and semi-formal credit providers.

They commonly run small stores or street stalls. Or, they produce and sell items which they make in their homes. In rural areas micro-credit clients are primarily small-scale farmers and those who process or trade crops and goods. They are typically self-employed, often household-based entrepreneurs. They are usually small farmers and others who are engaged in small income-generating activities such as food processing and petty trade.

Micro-credit clients are often described according to their poverty level. Women make up the majority of these clients (Box 9.4). They operate small businesses, work on small farms, work for themselves or for others in a variety of businesses – fishing, carpentry, vegetable selling, small shops, transportation, and much more. Some of these micro-credit clients are truly entrepreneurs – they enjoy creating and running their own businesses. Others become entrepreneurs by necessity when there are few jobs available in the formal sector.

Box 9.4

Trickle Up Program

Trickle Up is committed to serving women, who comprise 98% of Trickle Up's participants, and the Trickle Up program is particularly designed for, and ideally suited to women. As a result of the following program components, women are able to start or expand a microenterprise, many for the first time.

- *The Spark Grant gives women access to capital, which they usually would not have otherwise. Women generally find this approach more appealing than credit, as they are often "risk averse" and lacking assets, making them mostly ineligible for micro-loans.*

- *A vast majority of our women participants are illiterate, and the Trickle Up skills training program is designed to be highly interactive, using games, "learning conversations" and one-on-one mentoring that also helps build confidence. The topics cover both skills to strengthen their businesses, as* *well as basic sanitation, nutrition, and rights awareness.*

• *By working together in savings groups, women free themselves from domestic isolation and are able find a social safety net. They also learn leadership skills and gain access to new information and resources.*

• *Weaving, haircutting, tailoring, raising pigs, chickens, and goats, selling tortillas, hair clips, eggs, empanadas, rice pancakes, couscous, and ice cream are just a few of the many activities women chose that allow them to not only earn more money, but take the first step in transforming their lives. The Trickle Up program is an empowering process that is not limited to increased income, but also leads to increases in self-esteem, decision-making ability, and control over their economic resources in terms of the central issues of buying and selling land, family planning, sending daughters to school, and deciding when children will marry.*

• *Trickle Up is committed to being a catalyst for change in the lives of women who have traditionally had limited financial independence and low social standing. They are lifting themselves from poverty and becoming role models for other women and girls in their families and communities. It is then that they become active members of their communities and the architects of their own future.*

Source: http://www.trickleup.org/poverty/Women.cfm

In short, micro-finance clients are categorized into self-employed or simply segregated as entrepreneurial poor and further classified according to the different levels of poverty, as follows:

- Vulnerable non-poor clients: those situated above the poverty line but are susceptible to falling back below poverty line.
- Moderate poor clients: those whose household incomes are just be low or close to the poverty line.
- Extreme poor clients: belonging to the bottom below poverty line.
- Destitute clients: belonging to the bottom 5-10% of households below poverty line.

2.5 Financial needs of poor clients

Permanent access to financial services can help poor people take control of their lives. Good management of very small assets can be crucial to the survival of poor people who live in precarious conditions, threatened by lack of income, shelter and food. To overcome poverty, they need to be able to borrow, save, invest and protect their families against risk. Direct access to financial services can allow very poor people to progress from hand-to-mouth survival to planning for the future, acquiring physical and financial assets, investing in better nutrition, health and education.

Through micro-finance institutions such as credit unions and some non-governmental organizations, poor people can obtain small loans, receive remittances from relatives working abroad, and safeguard their savings. With access to small amounts of credit at reasonable interest rates, poor people can set up small businesses.

In short, these poor clients have different financial needs, such as:

- Working capital for farm and off-farm projects.
- Consumption.
- Investment opportunities.
- Personal, cultural or family events.
- Emergencies.

Problems of micro-finance clients

The problems encountered are those of agriculture and trade. When development takes place, those residing in the rural communities oftentimes lose their only reliable source of income. The problems faced by rural micro-finance clients include:

- High cost of credit.
- Low production and profitability.
- Seasonality of agriculture.
- Poor roads and other infrastructure.
- Far from the community centre where the office of micro-finance provider is situated.

Micro-credit service features desired by clients are as follows:

- Fast delivery of financial services.
- Competitive credit cost.
- Availability of other providers.
- Loan not only to project but other needs as well.
- Simple transaction procedures with minimal requirements.
- Timely release of loan.

In short, the typical micro-credit clients are low-income persons that do not have access to formal financial institutions (Box 9.5). Micro-credit clients are typically self-employed, often household-based entrepreneurs. In rural areas, they are usually small farmers and others who are engaged in small income-generating activities such as food processing and petty trade. In urban areas, micro-credit activities are more diverse and include shopkeepers, service providers, artisans, street vendors, etc.

Box 9.5

Borrowers' Stories

Almost 1.2 billion people, or about one out of four, in the developing and transition countries live on less than US $ 1 per day - a globally recognized measure of poverty. Most of these people, including children, work long hours at physically demanding jobs just to survive. Many are entrepreneurs who run their own businesses in the "informal sector" and their lack of official standing prevents them from having access to formal credit sources. They turn to micro-credit to purchase materials for weaving mats, sewing leather purses and baking bread, as well as to survive in times of emergency. Following are selected cases in which micro credit loans have been used:

A loan of US $ 80 was used by a young woman to purchase clay and glazes for a small ceramics business in the Dominican Republic. Since 1987 the owner has received eight loans from the micro-finance institution and now has seven employees.

A 22-year-old Pakistani woman lives with her husband and three children on his clerical salary and her occasional earnings from embroidery piecework. She received a loan of Rupees 4,500 (about US $ 50) which her husband took to the market to purchase two goats. The young woman maintains the goats while the loan instalment payments are made from her husband's salary. The goats are used primarily to provide milk for the children and the woman hopes eventually to sell them for a profit. She also uses the savings component of the micro-finance programme.

In the Philippines, a Peso 2,000 (about $ 52) loan was used to purchase two piglets. The loan required weekly instalment payments of Pesos 88 (US $ 2.30) for six months. The piglets were fed table scraps, some garden produce and commercial feed. Both the weekly instalments and the purchase of feed had to be made out of household income. After six months, the fattened pigs were sold for Pesos 4,000 (US $ 104) each.

An Indian woman purchased small bangles and cosmetics to trade at the market with a working capital loan of Rupees 1,000 (US $ 24). She borrowed for 20 weeks at a 20 per cent flat interest rate, paying instalments of Rupees 60 (US $ 1.42). She sells her wares at the market and door-to-door and earns about Rupees 600 per week. After expenses, she earns Rupees 120 per week (US $ 2.84), half of which is devoted to the loan payment.

One study examined the profits obtained by micro entrepreneurs who received loans from the Bangladesh Rural Advancement Committee (BRAC), a large Bangladeshi MFO. It found that there is a wide range of profits obtained from different enterprises. Poultry, potato cultivation, and net making were those with the highest profitability (about US $ 21 per month), operating a grocery was in the middle category (profits about US $ 12 per month), paddy cultivation and goat rearing earned the least (about $2 per month) and bull fattening was unprofitable.

Source: H. Zaman. 1999. Assessing the poverty and vulnerability impact of micro-credit in Bangladesh a case study of BRAC. Background paper for the WDR 2000/2001. Washington, DC, World Bank.

2.6 Micro-finance and micro-credit lending models

Micro-finance institutions are the oldest financial institutions in the world. With the passage of time, they have adapted to the changes. They have started using various credit lending models.

There are many kinds of micro-finance organizations. Micro-finance can occur through institutions such as banks, cooperatives and non-governmental organizations (NGOs). There are also organizations founded within particular communities with the aim of supporting their own financial development (Box 9.6). These include associations, credit unions, community banks and Rotating Savings and Credit Associations (ROSCAs). The most important models have been discussed below.

Box 9.6

SHARE: Micro Credit Loan Programs

SHARE's approach to micro finance is adapted to provide credit to the rural poor with a fair and practical version that differs from other typical micro finance loans that charge very high interest rates. SHARE's loans are often in stages where borrowers demonstrate credit worthiness with a very small loan before advancing to larger loans of several hundred dollars.

SHARE micro credit loans are for meat and egg laying chickens, irrigation systems, seeds, tools and small animals. Women's groups have borrowed for sewing supplies, a roaster for cashew processing or equipment such as pots and pans or jars for added value food production.

It is important that SHARE's southern partners and agriculture technicians administer the credit as this allows for loan repayment flexibility when disaster strikes, as often happens with subsistence level production in developing countries. In eight years success in SHARE's micro credit programs has been outstanding with little loss.

Source: S.H.A.R.E Agricultural Foundation

Associations

A target community forges together to form an association through which a variety of micro-finance activities are initiated. The micro-finance activities may also include savings. The associations may comprise youth, women, or be formed around cultural, religious, or political issues.

Bank Guarantees

As the name implies, a bank guarantee is utilized when a loan from a commercial bank is needed. The guarantee can be set up externally through a donor/ donation or a government agency, etc., or internally through using member savings. Bank guarantee loans can be extended to both individuals and a self-formed group. These loan funds may be used for insurance claims and loan recovery.

Community Banking

This financing model considers the whole community as one unit. It facilitates the establishment of semi-formal and formal institutes through which micro-finance are administered. Usually NGOs and other similar organizations take it upon themselves to form such institutions, and also educate the community members in diverse financial activities (Box 9.7).

