



World Chronicle

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GUEST: Mark Malloch Brown
UNDP Administrator

JOURNALISTS: Thalif Deen, Inter Press Service
Tom Easton, The Economist

MODERATOR: Tony Jenkins

MICROFINANCE

Clients of Microfinance are generally poor and fall within the lower income bracket. They might be female heads of households, pensioners, artisans or small farmers. Seeking to boost micro-credit and micro-finance programmes around the world as a way to improve the lives of the poor, The United Nations General Assembly has designated 2005 as the year of International Year of Micro-credit.

In this edition of World Chronicle, Mark Malloch Brown, Administrator of the United Nations Development Programme (UNDP) explains the use of microfinance as a tool of survival in many countries.

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Executive Producer: Richard Sydenham
Director: Dave Woodie
Production Assistant: Sheila Poinessette

ANNOUNCER: From the United Nations in New York, an unedited interview programme on global issues. This is **World Chronicle**. And here is the host of today's **World Chronicle**.

JENKINS: Hello, I'm Tony Jenkins.

"Neither a lender nor a borrower be". This may have been sound policy in Shakespeare's time, but it is not – apparently – good advice for the world's poor, or for those who want to help them.

Please join me for the next half-hour as we talk about the big world of microfinance with guest Mark Malloch Brown, the Administrator of the United Nations Development Programme, UNDP.

Mark, welcome to the programme. I guess we ought to start with a quick definition. As I understand it, microcredit is a very small loan to a very poor person, and we - typically, we're talking as little as twenty five dollars, or a hundred dollars – or something like that...right? Now - when I was doing my research, I saw that in 1997 microcredit was reaching about seven and a half million people. By December 2001, microcredit institutions said that they were reaching as many as fifty five million clients. In other words, microcredit is expanding very fast. So why the need for an international year, with all the UN backing behind it? Is this another UN boondoggle?

BROWN: Well, if it is, it's one which unlike some, is based on a good idea [all laugh] because fifty five million people – and by the way there is a lot of debate about what the number is and some have a considerably higher number, but whatever it is it's a fraction of the three billion people in the world who live on less than two dollars a day. So here is a proven successful way of getting a little bit of wealth and credit into the hands of the poor and having them use it very effectively and there's a huge scope to expand it, and that's really what we really want to use the year to advertise that fact.

JENKINS: Well do you know what that scope is? I mean surely not all of those three billion people want loans, or maybe they do? I don't know. Do you have any sort of figures that you're working with?

BROWN: You know, most of us want loans for something: to get our kids into school, to pay for a bump in our healthcare cost, to start a small business, so I think a very significant proportion indeed do need access to credit, whether it is as a consumer or a parent, not necessarily in all cases to start a small business. So, there is a huge potential for this kind of financial services in a broader sense, for poor people.

JENKINS: Mark, joining for this discussion today we have Thalif Deen of the Inter Press News Service and...Tom Easton, whose a senior editor of the Economist magazine. And I am going to through it over to Tom

EASTON: Small loans for schools and for small businesses and maybe for health care, this seems hardly to be the most conducive way for the UN to act all over the world. What can the UNDP do to make microfinance more embracing, and more inclusive, and more available to the people?

BROWN: Let me be clear...when I say small loans, it's not for schools, it's for parents where they have to pay school fees, or pay for the costs medicines, and obviously a longer more durable solution is for the poor to provide health care in schooling free, but unfortunately we're not quite at that point. The UN is not itself going to become a microfinance bank. So, our role is to kind of get commercial banks and other entities in developing countries to wake up to the potential of this idea as both a development goal, but also as good business for them and to expand these services. But let's be clear, microfinance isn't going to fix the problem of development alone, it's a major contributor, but you need roads, you need schools, you need clinics, you need good governance, you need economic growth, you need a bunch of things. But this is one proven idea that works and we think it will be extremely useful to take it to scale around the world.

EASTON: And how do you see UNDP working with these other organizations to bring it to scale around the world?

