

FACT SHEET

Microfinance - Poverty lending or a viable alternative?

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“MF provided a life line that enabled the businesses, established under the DDR program, to continue otherwise they would have gone under”



Carpenter – “the incentive is the hope of a bigger loan to **bulk buy** wood to improve my profits”



Metal worker – “the current amount is too small but I am hopeful for the future for a bigger loan that will enable me to **hold stock** to meet demand for doors, windows and fences”



Taxi driver – “the amount is enough to enable me to use the loan to cover an **unexpected problem** and get back on the road to earn a living”.
“No taxi no income”.

PHOTO: POST CONFLICT REFORMS

Concept – to provide dedicated micro finance (MF) funding solely for DDR’d personnel as a logical mid to long term follow on step to the reintegration options provided by the UN’s DDR program and to demonstrate that DDR’d soldiers are trust worthy member of the community who can be relied upon to repay the loans.

Two \$100,000 pilot projects were established, independent of MISFA, with two implementing partners with experience of micro finance programs and having close links with DDR’d personnel.

IoM was selected to pilot an urban MF project in Herat which has a strong provincial centre. CARE was selected to pilot a semi rural MF project in Charikar, 55km north of Kabul, a regional market town with a strong agricultural focus.

Group savings schemes were adopted by both IP’s to place peer pressure on the individuals within the group to firstly, save the required weekly amount to demonstrate their commitment and secondly, to generate additional funds to lend to the group to add further peer pressure to repay the capital that was partly funded from the groups’ savings.

An initial survey was carried out to identify the DDR’d personnel that would be interested in participating.

40-50 individuals were then invited to meetings to clarify their interest and to develop clusters – for locational ease of management. Each cluster was asked to identify a respected person in that local community who was already running a good business and was prepared to accept responsibility on behalf of the individuals within his group. The group was encouraged to save and meet on a weekly basis and attended workshops on the principles of MF, business planning, etc.

The individual typically saved 500 afghanis (\$10) over several weeks to demonstrate commitment. Although reluctant the FC’s now appreciate the value of the saving scheme, to ensure the others in the group are committed. The FC can then ask to borrow between 4 – 8,000 afs (\$80 - \$160) and repay it over 12 weeks. The FC then qualifies to borrow between 10 – 25,000 afs (\$200-\$500) and repay that sum over 24 weeks. Finally, he can then apply to borrow between 30 – 50,000 Afs (\$600 - \$1000) to be repaid over 12 months.

The groups were typically asked to save for five weeks before being considered for their first loan. Savings were collected weekly until the first loan was given to the group to be reallocated as appropriate. Payments, together with some savings, were then collected every second week once the trust was built up – reducing running costs to just 14%.

Lessons learnt

CONTINUES >

Assistance to Afghanistan (continued)



Grocer – “the loan will enable me to increase my stock and attract new customers to help the business expand”



Property Dealer – “the money is small but it enables me to pay the lease on my new shop to help my cash flow whilst the business develops – I’m currently busy with 3-4 lettings a month”



Doctor – “the funding will help me to develop a track record for a bigger loan but in the meantime, enable me to expand my business by buying a glucose testing machine, then more medicines, then photographic film to branch out into developing camera film”

The group savings program – using peer pressure to encourage savings and ultimately repayment appears to have been self policing and worked well. A few groups failed in the first few weeks when they were unable to make weekly savings. Those individuals that were still interested and dependable were invited to join the other groups.

Personnel need to be employed and have a definite use for the funds that can be set out in a basic business plan. Simply borrowing the money without being able to demonstrate an additional cash flow for repayments sets the person up for failure. Farmers were particularly difficult to lend too within the scope of this pilot program. The inability to fund a quick return to repay the funding, until they were able to harvest their crops, meant that the fund would be unable to recycle and lend larger funds to those that had successfully repaid their initial loan. Farmers require access to MF that provides long term repayment balloon repayments when the crops or animals produce the seasonal return. Those farmers that applied were seeking to use funds to meet their day to day costs of living as they were unable to find seasonal work.

The initial \$100 loans are not enough and were described as poverty lending by some but it is appreciated that in a country with effectively no banking infrastructure accessible to the population, it will be a long time before systems are in place that will enable the private sector to lend funds. MF is therefore seen as a means to borrow money, no matter how small, and secondly, as a means to develop a track record that will assist in borrowing larger amounts in due course. Private lenders need to become operational and assistance needs to be given to those where microfinance does not meet their needs to enable them to comply with the private sector’s stricter lending criteria.

Sustainability - running costs of administering such a MF program are high but have been reduced in comparison to the costs reported by other MF IP’s. IoM purchased and used motorbikes for staff to travel to meetings to meet the group and collect funds. A car was hired locally on a daily basis if and when required, when the weather was bad or several people were attending the same meeting.

The DDR MF pilot projects were not intended to be sustainable but were to prove that the **concept of MF** worked for DDR personnel. The cost of administering the program was in proportionality high and could have been reduced further through economies of scale but the results spoke for themselves. It was anticipated that the IP’s would subsequently partner with other MF IP’s and transfer the capital to a larger scheme to be used solely for DDR’d personnel. The new IP would then use existing admin fees to administer the capital sum. CARE adopted this option and IOM believe that its fund is self sustaining. Further detailed information is available on www.ddrafg.com

PHOTO: POST CONFLICT REFORMS