Box 9.7

India: The National Bank for Agriculture and Rural Development (NABRAD)

The National Bank for Agriculture and Rural Development has promoted the establishment of about 1.6 million self-help groups (SHGs) of the rural poor and their linkages with its some 36,000 branches. The approach, referred to as SHG Banking, is applied all over India: in marginal as well as high-potential areas. Numerous NGOs and mobilisation and non-financial services. An example is Bharatiya Agro Industries Foundation (BAIF) Development Research Foundation an NGO which has helped some 13,000 tribal families, who are among the disadvantaged in India, to cross the poverty line: (i) through sustainable agri-horti-silvicultural production on 12,000 acres of rehabilitated lands and (ii) through commodity processing. Against a historical background of the direct sale of raw materials, six vertically integrated *layers of production, processing and marketing were established in remote forest areas: (i) individual farm households for basic production on waste-lands, (ii) small farmer groups for procurement and grading, (iii) community organisations (Gram Vikas Mandals) for the establishment of community processing facilities, (iv) village planning committees for the organization and coordination of activities, (v) regional cooperatives for finishing and packaging; and (vi) an apex organisation for federated marketing. BAIF acted as a resource and technology-sourcing agency, introduced streamlined systems, provided managerial backup services, and facilitated credit and market linkages. The two major products where producers took control of the full commodity chain were mangoes and cashews. In the case of mangoes, procurement and grading alone added 20% value.*

In a second step, the raw mangoes are cut into pieces and semi-pickled at village level, which are then brought to the final pickling stage by cooperatives, where they packaged and forwarded to a Producer Company for federated marketing. Value addition through processing contributed substantially to a sustainable increase in employment and income.

Source: NABRAD and Social-Help Groups, Ministry of Agriculture, Government of India.

Co-operatives

A co-operative is an independent association of people who come together voluntarily to meet their mutual economic, social and cultural aspirations and needs through an egalitarian controlled enterprise. Sometimes the cooperatives also include savings activities and member-financing as well.

Credit Unions

A credit union is a member-driven unique self-help financial institute. It comprises members of a specific group like labour unions or a social fraternity who assent to save money and make loans to each other out of that fund at reasonable interest rates. A credit union membership is free to all, and it follows a democratic approach in electing the director as well as the committee representatives.

Grameen Bank

The Grameen model entails that a bank unit be composed of a field manager and a set of bank staff covering a specified area, like 15 to 20 villages. The banking service starts by the manager and staff familiarizing themselves with the native people and explaining to them the intent, functions motives, and mode of operation. Finally, groups comprising five future borrowers are formed, out of which only two people get the loan, and if within fifty weeks they return the principal plus interest, as per the banking rules, the others become eligible as well. This is done so that there is a collective liability on the group, which serves as guarantee against the loan.

Group

This model is based on overcoming individual shortcomings by the aggregated accountability and security engendered by the formation of a group of these individuals (Box 9.8). This collective approach also helps in educating and building awareness, collective negotiation powers, peer pressure etc.

Box 9.8

Women Beneficiaries of the Spanish MFIs

At an aggregate level, 54.8% of the total portfolio of individual clients of the Catalan MFIs was awarded to women. Although some MFIs had women has preferred target, there is no reason to support the hypothesis that any kind of gender distinction is made in any of the MFIs' programmes. This is true both when deciding whether to award a loan, and even when setting the amount to be awarded.

Among the personal traits of women micro-entrepreneurs, the distribution of their age when the decision of starting up an independent business activity was studied. Having a mean of 39.57 and a standard deviation of 9.26, the distribution shows feeble agreement with statistical normality. Nevertheless, 71% of women fall in the interval [30,49] (mean ± standard dev.). The most frequent interval is (35,45], accounting for 40% of the total women considered in the studied sample.

Geographical origin of the women entrepreneurs is also a variable of interest to configure their personal portrait. Spanish nationals account for 55 out of each 100 women receiving financial aid, whereas 37 were immigrants from developing countries. Among the last group, nationals of the countries in the Latin American region were the most representative group, accounting for 28 women out of every 100 MFI female clients.

Regarding the business activities of the female entrepreneurs, more than 89% of the total funded business projects intend to start-up a self-employment venture in the service sector. Women's most prevalent type of services is commerce (retail trade at a very low scale in most cases), accounting for circa 42%, followed by personal services of various kinds (22.5%) and restoration services (14%).

The statistical distribution of the micro-credit loan amounts awarded to women entrepreneurs has a mean of €8,678.14, with standard deviation of circa €5,000. It is far from standard, given that almost all loans (92.36%) are awarded with less than €15,000. Moreover, it has to be mentioned that the loan-financing ratio (part of the total investment covered by the micro-credit) has a mean of 0.548 (standard deviation, 0.268). That is, on average only 55% of the required business investment is obtained via the micro-loan.

Source; http://c.ymcdn.com/sites/www.istr.org/resource/resmgr/working_papers_istanbul/dubreuil_wp10.pdf

Individual

This is the simplest and the oldest credit-lending model where small loans are given straight to the borrower. In most cases such loans are accompanied by socio-economic services like education and skill development.

Intermediaries

As the name suggests, this model is a 'go-between' organization operating between the lender and borrower. They play a critical role of creating credit cognizance like starting savings programmes and thus raising the credibility of the borrowers to a sufficient level. These intermediaries can be NGOs, individuals, commercial banks etc.

Non-Governmental Organizations

NGOs are very active in the field of micro-credit. They help in creating consciousness of the importance of micro-credit or developing tools and resources to monitor and identify righteous practices. The NGOs also create many opportunities to help people learn all about micro-credit practices and principles through organizing workshops, seminars, training programmes etc.

Peer Pressure

This model uses moral obligation to create a link between borrowers and other project nominees to ensure participation and repayment in micro-credit programmes.

Rotating Savings and Credit Associations

In this model a group of people join together and make periodic contributions to a common fund that is given to a member in a lump sum. After receiving the amount, the member starts paying back by making regular contributions. Bidding or lottery makes the decision about to whom the money should go to.

Small Business Enterprises (SME)

They get loans from micro-credit programmes for creating employment, increasing income etc. The micro credit is either provided directly to the SME or as a part of a bigger SME development programme (Box 9.9).

Box 9.9

Bank Rakyat Indonesia

Bank Rakyat Indonesia is the world's largest micro-finance institution. It is a state owned commercial bank, and it only provides individual lending. Despite its success and the size of its operations, BRI is not well known as other MFIs around the world. The approach used by BRI allowed the bank to successfully provide credit products, saving services and become self-sufficient. The bank also learned that interest rate is not the principal concern for borrowers and savers. They primarily need safe, convenient and flexible financial products provided on an on-going basis. For low-income people, access to financial services is often the main constraint. The annual effective interest rate charged by the bank was slightly higher than 30% in 2003 *and was in line with other sustainable micro-finance institutions around the world. Besides its successful loan product, called Kupedes, since 1986 BRI also provides Simpedes, a saving instrument designed to meet the needs its clients. It does not require a minimum account balance and using the account numbers clients are entitled to participate in a lottery (there are prizes every six months). Thanks to effective features and good marketing efforts, BRI succeeded in mobilizing savings from its clients and achieved the extraordinary results of mobilizing almost ten times the number of savings accounts compared to loan accounts and more than the double the amount of savings compared to loans outstanding.*

Source:Bank Ralcayaf Gndonesia Profile

Village Banking

This is community based banking wherein 25-50 low-income individuals who seek self-employment come together to collect funds and give loans. The initial capital may arrive from outside, but the members follow a democratic approach in operation and moral collateral for repayment.

"For-profit" Commercial Banks

Some "for-profit" commercial banks offer their own micro-loans, or small short-term loans for low-income individuals or entrepreneurs who don't have collateral. These loans are commonly attached to high interest rates. Many commercial banks do not offer micro-loans, however, due to the perceived high risks (Box 9.10). There are also banks that will only provide micro-loans when the loan has been guaranteed by a third party.

Box 9.10

Cassava processing in Ghana

In Ghana, as in numerous other countries, cassava-processing offers highly profitable, diversified opportunities for production, processing, trade and investment. Eighty per cent of farmers produce cassava, amounting to 10 million tonnes, which accounts for 22% of agricultural income and supplies 25% of calories consumed.

The International Institute of Tropical Agriculture (IITA) in Nigeria exhibits 32 cassava products; very few of them are found on local markets, commercialization being the bottleneck. In this situation, Feed & Flour (Ghana) Ltd. (FFGL) propose to set up a plant for the processing and marketing of high quality cassava flour, based on a modification of the agro-making process developed by IITA. Facing an estimated annual demand around 144,000 tonnes, there seems to be a good potential for a joint investment by local and external investors.

Source: Micro-Financing in Ghana, Ministry of Agriculture, Ghana

While many micro-finance organizations have successfully helped people escape poverty, cases of exploitation and abuses of trust can and have occurred. When aiming to help people through micro lending, you should carefully research several micro-finance organizations and their success in terms of actually helping communities before investing resources. With some appropriate legal guidance, you can also research people or communities in need, establish direct contact, and negotiate their own terms for making investments or donations.

2.7 How does micro-credit work?

Banks have been given freedom to formulate their own lending norms keeping in view the ground realities. From time to time, governments have been asking them to devise appropriate loan and savings products and the related terms and conditions including size of the loan, unit cost, unit size, maturity period, grace period, interest rates, etc. Such credit covers not only consumption and production loans for various farm and non-farm activities of the poor but also include their other credit needs such as housing and shelter improvements.

