



Microfinance in Development – A perspective on strategy in less developed nations

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NCBA Development Hypothesis

When local people are fully engaged and invested in the development process, they will be motivated to build their capacities and embed them in their communities in ways that establish a foundation for permanent change.



Why local engagement matters?

- Who is going to live there in 10 years? 20 years?
- If they aren't invested in what's being done, what will sustain it?



What things get people more engaged in the process?

- **A sense of ownership in their future**
- **A sense of control over things that affect their future**
- **An expectation they will be rewarded for their efforts**



Developmental impacts of ownership

- **Wealth creation**
- **Capital accumulation**
- **Leveraging financial capacity**
- **Attainment of scale**
- **Respect for property**



Developmental impacts of controlling your future

- **Learn participatory democracy**
- **Autonomy**
- **Decision making skills**
- **Responsibility**
- **Accountability**
- **Planning ahead**



Developmental impacts of reward for participating

- **Income**
- **Services provided**
- **Access to markets**
- **Capture value added**
- **Gained business skills**
- **Stronger communities**



The Development Multiplier

- Does the program catalyze local trade?
- Does the program lead to creation of upstream and downstream businesses and markets?
- Are all opportunities for leveraging within the community maximized?
- Long term v. short term?



What is needed for sustainable business creation?

Minimal requirements:

- **Access to funds**
- **Ability to deploy funds**
- **Ability to manage business**
- **Sound business planning**
- **Business support services**
- **Ability to manage credit**



Other challenges to sustainable business development in developing nations

- **Literacy and numeracy**
- **Unclear property ownership**
- **Aggregation and scale**
- **Credit responsibility and management**
- **Barriers to commercial scale**
- **Infrastructure**
- **Traditional or cultural practices**



Setting 1 – Rural South African Villages

- Communities of 5 to 25 K
- Few, if any businesses.
- Pension/remittance dependent population of elderly, women, and children.
- No access to commercial banking, no safe place for savings.
- Non-availability of credit, credit management skills lacking.
- Cash as risk...crime, social challenges.
- Dysfunctional spending patterns...business development impacts.
- Culture of dependency.
- Poor literacy and numeracy skills.



South Africa Financial Services Cooperatives (Village Banks)

Elements of the model:

- **Simple bank w/ safe to guard cash**
- **Saving mobilization is first step.**
- **NO OUTSIDE FUNDS**
- **Establish linkage relationship with commercial banks in distant towns**
- **Organized as member-controlled financial cooperative**
- **Local lending begins once capacities are built up...Board of Directors is loan committee.**



South Africa Financial Services Cooperatives (Village Banks)

Developmental bonuses:

- **Teaches credit responsibility and business skills**
- **Improves literacy and numeracy**
- **Increases community leadership capacity**
- **Supports rationale business development in communities**



Setting 2 – Post Tsunami Banda Aceh, Indonesia

- **Modest port city at the eye of the surge**
- **Prior to disaster, relatively robust small business sector.**
- **Extreme loss of human, physical, and financial capital.**
- **Under developed small business lending capacity**



Women's Microfinance Cooperatives Banda Aceh, Indonesia

- **36 cooperative established**
- **3476 members, of whom 3127 have received enterprise loans**
- **Average loan size US\$497**
- **Loan portfolio is 94 percent current.**
- **Revolving loan fund**
- **Members serve as loan committee**
- **Peer counseling**
- **Second tier financial entity built by coops**



Aceh Women's Lending Cooperatives

Developmental bonuses:

- **Enhanced business and leadership skills**
- **Creation of vertical and horizontal business linkages among recipient businesses**
- **Organic emergence of second tier support organization**