While choosing a client for the grant of micro-credit, the micro-credit institutions rely on the principles of "three C's" of Credit. Here are the three principles:

- Character
  How a person has handled the past debt obligations? From credit his tory and personal background, honesty and reliability of the borrower to pay credit debts can be determined.
- Capacity
  How much debt a borrower can comfortably pay back? Income streams are analysed and any legal obligation looked into which could interfere in repayment.
- Capital
  How much are the current available assets of the borrower, such as real estate, savings or investment that could be used to repay debt in the absence of income

Following is an overview of the main strengths, weaknesses, opportunities and threats associated with micro-credit.

Grameen Bank: A hand for poor

STRENGTHS	WEAKNESSES
•Self-targeting. •Increased ownership and accountability through repayment. •Sustainability of the disbursement of assistance as funds revolve. •Often a useful tool to address gender issues.	•Not suitable for the poorest of the poor. •Not suited to everyone, requires entrepreneurial spirit. •Often requires having an existing business. •Often restricted to areas of high density. •Beneficiaries may be worse off afterwards if the micro-enterprise is not successful.
OPPORTUNITIES	**THREATS**
•Enables coordination with other forms of produc tive intervention. •Revolving fund provides a platform from which to engage beneficiaries, even once assistance pro grammes have been closed.	•Bad selection of or lack of MFI partner. •Lack of or change in legal framework for micro-finance. •Renewed conflict may lead to high default rate.

Source: ICRC

The Grameen Bank is a micro-finance organisation which provides micro-credit and other finance support to the people without collateral security. The name Grameen means "rural" or "village".

Grameen Bank is founded on the principle that loans are better than charity to interrupt poverty. They offer people the opportunity to take initiatives in business or agriculture, which provide earnings and enable them to pay off the debt. It targets the poorest of the poor, with a particular emphasis on women, who receive 95 per cent of the bank's loans. Women traditionally had less access to financial alternatives of ordinary credit lines and incomes. No legal instrument (no written contract) is made between Grameen Bank and its borrowers; the system works based on trust (Box 9.11).

Grameen Bank micro-credit principles

- Poverty is not created by poor people. It is created by the institutions and policies which surround them. Loans offer people the opportunity to take initiatives in business or agriculture to make earnings that enable them to pay off debt.
- Poor people have skills that remain unutilized or under-utilized. It is not the lack of skills that makes them poor.
- Charity is not an answer to poverty. It only helps poverty to continue. It creates dependency and takes away an individual's initiative to break through the wall of poverty. Utilizing the energy and creativity in each human being is the answer to poverty.

Box 9.11

Village Phone programme

Among many different applications of micro-credit by the bank, one is the Village Phone programme, through which women entrepreneurs can start a business providing wireless payphone service in rural areas of Bangladesh. This programme earned the bank the 2004 Petersburg Prize worth EUR 100,000, for its contribution of Technology to Development. In the press release announcing the prize, the Development Gateway Foundation noted that through this programme:

Grameen has created a new class of women entrepreneurs who have raised themselves from poverty. Moreover, it has improved the livelihoods of farmers and others who are provided access to critical market information and lifeline communications previously unattainable in some 28,000 villages of Bangladesh. More than 55,000 phones are currently in operation, with more than 80 million people benefiting from access to market information, news from relatives, and more.'

The programme also won the International Telecommunications Union's World Information Society Award in 2008.

Source: http://newint.org/books/reference/world-development/case-studies/poverty-micro-credit-grameen-bank/

2.9 Micro-credit and women empowerment

Micro credit is a huge platform for women to increase income-earning abilities. It helps in overcoming the cultural barrier seen in male dominating society. On the contrary, spouses due to their dominating status often control loans. Many programmes come into effect for promoting the lending to women for greater empowerment of women, strengthen the economic security and livelihood. Self Employed Women's Association (SEWA), operating in India, claims that their programme "builds self-esteem and self-confidence among women" and "raises the status of women in their communities" (Informal Credit, 1997).

Rural women engage in economic activities like livestock, raising poultry and other agricultural activities. Generally, men are generating source of income and women raising the children and looking after houses, but women empowerment is necessarily required as it is a process where individual woman and women groups gain the power and capacities necessary to have a greater say in matters that shape their lives and the society they live in (Box 9.12).

Table 9.4 shows some of the gender-biased obstacles in micro-finance.

Table 9.4: Gender-based Obstacles in Micro-finance and Micro-enterprise

Type of obstacle	Individual	Household	Wider Community or National Context
Financial	Women lack access to bank or financial services to their own interest	Men control cash income and their expenditure patterns do not support household	Men are perceived as controllers of money and loans
Economic	Women undertake activities that produce low return; Women have a heavy domestic workload	Households are characterized by gender division of labour, unequal access and control of land, labour and inputs and unequal control of joint household produce and income streams from this	Women are under paid for equal work; women are locked in low-paid jobs; stereotypes determine the appropriate roles for women in the economy; women lack access to markets for inputs and outputs if their mobility is constrained due to social norms
Social or Cultural	Women are not literate or educated; girls' education is not prioritized	Women have a limited role in household decision making; polygamy results in conflict, competition and discrimination between wives; violence towards women is common	Banks and financial institution do not view women as potential market
Political or Legal	Women lack confidence to claim political and legal rights	Women lack legal rights to jointly owned household assets	Women lack both traditional and formal legal rights to land; women lack political position to establish appropriate laws

Source; Alaman, 2000.

The main benefits derived by women seem to be:

- Greater involvement in income earning activities.
- Increase in awareness about social, economic and health-related issues.
- Increase in the adoption of family planning methods.
- Increase in girls' education and school enrolment rate.

Box 9.12

Philippines: Linking micro-finance to rural micro-entrepreneurs

From the Philippines Quiñones describes a strategy involving the People's Credit and Finance Corporation (PCFC), an apex organization wholesaling funds to micro-finance-oriented rural banks specifically for the purpose of retailing loans to rural entrepreneurs. The PCFC wholesale funds have enabled rural banks to create a clientele base and establish an operational institutional delivery mechanism ahead of local resources mobilisation. When the number of the rural bank clientele reached a critical mass (1,000 clients in the case of the Producers Rural Banking Corporation in Central Luzon), deposit mobilisation rose in importance as a source of loanable funds and eventually made the micro-finance operations sustainable. A relevant lesson from the financial linkages strategy is that micro-finance institutions (MFIs) need start up funds to penetrate areas/sectors not served by traditional banks but such funds should be prioritised for use by MFIs with savings mobilisation capabilities inasmuch as they are in a better position to make their operations among the poor/rural entrepreneurs sustainable. One of the crucial factors of success of the Philippine financial linkages is the adoption of micro-finance performance standards. Performance criteria include portfolio quality, cost effectiveness, financial self-sufficiency, and outreach which significantly affect the sustainability of MFIs. The setting up of standards levelled off the micro-finance playing field for all types of financial institutions. Given the micro-finance standards, it no longer matters whether one is a traditional bank or an NGO to be able to provide micro-finance services to the poor. The most important thing is that the MFI passes the standards, and when it does, it enjoys the privilege of accessing wholesale funds from PCFC.

Source: Seibel, H.D.: The Role of Micro-finance in Rural Microenterprise Development

2.10 Micro-finance for migrants

Migration of labour from rural to urban areas, especially from resource-poor and disaster/drought-prone regions, is inevitable. Evidently, not all solutions to rural poverty lie in villages. In many developing countries, NGOs have set up bureaus for addressing the micro-credit needs of migrants.

The main aim of these initiatives is to make migration easy and less painful for those who have to inevitably move out of their homes and villages to secure a livelihood.

These bureaus look into the needs of migrants and equip them with basic urban and job skills. This helps them secure and retain dignified jobs. It is an end-to-end approach, from the 'point of origin' to the 'point of destination'. The bureaus help villagers select their destination, and in association with partners in cities and towns, find placements to get them started in the labour market.

Migration Support Funds are also in place to extend loans for various purposes. The most crucial one is the 'breakaway loan,' that weans (detaches from a source of dependence) migrants away from the clutches of contractors and loan sharks. It breaks the cycle of bondage that many migrants face, and enables them to make a fresh start in life. Loans advanced by the funds include:

- Food loan: Ensuring food and nutrition to families left behind as migrants move to new places in search of jobs.
- Transportation loan: For travel expenses from the village to the destination point.
- Tools loan: Availed of by newly trained plumbers, electricians, carpenters, etc.
- Uniform loan: For those trained by the bureau in catering and hotel services.
- Enterprise loan: For those confident enough to set up seasonal businesses outside villages, for example ice cream and sugarcane juice vending.

The bureaus also connect migrants with health and accident insurance. These bureaus have also set up efficient remittance mechanisms for easy and quick transfer of money from cities to village destinations.

While these bureaus have been facilitating migration, they also recognise the need to delay migration. To this end, the bureaus have been working in schools, especially in high migration areas, to ensure that children do not drop out of school and enter the labour market at an early age. Migrant bureaus also train school children in skills they can bank on when they are ready for work.

3. RURAL MICRO-ENTERPRISE MANAGEMENT

3.1 Setting goals and how much it costs to reach them

"What are your goals for a happy future?" Perhaps you would like to mention goals such as sending children to school, home improvements, more income, less debt, larger business, no sickness in the family and so on. It means you can have several goals and you would like to meet all of them.

But for meeting each of your goals, you need the necessary financial resources. It means you have to prioritise your goals – which ones you want to achieve first and which ones you want to achieve later. Do women have other goals than men? If yes, how is this dealt with within the family?

In order to achieve your goals for the future, you need to:

- Figure out the amount of money you earn and spend on basic family needs.
- Determine the costs of your goals.
- Make decisions about how much to save, how to pay off debt and how much to invest in your business.
- Decide on the timing for doing these things.

This is called financial planning.

This means that financial planning is important in our daily life. Financial planning is significant because it:

- Helps you decide your spending priorities for the future.
- Gives you discipline for spending and saving.
- Helps you avoid unexpected money shortages.
- Helps you feel less financial stress.

Characteristics of a micro-enterprise include:

- Small level of capitalization.
- Initiated and managed by a household or few individuals.
- Self-employment (owner is manager and worker).
- Simple technology and equipment.
- Utilization of local resources/raw materials.
- Transactions are often informal (no written agreement, based on personal contacts).
- Ease of entry.

3.2 Managing Your Money

"What do you need money for?" In other words, "What kind of emergencies could your family face?" It is important to make a distinction between the money you need for your business (loan repayments, buying equipment, materials) and your family (school fees, emergencies, food and so on).

Family Expenses	Business Expenses
•Necessary Expenses. •Expected Events (Marriage of a relative, Religious Festivals, etc.). •School Fees. •Emergencies (Unexpected Expenses)	•Debt Management. •Business Supplies •Building Rent

We propose that for meeting your needs, you are preferably advised to use the following sources:

Financial Services	From Savings	From Loans	From Insurance
Recommended Uses	Marriage Festivals Sickness Old age Puberty Children's Education	Business Capital Business Equipment House Purchase House repair	Maternity Hospitalization Death Loss of Assets Natural Disasters

It is important for good money management to plan for expenses that do not occur regularly. You know many ways how this can be done, including saving and postponing purchases until the money is available (Figure 9.3).

The important points for you here are to:

- Decide how much you can contribute to your emergency fund each day, or each month, and stick to your plan.
- Keep money in a secure location, preferably out of the house so it is not accessible.
- Make a schedule to pay the most expensive debts first.

It is equally important for you to know the following for systematically planning your finances:

- Where does your money come from?
- Who earns more, you or your husband/wife? Why?
- Which of these sources of income are infrequent or irregular? Why?
- When you get income in large amounts every once in a while, how do you plan to use it to pay for expenses throughout the year?

It is nice to get a large amount of income at one time. It is important to think about how to use this money wisely to pay off debts, make sure you can meet basic necessities and save to meet expenses that will occur in the future.

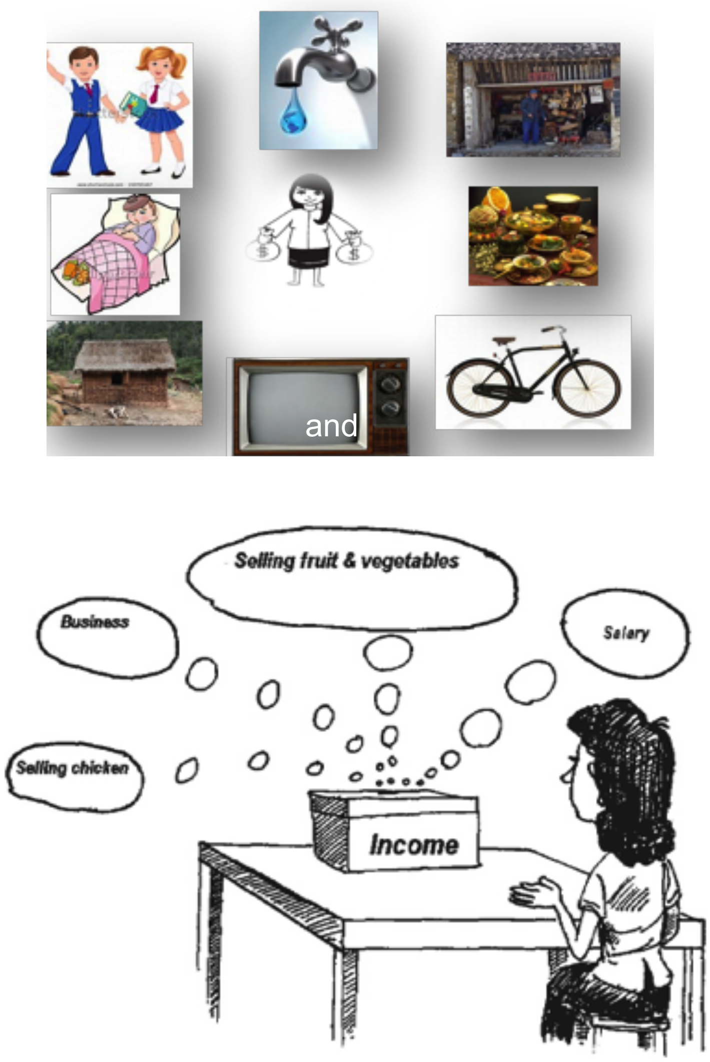
"How do you keep track of cash in and out?" "Who, women or men, are better able to control cash in and out? Why? There are several advantages and problems of keeping track of the cash coming in and going out. There are several ways in which you can tackle constraints. We suggest some advantages and benefits of simple book keeping:

Advantages and benefits of simple book-keeping:

- You know how much money goes in and goes out.
- You can check your expenses regularly.
- You can keep better control of your cash (plan ahead and budget).
- You can check whether money got lost or stolen.

All in all, YOU CAN DO IT - the key message is that there are simple ways to keep track of one's cash transactions, without being an accountant.

Figure 9.3: "Private and Family Purse" and the "Business Purse"



3.3 Debt Vs. Equity Financing

You would also like to know: Why do rural people borrow? There are three main reasons that explain why rural people borrow. They are:

- To invest (in business: purchasing materials, equipment, land etc.).
- To respond to an unexpected event or emergency (invitation to a wedding or to other traditional and social ceremonies, sickness, theft or loss).
- To meet basic family needs.
- To purchase an item for which they presently do not have enough money.

You should remember that when you have enough savings, you do not need loans for consumption and emergencies.

Which loans can generate income? Why? Loans for productive investment earn income for the borrower. However, loans for crises and family needs do not bring in additional revenue and must be paid back from other sources of revenue. Therefore, try to avoid borrowing for these purposes.

What are the financial resources that you can utilize when you want to set up your own business or you want to expand your business? Broadly financial resources are classified as "equity" and "debt".

Equity	Debt
Own savings. Income from business. Income from selling assets.	Loan from Micro-finance institutions. Loans from friends and relatives. Loans from moneylenders.

It is important for you to know that selling assets can be a good or bad strategy, depending on the type of asset you wish to sell. Selling jewellery, for example, will not affect the future income of your family. Selling land or livestock, however, can seriously affect your family's livelihood. Both equity and debt have advantages and disadvantages.

Taking a Loan or Using Your Own Money

	Taking a Loan	Using Your Own Money
Advantages	•You gain access to more money than you have in savings. •You get money quickly when you need it for emergencies. •The bank or lending institution (such as the Small Business Administration) has no say in the way you run your company and does not have any ownership in your business. •The business relationship ends once the money is paid back. •The interest on the loan is tax deductible. •Loans can be short term or long term. •Principal and interest are known figures you can plan in a budget (provided that you don't take a variable rate loan).	•You avoid the costs of borrowing. •You are free to use your money as you wish. •You face less risk when finance your business growth in smaller increments based on what you can afford to invest. •You avoid the obligation of future loan repayments.
Disadvantages	•You bear the cost of borrowing (with interest, fees and time to apply). •You are responsible for repaying your loan on time, and face penalties for late payment. •You must meet the requirements of group membership (attend meetings on time, etc.) if the loan is through a group. •Money must be paid back within a fixed amount of time. •If you rely too much on debt and have cash flow problems, you will have trouble paying the loan back. •If you carry too much debt you will be seen as "high risk" by potential investors – which will limit your ability to raise capital by equity financing in the future. •Debt financing can leave the business vulnerable during hard times when sales take a dip. •Debt can make it difficult for a business to grow because of the high cost of repaying the loan. •Assets of the business can be held as collateral to the lender. And the owner of the company is often required to personally guarantee repayment of the loan.	•You have limited access to needed capital. •Your business grows more slowly. •You have limited ability to respond to opportunities.

Most businesses opt for a blend of both equity and debt financing to meet their needs when expanding a business. The two forms of financing together can work well to reduce the downsides of each. The right ratio will vary according to your type of business, cash flow, profits and the amount of money you need to expand your business.

You should know that loans could either be good or bad. Therefore, you should know the following before borrowing. Table 9.5 shows the common weaknesses and constraints of micr0-enterpriese.

Table 9.5: Common Weaknesses and Constraints of Micro-entrepreneurs

Internal (weaknesses)		External (constraints)
Marketing	•No thorough market investigation due to lack of information. •Lack of market information. •No contracts/lack of negotiating skills. •Inability to adjust to market changes.	•Information not available to micro-entrepreneur. •Market fluctuations/price control. •Information not available.
Production	•Limited technical skills. •Problems with quality of product •In-efficient production.	•Government services limited to cer tain groups; not all micro-entrepre neurs reached by technical advisory service of the government. •No adequate training and advisory service available.
Finance	•Lack of capital. •No record keeping. •No profit/loss statements. •Mixed accounts of the project with other projects/household accounts.	•No access to credit •Lack of training programs in house hold budgeting and financial recording.
Organization and Management	•Limited skills in estimating income, short-sightedness, low business consciousness	•Lack of information and education.

Loan can help you start or expand a business; it can help you respond to an emergency in your family; it can help you improve your living conditions sooner rather than later. But taking a loan always carries a risk - the risk of not being able to repay (Table 9.6). If it ends up costing you money or forcing you to go deeper into debt or non-repayment (loan default), it is not a good loan.

What to know prior to borrowing:

- The amount of your loan repayment, including principal, interest and fees.
- The sources of income and or savings you have to make those repayments.
- That the asset you are buying with the loan will outlive the loan, and continue earning income for you.
- That the price you can charge for your goods financed with the loan money is high enough to both repay the loan and make a profit.

Table 9.6: Type of Project Assistance for Micro-entrepreneurs

Stage of Business	Type of assistance
Planning Stage	•Assist in market investigation and provide market information to micro-en trepreneurs. •Linkage with relevant institutes to provide technical skills training. •Training and assistance in business planning for any aspect of the enterprise (production, marketing, financial, management). •Encourage savings mobilization and provide project loans.
Implementation Stage	•Link to market to provide timely market information. •Link with relevant bureaus to provide regular technical assistance. •Training, monitoring and assistance in: 1、Record keeping. 2、Areas in which the entrepreneur is weak, which can be in any aspect of the enterprise (production, marketing, financial, management). 3、Savings mobilization •Continuous assessment of entrepreneur's needs. •Provision of appropriate training/technical assistance.

3.4 Questions to ask a micro-finance lender before applying for a loan

Ren Chao thought that he finished paying his loan, so he started planning to borrow a larger amount to invest in machinery for his welding business. After asking a loan officer for a loan application form, Ren was told that his current loan was not paid in full.

When he was given a copy of his loan agreement, he then learned that he had made a mistake. He did not correctly remember his loan repayment period.

Ren regrets not taking the time to write down his loan terms before signing his loan agreement, specifically his loan repayment period.

1. What loan products are available? Can clients borrow as an individual or in a group?

____

____

2. What are the eligibility requirements? Please explain each.

____

____

3. What amounts are available (maximum and minimum loan amounts)?

____

____

4. What is the longest and shortest loan repayment period available?

____

____

5. What is the loan repayment frequency? Are loans paid daily, weekly or monthly?

____

____

6. What is the cost of borrowing? Please explain all of the loan fees.

(Examples include interest rate, loan application fee, loan disbursement fee, and insurance fee, account opening fee, passbook fee, advocate fee, commitment fee, and registration fee.)

____

____

7. Under what circumstances can the interest rate of a loan change? Are bor rowers notified of such changes?

____

____

8. Is loan insurance required? What is the cost of the insurance? Please explain the insurance coverage. Will a loan balance of a borrower be paid, if his/her business is damaged by fire, burglary, political unrest or a natural disaster? Will a loan balance of a borrower be paid, if he/she dies or becomes ill?

____

____

9. Are loan agreements, repayment schedules and repayment receipts issued to borrowers? If so, is there a fee and how often are each issued?

____

____

10. What are the security (collateral) requirements? What is the value that the security (collateral) must equal? Please explain what items (cattle or land) are accepted.

____

____

11. Are savings required before a loan is disbursed and during the loan repay ment period? If so, what percentage of a loan is a borrower required to save? Do the savings of a borrower earn interest?

____

____

12. Are co-signers or guarantors required? What are the responsibilities of the co-signers or guarantors?

____

____

13. Is there a grace period? If so, are fees charged and how long is the grace period?

____

____

14. Can a borrower reschedule his/her loan payments or refinance his/her loan?
If so, what are the requirements and fees?

____

____

15. Is there a penalty, if a borrower pays for his/her loan early (before the loan period ends)? Is full interest charged if a borrower pays his or her loan early?

____

____

16. When is a loan considered to be in arrears? When is a loan considered to be in default?

____

____

17. What are the penalties if a borrower defaults? What are the penalties if a borrower is in arrears?

____

____

18. What actions does the lender take to recover the loan of a defaulter? What happens to the security of a defaulter?

____

____

19. Is training provided to borrowers? If so, is there a fee for the training?

____

____

20. Are borrowers required to attend weekly or monthly meetings?

____

21. What can a borrower do, if he/she has a complaint or question about his/her loan?

____

____

22. Will my personal or financial information be shared with anyone outside the institution? If so, whom and for what purpose?

____

____

3.5 Completing the micro-finance application

Tania has been given a loan application. She is disappointed to learn that after months of savings, she could not fulfil all of the requirements of her loan application.

This is an inconvenience, as she wants to use a loan to purchase some grocery products for her business that would help to expand her clientele.

A sample loan application given below will help you to prepare for your own loan application. You can also ask your lender for his/her loan application before you decide to borrow.

By being prepared with the required information that is most commonly asked on loan applications, you can plan when you are ready to borrow, what amount you can afford to borrow and the cost of borrowing. You will also save both money and time.

Sample Loan Application

1. PERSONAL INFORMATION

1.1 Name: ________________________________

1.2 Postal Address: __________________________

Mobile Number: _________

1.3 Date of Birth: __________

1.4 Gender/Sex: ___________

1.5 Home Location: ___________________________

Village/Estate/Town: ________________________

Nearest Landmark: _______________

1.6 Next of Kin: ________________Relationship: ______________

1.7 Martial Status: ___

1.8 Number of dependents: ________________

2. BUSINESS INFORMATION

(All figures in your national currency)

2.1 Location of Business: ___________________________

Nearest Landmark: ____________________________

2.2 Type of Business: ______________________________

2.3 Year Started Business: ______

2.4 Number of employee(s): __________________________________

2.5 Monthly sales from business

(Amount you earn from your business): ______________________________

2.6 Monthly business expenses

(Amount you spend on your business): _______________________________

2.7 Monthly income from business

(Amount you pay yourself): _______________________________________

2.8 How much do you save per month? ___________________

2.9 Number of clients who owe money to your business: ______

Amount: __________________________________

2.10 List other sources of income: ________________

Monthly income from these other income sources: _____________________

2.11 List of Assets in your business (examples: machinery, tools, stock, etc.):

Item: _______________________ Current value: ___________________

Item: _______________________ Current value: ___________________

2.12 List of current stock in your business: ______________________________

____

2.13 Value of stock in your business: ____________________________________

Accounts in bank(s)/financial institution(s):

Bank: ___________________Branch: _________________ Amount: _____

Date of Account Opening: _______________

Bank: ____________________Branch: ________________ Amount: _____

3. LOAN APPLICATION DETAILS

3.1 Loan amount you want to borrow: _________

3.2 Payment period proposed (time in which you want to pay your loan): ______________

3.3 Payment frequency proposed (weekly or monthly payments): ___________________

3.4 Grace period proposed (time that you have until you start paying for your loan): ______

3.5 Savings proposed during loan period (how much will save during the loan period): ________

3.6 Purpose of loan (what do you want to do with your loan): ______________ _________________________________

3.7 Past and Current Loan(s) in Banks/Financial Institutions:

3.8 Number of prior loan(s): ______ Number of current loan(s): ________

3.9 Name(s) of prior lender(s): ___________________________________

3.10 Loan Amount: ______ Loan Issue Date: _____

3.11 Loan Completion Date: ________________

4. SECURITIES (COLLATERAL)

Does the borrower or the borrower's guarantor(s) own assets?

☐ YES ☐ NO

(The items listed will be used as securities for the borrower's loan).

4.1 Item: _________________ Date of Purchase: _______

Description of item: ________ Serial Number: _________

Current Value: ________Cost at Purchase: ______________

4.2 Item: _________________ Date of Purchase: _______

Description of item: ________ Serial Number: _________

Current Value: ________Cost at Purchase: ______________

4.3 Total value of assets: ____________

Declaration of Applicant and Guarantor(s)

I (name of applicant)____________________________and members of the group (group name) or guarantor(s) ___________________________ declare that all of the information in this loan application are truthful to best of our knowledge.

Signature of Applicant: ____________

Date: ____________

Signature(s) of Group Official(s) or Guarantor(s): ___________________

Date: _____________

Declaration of Spouse

I___________________________________(spouse's name of the applicant) have read this loan application and declare that the information in the loan application are truthful to the best of my knowledge.

Name of Spouse: _____________

Signature of Spouse:_____________

Date: _____________

3.6 How to calculate Interest on your Loan

Calculating an interest rate on a loan can be a complex process. Aside from being able to perform accurate calculations, you need to know whether you are calculating:

- Simple or compound interest
- The principal value of the loan
- The total amount to be repaid
- The number of calculation or compounding periods (duration of the loan)

Calculating a Simple Interest Rate

You can calculate the interest rate being charged in a simple interest loan calculation using the formula:

Interest Rate (i) = ([A/P]-1)/n.

You must know the principal amount (P), total amount to be repaid (A), and the number of years payments will be made (n). "i" is the interest rate.

For example, if you borrowed US $ 1,225 (the principal amount) and were to repay a total of US $ 1,500 over 3 years, you could calculate the interest as ([1,500/1,225]-1) / 3 = 0.074, or 7.4% interest.

Calculating a Compound Interest Rate

You can calculate the interest rate being charged in a compound interest loan calculation using the formula:

Interest Rate (i) = q(([A/P]^1/nq) - 1)

You must know the principal amount (P), total amount to be repaid (A), the number of years payments will be made (n), and the number times per year the interest will be compounded (q).

For example, if you borrowed US $ 1, 225 (the principal amount) and were to repay a total of US $ 1,500 over 3 years (n=3), with the amount compounded monthly (q = 12 X 3 = 36), you could calculate the interest as 12(([1500/1225]^36)-1) = 0.0676 or 6.76% interest.

Note when performing your calculation that the caret symbol (^) indicates the number following is an exponent (for example, 2^3 would indicate 2 to the power of 3, or 2 X 2 X 2 = 8).

Calculating an Interest Rate from the Annual Percentage Rate (APR)

If you know the annual percentage rate (APR) charged on a loan, you can calculate interest with the formula:

Interest Rate (i) = q[((1+r)^1/q)-1].

You must know the annual interest rate or APR (r) and the number of times per year the interest will be compounded (q).

For example, if your APR were 5% and your payments were compounded monthly, you could calculate the interest as 12[((1+0.05)^1/12)-1] = 0.0489, or 4.89% interest.

No matter what kind of loan, or what the rate is, interest adds to the overall cost of your loan.

The interest rate you pay and whether your lender uses the declining balance or add-on-method to calculate total interest determines how much you will need to repay each month.

While your government regulations require your lender to disclose both the terms of your loan and the total interest you will pay over its term, knowing how to calculate total interest yourself can help you better understand the process.

Instructions

Step 1

Calculate total interest using the declining balance calculation method. Using this method, you only pay interest on the outstanding balance, so the closer you get to paying the loan in full, the less the interest charge will be. Assume you are borrowing US $ 500 at an interest rate of six per cent for a period of six months and your monthly principal payment is US $ 83.33 each month.

Step 2

Multiply the full amount of the loan by the interest rate to calculate interest for the first instalment payment. For example, multiply 500 x .06 for a first month interest payment of US $ 30.

Step 3

Subtract the first month principal payment from the loan amount to set the amount on which you will calculate interest for the next instalment. For example, US $ 500 – 83.33 shows that next month you will calculate interest using a balance of US $ 416.67 and your second interest payment will be US $ 416.67 x .06, or US $ 25, and a monthly payment of US $ 108.33.

Step 4

Calculate interest for the remaining instalment payments, basing each calculation on the new balance of the loan. Using the same example, you will pay interest totalling US $ 20 in the third month, US $ 15 in the fourth month, US $ 10 in the fifth month and US $ 5 in the sixth and final month.

Step 5

Add the monthly interest payments to arrive at $105, or the total amount of interest you pay on the loan.

Step 6

Compare the amount of interest you ultimately pay by calculating total interest using an add-on calculation method. Multiply the total amount you borrow by the interest rate of the loan by the number of payments you will make. If you borrow $500 at an interest rate of six per cent for a period of six months, the calculation displays as 500 x .06 x 6 to arrive at a total interest calculation of $180.00. Using this method, your monthly payment will remain a constant $113.33 over the six months term of the loan.

How to calculate fixed rate loans

A fixed-rate loan keeps the same interest rate over the life of the loan, making it easier for borrowers to budget for how much the loan will cost because the monthly payment will remain constant. Fixed-rate loans are common for mortgages, car loans and home equity loans. To calculate the monthly payment of a fixed-rate loan, you need to know how much you are borrowing, what the annual interest rate equals and how long you will take to repay the loan.

Instructions

Step 1

Call the amount of money you are borrowing A. For example, if you are borrowing US $ 20,000, then US $ 20,000 = A.

Step 2

Convert the annual interest rate from a percentage to a decimal by dividing by 100. For example, if the annual interest rate of the loan equals 6 per cent, you would divide 6 by 100 to get 0.06.

Step 3

Calculate the monthly interest rate by dividing the annual interest rate expressed as a percentage by 12 and call this M. Continuing the example, you would divide 0.06 by 12 to get M = 0.005.

Step 4

Calculate the number of monthly payments you are making over the life of the loan by multiplying the years you will take to repay the loan by 12 and call this P. For example, if you were going to repay the loan over 10 years, you would multiply 10 by 12 to get P = 120 total payments.

Step 5

Plug in A, M and P into the following equation to calculate the monthly payment on the fixed-rate loan:

Monthly Payment = (M / (1 - (1+M) ^-P))*A

In this example, you would plug in $20,000 for A, 0.005 for M and 120 for P, so your expression would be (0.005/(1-(1+0.005)^-120))20,000, which would simplify to a monthly payment of $222.04.

This is how you can calculate the interest rate.

3.7 Your responsibilities as a client of micro-credit/micro-finance

By now you have understood the pros and cons of micro-finance/micro-credit lending mechanisms. However, there is every possibility that you still do not know your responsibilities as a client of Micro-credit/micro-finance. Thus your responsibilities are to:

- Choose for yourself what financial services to use.
- Be critical in questioning or asking for information.
- Understand loan agreements.
- Comply with or honour loan agreements.
- Evaluate costs of financial products before making any decisions.
- Treat your lender with respect as your lender must treat its clients with respect.

These responsibilities are very important when you are applying for a credit. You have responsibilities while participating in the financial sector that you have to follow in order to facilitate the use of credit facilities available in your village.

Suppose you borrowed a loan that you agreed to pay over two years in order to support your rice business. During the second year of paying your loan, your loan officer asked you to start paying higher repayment amounts. This surprised you because you were not prepared to pay more for your loan.

When you asked how this is possible, the loan officer told you that the interest rate on your loan changed. When you protested for not receiving more time to prepare for such a change, the loan officer scolded you for not understanding your terms that allow the lender to change your loan interest at anytime.

Now you regret for not asking your lender specific questions before becoming a micro-finance borrower.

Thus, it is very important for you to inquire about every detail while asking for a loan. It allow you to understand the different loan requirements, the cost of borrowing, and the consequences of not paying the loan. This information is vital because everyone has different financial needs and goals, so not all loan opportunities are the best option for you. It is also important that you look for a lender with the requirements that you understand and agree.

3.9 Common consequences of not paying a micro-finance Loan

Myriam borrowed money for the first time when she fell very sick. As a result, her business failed and she was unable to pay her loan. Upon her second missed payment, her group members came to her home to take her property, including her bed, cooking gas and television. The group members explained to Myriam that they had to take her property in order to pay the remaining amount that she owed. The group members told her that they could not afford to pay her loan. Myriam regrets not understanding what would happen to her home, her business and to the other group members, if she did not pay her loan.

What do you learn from reading the above story? It is important for you to know the consequences of not paying your micro-credit loan. By reading the information given below, you will be able to understand the risk of borrowing and using your property as collateral, and hold lenders or auctioneers accountable for their actions.

If you do not pay your loan according to the terms of your loan agreement, there are many possible consequences.

A lender will undertake several measures to recover the amount that you owe, including the loan balance, fees and penalties. For a lender to take your savings and/or your property (either land or chattel) to pay the amount that you owe, there are legal requirements that must be followed.

There are other consequences of not paying your loan, including the possibility of being reported to a Credit Reference Bureau in which your payment history will be documented in your credit report. Defaulters may also lose the opportunity to access credit in the future or hold public office.td the risk of borrowing and using your property.

4. HOW TO FORM SELF-HELP GROUPS?

You often hear about Self-Help Groups (SHGs). Very poor people form SHGs. The amount of money saved by them is very small. They lend this small amount to each other in SHG. In addition, they help members in solving their other problems.

In this Section of the Module, you will learn the following:

- What is the possibility of forming SHGs in our village?
- How we can help the poor in forming their own SHGs?
- What do we do to help them?

4.1 Understanding a self-help group

Since your childhood you hear people saying like "God helps those who help themselves", "Unity is Strength", 'United we stand, divided we fall", etc. You might have heard also the famous story of the birds caught in a net. Each bird was unable to escape by her own. But when they flew together in a group, they escaped.

You also know that one stick in the broom cannot clean the dirt. But when they are put together to form a broom, the dirt is cleaned. This is what a SHG tells us, that is, unity is strength. They show us how self-help could be the best help (Box 9.13) Thus, your role here is to help poor people to form SHGs in their villages.

Box 9.13

Zambia: Grace Chipale

Grace is a member of the Buyatanshi Group. She is a widow with eight (8) children. Grace narrates that life was not so rosy when her husband passed away particularly living in the rural areas in Zambia, life is not easy when you are a single parent. She said she joined the group in order to get ideas from others on how best to start a new life. Grace received a loan of US $ 10, which she invested in the fish and goat-selling project. She even helped *a friend with a loan from proceeds of her business. Presently, Grace is a proud small-scale businesswoman who has diversified her business prospects by engaging in chicken rearing and charcoal selling in which to date has realized a profit of almost US $ 7,000. Grace has proudly managed to feed her children and pay their school fees. Presently Grace has acquired farming inputs for this coming farming season from her business. She has plans to diversify her farming prospects and hopes to get a big farming space should the coming season give her a good yield.*

Source: Ministry of Agriculture, Government of Zambia

Self Help Groups are groups of 10 to 20 women or men who want to improve their living conditions by setting up their own savings and loan fund.

The fund is owned by the group and consists of the savings of the members. The fund is used to make short-term loans with interest to members. The profit of the fund (i.e. the interest on loans plus fines) is divided to the members of the group at the end of the year.

The group comes together every week to collect savings and to give out loans. The members of the group choose where the meetings are held. The important thing is that the location is big enough for all the members and quiet. The meetings should be short and at a convenient time for everyone.

The participation of all the members in the meeting is important. The attendance of all the members guarantees the correctness of the accounts and the success of the group.

The members of the group will elect a management committee of 5 members:

- President of the SHG.
- A SHG member responsible for the administration of savings.
- A SHG member responsible for the administration of loan.
- A SHG member responsible for the maintaining the cashbook.
- A SHG member as the controller.

Since the SHG is a group of rural women and men who are either illiterate or semi-literate, your role in training them becomes critical. The first thing that you have to do in this regard is to train the management committee in simple principles of accounting, i.e.:

- A book in which the weekly savings of all members are written down.
- A book in which the loans and loan repayments are written down.
- A cashbook in which the total amount of money in the fund is written down.

Apart from this, all the members will have their individual savings and loan card.

During the training, you have to inform participants about the responsibility of all members of the SHG to:

- Deposit the same amount of savings every week.
- Pay their loans plus interest back on time

If the members cannot carry out this responsibility, the group will not be successful. It is therefore important to select members who are reliable.

While forming a SHG, the members will make some decisions. These decisions should be noted down in the group regulation, such as:

- The amount of savings that all members will contribute every week.
- The loan term.
- The interest rate on loans.
- The amount of fine for late repayment.
- The amount of fine for non-attendance without good reason

You should advise the group to keep some cash at hand at all times for emergency loans. Emergency loans are loans that can be given any day of the week to group members who have a sick person or an accident in the family and need money urgently. Emergency loans are free of interest.

At the end of the year, all of the loans need to be paid back. During the last meeting of the year, the members will receive their part of the profit. They can jointly decide: - to keep the savings plus profit in the fund - to keep the savings in the fund and take the profit home (recommended) - to take the savings and profit home and start again.

4.2 Helping poor people to form SHG

Preliminary survey

The steps for forming a SHG are very simple. Your first step should be to visit the very poor families in your village. Then you talk to them to assess how much interest do they have in forming their own SHGs. If the villagers do not know who you are, then talk to them about yourself. This is just to win their trust in you. You talk to the seniors (elders) in the village, explain your plan for them and request for their support and cooperation (Table 9.7).

Table 9.7: Type of Families to be visited for forming SHGs

You should ask the following questions about each family
• Does the family have only one earning member?
• Does the family bring drinking water from far away place?
• Are the women compelled to go for in the open in the absence of a latrine?
• Are there old illiterate members in the family?
• Are there permanently ill members in the family?
• Are there children in the family who do not go to school?
• Is there a drug addict or a drunkard in the family?
• Is their house made of mud?
• Do they regularly borrow from the moneylender?
• Do they eat less than two meals a day?
• Do they belong to a particular ethnic or minority population group?

After your talk if you find that their response is "yes" for five or six questions, you can categorise the family as poor. You should ask the above questions from all the families you visit in the village.

Most preferably you talk to the womenfolk and ask what the most important issue in the family is. You should also try to meet and discuss with the men of the target group and explain to them what Self Help Groups are. Mention that for the success of the Self Help Groups, women need their husband's support and understanding.

During the meeting with the women of the target group, discuss in detail the following:

- Objectives of Self Help Groups.
- What a Self Help Group is.
- Operating principles.
- Weekly meetings.
- Management Committee.
- Regulations.
- End of the year distribution of profit.

While visiting families you make sure and tell them that you are not giving or promising any subsidy money under any scheme of your government. This is very crucial to avoid any kind of misunderstanding at later stages.

This is called "Preliminary Survey". This will give a clear idea of the needs of each individual family in your village. This survey will enable you to know which of those families could come together in Self-Help Groups.

When you speak to families in a locality, you will find that some kind of mutual understanding and liking already exists among many of them. The reasons of mutual affinities can be:

- Similar experience of poverty.
- Similar living conditions.
- Similar kind of livelihoods.
- Same community or ethnicity or caste.
- Same place of origin.

You should organise a meeting of the community leaders and elders of the village before forming SHGs. Explain to them your plan to form SHGs. Try to get maximum support and cooperation from them. This is called "community participation". This will also give acceptance to your work in the village.

One important thing that you should explain is that the meeting is not for giving anything but to enable the poor families to come together and help each other.

The process of forming groups generally takes four to six months. Once the group is formed, it takes 12 to 18 months to a stable pattern.

The next step is to explain the structure of the management committee of the SHG and the role and responsibilities of its each office bearer as follows:

The Management Committee

Role of the President

- She/he is the leader of the group.
- She/he leads meetings.
- She/he represents the group to outsiders.
- She/he ensures that the regulation is respected.
- She/he finds solutions to conflicts between the group members.

Characteristics and qualities of the President

- A woman of strong character.
- Present and visible in the community.
- Capable of running a group.
- Honest and intelligent.
- Patient, available, dynamic.

Role of the Person Responsible for the Administration Savings

- Records the savings of each member in the savings book.
- Records the savings of each member on the members' savings and loan cards.
- Counts the total amount of savings received.

Characteristics and qualities

- Capable of recording savings transactions.
- Literate.
- Reliable and intelligent.

Role of the Person Responsible for the Administration of Loan

- Records the loans given in the loan book.
- Records the loans and interest paid back in the loan book.
- Records the loans given and paid back on the members' savings and loan cards.

Characteristics

- Capable of recording loan transactions.
- Literate.
- Reliable and intelligent.

Role of the Person Responsible for the Cashbook

- Records the amount of savings collected in the cashbook.
- Records the amount of loans paid back in the cashbook.
- Records the amount of fees collected in the cashbook.
- Records the amount of loans given out in the cashbook.
- Calculates the balance of cash.

Characteristics

- Capable of recording transactions in the cashbook.
- Literate.
- Reliable and intelligent.

Role of the Controller

- Counts the amount of cash at the beginning of the meeting.
- Counts the amount of cash at the end of the meeting.
- Checks whether the amount of cash written in the cashbook is correct.

Characteristics and qualities

- Capable of checking the amount of cash.
- Literate.
- Reliable and intelligent

4.4 Characteristics and functions of SHGs

Characteristics

- The ideal size of an SHG is 10 to 20 members. In a bigger group, members cannot actively participate.
- The group need not be registered.
- From one family, only one member. More families can join SHGs this way.
- The group consists of either only men or only women. Mixed groups are generally not preferred.
- Women's groups are generally found to perform better.
- Members have the same social and financial background. Members interact more freely this way.
- The group members meet regularly and assess the performance.
- Attendance of members is generally compulsory.

Functions of SHGS

Savings and Thrift

- The amount may be small, but savings have to be regular and continu ous habit with all the members.
- "Savings first – Credit later" should be the motto of every group members.
- Group members learn how to handle large amounts of cash through savings. This is useful when they use bank loans.

Internal Lending

- The savings to be used as loans for members.
- The purpose, amount, rate of interest, etc., to be decided by the group itself.
- Proper accounts to be kept by SHG.
- Opening saving bank accounts with bank.
- Enabling SHG members to obtain loans from banks, and repaying the same.

4.5 Opening of saving bank account (SB A/C) for SHG

The Central Bank of your country issues from time to time instructions to all commercial banks and regional rural banks, permitting them to open Savings Bank Accounts of registered or unregistered SHGs.

Saving Bank Account in the name of SHG could be opened after obtaining from the group the following documents:

- Resolution from the SHG: The SHG has to pass a resolution in the group meeting, signed by all members, indicating their decision to open SB A/C with the bank. This resolution should be filed with the bank.
- Authorisation from the SHG: The SHG should authorise at least three members, any two of whom, to jointly operate upon their account. The resolution along with the filled in application form duly introduced by the promoter may be filed with the bank branch.

A Saving Bank Account Passbook may be issued to the SHG. This should be in the name of SHG and not in the name of any individual(s).

Assessment of SHGs

We need to know whether the SHG has been functioning well. Table 9.8 contains the checklist that will help you to assess each SHG in a simple but effective manner.

Table 9.8: Checklist to Assess the Performance of SHG

Factors to be Checked	Very Good	Good	Unsatisfactory
Group size	15-20	10-15	Less than 10
Type of members	Only very poor members	2 or 3 not very poor members	Many not poor members
Number of meetings	Four meetings in a month	Two meetings in a month	Less than two meetings in a month
Timing of meetings	Night or after 6 PM	Morning between 7 and 9 AM	Other timings
Attendance of members	More than 90 per cent	70-90 per cent	Less than 70 per cent
Participation of members	Very high level of participation	Medium level of participation	Low level of participation
Savings collection within the group	Four times a month	Three times a month	Less than three times a month

Amount to be saved	Fixed amount	Varying amounts	
Interest on internal loans	Depending on the purpose	24-36 per cent	More than 36 per cent
Utilisation of Savings amount by SHG	Fully used for loaning to members	Partly used for loaning	Poor utilisation
Loan recoveries	More than 90 per cent	70 -90 per cent	Less than 70 per cent
Maintenance of books	All books are maintained and updated	Most important registers (minutes, savings, loans, etc.) are updated	Irregular in maintaining and updating books.
Accumulated savings	More than 5,000 in local currency	3,000 – 5,000 in local currency	Less than 3,000 in local currency
Knowledge of the Rules of the SHG	Known to all	-	Not known to all
Education level	More than 20 per cent of members can read and write	-	Less than 20 per cent know to read and write
Knowledge of Govt. programmes	All are aware of Govt. programmes	Most of the members know about Govt. programmes	No one knows
1 .SHGs with 12 to 16 score "Very Good Factors" can get loans immediately. 2. SHGs with 10 to 12 scores "Very Good Factors" need 3 to 6 months' time to improve, before loan is given. 3. SHGs with rating of less than 10 "Very Good Factors' will not be considered for loan.			

The above checklist is only suggestive. You can develop your own taking into consideration the current banking rules and regulations practiced by the central bank of your country.

4.6 Limitations of micro-finance

Micro-finance/micro-credit today is facing two challenges. Firstly, it needs to be more economically and financially sustainable. Secondly, it needs to increase its outreach in order to have a more significant impact on poorer areas of the world. Access to credit for the poorest people is a trade-off between economic and financial sustainability and the spread of activity (Box 9.14).

- To the bank the borrowers are few for the problem of reaching out to the people.
- A main disadvantage to micro-finance is that the deal is too small for the lender to devote ample time and money to doing proper due diligence.
- As the capital is low the profits are also low.
- Borrowers seldom if ever give lenders the full story on their situation and with a small amount at risk; it does not make sense for lenders to

spend lot of money to check out the story. When lenders get burned, they decide to stop lending and the next round of lending must be done by greenhorns who have no idea what they are getting into.

- In other words, to some extent micro lending depends on an ever-increasing number of lenders in order to be successful.
- The inability to reach the poorest of the poor is a problem that plagues most poverty alleviation programmes. As Gresham's law reminds us, if the poor and non-poor are combined within a single programme, the non-poor will always drive out the poor. To be effective, the delivery system must be designed and operated exclusively for the poor.
- Some criticize that micro-finance programmes benefit the moderately poor more than the destitute, and thus impact can vary by income group.
- Most micro-finance programmes target women (due to higher repayment rates), which may result in men requiring wife to get loans for them.
- Vicious cycle of debt, micro credit dependency, increased workloads, and domestic violence associated with participation in micro finance programmes.
- Low repayment rates in comparison with traditional financial institutions.
- Use of harsh and coercive methods to push for repayment and excessive interest rates.

Box 9.14

Nuria's Story

Nuria's dance school a reality thanks to a micro loan.

Nuria Ventura's dream of opening her own dance school in Barcelona came true thanks to a micro-credit. "Without the micro-credit I couldn't have opened the school: the school provides me with stability, it's my future."

Nuria Ventura is a choreographer, artistic director, flamenco dancer, contemporary dancer, as well as the director and professor of a dance school. Her plan to open her own dance school was made possible in 2007 thanks to an EU-supported micro-credit worth €25,000 that enabled her to rent the premises and renovate them for the school's activities.

There were initially 20 students but the number has gone up to 60 in less than two years. "I would like the school to be a leading dance school in the region, to be associated with the best professionals in the field. And I'd also like to see the number of students rise." Nuria's school creates employment as well: she now has 10 part-time employees.

"Getting the micro-credit was easy: I presented my plan together with my CV and they considered the plan viable. I also had a clear business idea with related professional training, so I was chosen."

The 2007-13 Competitiveness and Innovation Framework Programme offers possibilities for micro-credit guarantees through financial instruments managed by the European Investment Fund. Under the instrument "SME guarantee facility micro credit window ", the EIF provides loan guarantees to micro-credit organizations for loans of up to €25 000 to micro-enterprises (those with up to nine employees).

Thanks to micro credit backed by the EU, many entrepreneurs in Europe have the opportunity to start or develop a small business. Micro Bank, the social bank of the Spanish bank La Caixa, gives out micro credit guaranteed by EU programmes to people who cannot get loans from other banks. This way, less-advantaged people get an opportunity to develop themselves, and further create jobs and increase production.

Source: Rural development: Committed to the Future of Rural Communities

5. COMMON TERMS USED BY MICRO-FINANCE LENDERS

Annual Percentage Rate

The percentage of borrowed amount is to be paid by a borrower to their lender on a yearly basis before or during the duration of the loan period. This amount is a fee determined by the lender and agreed upon in the loan agreement between the borrower and lender. Please beware that some micro-finance programmes require interest on loans to be paid in one payment rather than throughout the loan repayment period.

Arrears

This refers to a loan that has not been paid over a short period of time according to the terms and requirements as agreed upon between lender and borrower in a loan agreement. Please ask your lender about its credit policy regarding arrears.

Auctioneer

A person who holds a valid license issued by the Auctioneer Licensing Board to repossess and sell property by auction on behalf of the appointing authorities. Lenders hire auctioneers to repossess and sell property on their behalf.

Bank

A company is registered and regulated by the Central Bank of Kenya to carry on banking business that accepts and lends deposits from the public.

Borrower

A consumer who is willingly entering into an agreement with a lender with the intention of accessing credit or a loan of money.

Chattel

Movable property, including household appliances, business machinery, vehicles, crops and wool are used to secure a loan within micro-finance. It does not include title deeds, shares or interest in stock.

Consumer

A person to whom goods or services are delivered by an organization.

Guarantor

An individual who pledges to pay the loan of a borrower, in case of default.

Interest Rate

A percentage of a loan amount paid in the form of a fee established in a loan agreement for which the borrower pays during his or her loan period.

There are different types of interest rates that are calculated differently. Please ask your lender about its credit policy regarding how the interest rate is calculated for your loans.

Compound Interest

A percentage of a loan amount which is a fee paid by the borrower to the lender. The percentage increases the principle loan amount owed by the borrower during the loan period. The percentage is established and agreed upon in the loan agreement between a borrower and their lender.

Flat Interest (Simple Interest)

A percentage of a loan amount that is paid by the borrower to the lender. The percentage is calculated based on the principle loan amount rather than the amount outstanding at any time during the loan period. This percentage is established and agreed upon in the loan agreement between the borrower and lender.

Interest on a Reducing Balance

A percentage of a loan amount that is a fee paid by the borrower to the lender. The percentage is calculated based on the reducing balance of the loan as the borrower makes payments rather than the principle loan amount. This percentage is established and agreed upon in the loan agreement between the borrower and lender.

Lender

A person who or an institution that is or is not legally licensed and regulated to accept deposits and lend money to the public with or without interest or other fees.

Loan (or Credit)

Money that is borrowed and must be paid back with or without interest or fees within the time period and under the terms as agreed upon between a borrower and a lender.

Loan Agreement (Credit Agreement)

An agreement between a willing lender and a willing borrower, under which a lender extends credit or lends money to a borrower under prescribed terms.

Loan Insurance

A guarantee by the lender that the loan of a borrower is paid in full under certain circumstances predetermined by the lender and insurance company established in the borrower's loan agreement. Such circumstances may include the death or disability of the borrower, theft, fire, and damage to the business of the borrower and other related perils. As the insurance terms vary depending on the lender.

Credit Report

A customer information file containing an individual's credit history, including but not limited to his or her assets, financial obligations and access to credit, that is compiled and maintained by a Credit Reference Bureau. It may include publicly available information.

Default

A loan that has not been paid over a long period as agreed upon between lender and borrower. There is little hope of ever receiving payment from the borrower. As a result, such loan has been or is about to be written off by the lender. Please ask your lender about its credit policy regarding default.

Defaulter

A defaulter is a borrower who fails to pay any portion of his or her loan amount, including fees and interest, within the agreed upon time frame under his or her loan agreement. Generally, there is little hope of ever receiving payment from this person. As a result, the loans of defaulters have been or are about to be written off by the lender. Please ask your lender about its credit policy regarding default.

Default Charge

A fee that is charged to a borrower who fails to comply with the obligations of his or her loan agreement, specifically making a scheduled loan payment.

Delinquent loan

Any loan for which the principal amount or interest remain unpaid for the entire loan term. Please ask your lender about its credit policy regarding delinquency.

Grace Period

A period of time for which a borrower is not required to pay any portion of his or her loan. Grace periods can be subject to penalties or other fees depending on the discretion of the lender.

Group Loan

Loans given to individuals in a group in which all group members jointly guarantee each other. If any of the group members fail to pay his or her loan, the other group members

Loan Repayment Period

The duration for which a borrower will make payments until his or her loan is paid in full.

Loan Repayment Frequency

The number of payments a borrower will make until his or her loan is paid in full.

Principle Loan Amount

A sum of money borrowed, not including any fees or charges.

Savings

Money for which a client deposits into a deposit-taking financial institution or bank that is accessible by the client on the terms agreed upon by the client and the institution or bank.

Security/Collateral

Property, either movable or unmovable, used by a borrower to secure a loan. In cases of default, a lender has the authority using legal means to repossess the pledged security to pay the unpaid loan balance and fee(s) of the defaulter.

6. CONCLUSION

The rural finance policy pursued in most developing countries beginning from 1950s was based on providing subsidized credit through state controlled or directed institutions to rural segments of population. The key problem areas visualized in rural financial markets include lack of credit in rural areas, absence of modern technology in agriculture, low savings capacity in rural areas and prevalence of indigenous moneylenders. Emergence of micro credit in late 1970s and early 1980s in the backdrop of growing world attention on deficiencies of earlier approach in rural finance explains much of its dominant theoretical underpinnings.

This module provides rural people with basic skills related to earning, spending, budgeting and borrowing. The materials primarily target rural poor people in general and women in particular who usually manage household money in developing countries. The training makes them more informed and empowered financial decision-makers, able to set up financial targets and reach them. This helps them to improve their living conditions, send their children to school and enjoy rewarding lives.

The module aims at promoting positive attitudes toward saving, more prudent spending and borrowing for sound reasons. It deals with the problem of indebtedness, which is one of the main causes of extreme poverty in developing countries.

The training follows a participatory adult-learning approach. This means that participants will take part in group discussions, share their positive and negative experiences, and explore learning together through role-plays and case studies.

7. FOLLOW-UP

Please discuss your learning from reading the contents and information of this module with your colleagues and relate it to your experience. Identify activities and make a plan which you can individually or jointly implement.