BROWN: Well, I mean several ways. One, I think we have to work with governments in developing countries to get them to put in place the enabling laws and regulations to encourage this industry to grow. Second, we have to work with lending institutions: banks, both public and private banks but also post offices and other sources of potential credit for the poor to educate them in how to structure a business that allows these things to be – allows loans like this to be meant, to be remade and repaid in an affordable way. And third, we've got to work with the poor themselves, to encourage them to look to microfinance as a way of helping themselves out of poverty. So in all these functions I see our role as providing technical support, as being an advocate of this approach, as being a marriage broker if you like, but not ourselves becoming a microfinance institution.

DEEN: When you speak of microfinance, you're talking in terms of small amounts of money. Do you envisage any role at all for some of the big banks, because the banks as you know as a general rule do not lend money to the poor, they give money to the rich.

BROWN: Well, you know one of the most interesting early wins of this year and it might have happened any way...but it's Citigroup, which has always supported microfinance out of its philanthropy side, out of its own foundation – has now made a point of making it a commercial business and is looking in Mexico and few other countries to launch some pilot commercial business in this area. Other banks are playing other roles. Visa, the credit card company, is another supporter along with Citigroup of the Year of Microfinance, and is looking at how its card and services could be packaged for the poor. And so there is a lot of this, but I think probably, the real answer, Thalif, is that the main role of big money at the moment is to provide those funds wholesale to non-governmental organizations who are themselves micro finance providers. So they lend money but the actual retail distribution is done by smaller, more local, not for profit organizations rather than by the bank itself.

DEEN: Yeah, according to the latest statistics, it says there are at least about four hundred to five hundred million people who are still in need of microcredit. Do you think that this cap can be met say over the next few year? Or...

BROWN: I think so. I mean there are some genuine problems at the moment because while there is this tremendously successful re-payment rate – ninety eight percent of microfinance loans globally are paid back, which is a much better number than you would get from normal commercial banking or credit cards or anything else, the fact is the costs of the loans are very expensive; because it really - if you think about it.....costs as much.... you would need the same paperwork to lend twenty five or a hundred dollars, as to lend ten thousand or a hundred thousand. So we've be working hard to see how you would bring the transaction costs down because until you do that it's not going to be very interesting to commercial banks. It's going to remain something that not for profit organizations do, but kind of... there is a certain ceiling to that - it's never going to grow to service the four to five hundred million people you're talking about. So, we've got to innovate in this area, bring the costs down, make it more widely available to more people on a business term, on terms of a business model that works for everybody.

JENKINS: I've got a couple of, I guess, basic questions. One is - it seems counter intuitive that the poor would be better at repaying a loan than the middleclass or the rich. Have you any idea of why that is?

BROWN: Well, I think it's really two things. It's one, that there is a real discipline of the social capital which comes from a village which has never had loans before. Suddenly, there are loans available in that village but the whole village knows its whole credit rating, if you like, is on the line because if there are bad loans in that village, the whole credit to the whole

credit to the whole village is likely to dry up; so that kind of social peer pressure has meant that the poor take repayment very, very seriously. And I suppose the second reason is an extension of that, that you know, this is such a precious new access to finance that they want to protect and conserve it, and you know they don't think they could pile up credit card debt and walk away from it in the same way that many people in the West think.

JENKINS: Alright, here's the other question I have in the back of my mind, which is: What sort of, typically, what sort of interest rates are they being charged? In other words are they being charged below market rate because they're poor? Or is it the same sort of rates as you would find in the commercial marketplace?

BROWN: Well previously, their only available credit was usually money lenders who were charging absolutely extortionate rates...

JENKINS: ...up to a thousand percent a year or... ?

BROWN: Yeah, I mean some huge numbers. They are still paying rates which those of us living in the States, where you can at the moment get a loan for four or five percent a year, still seem very high because they could be paying twenty percent at least on microfinance loans. So, at the moment, this high transaction cost is a double whammy, it makes it rather unattractive for businesses to get into the business, and it means the actual interest rates that the poor are paying, are still quite high.. so..

JENKINS: I don't get that though – because if the interest rates are that high, surely there's the margin in there to cover the transaction rates. In other words, what I don't understand is...if we know that ninety eight percent of these people are paying their loans back, and if you can get away with charging the kinds of interest rates that you're describing, why do you need the UN to encourage banks? Why don't the banks just rush in and see that there is potential - as Thalif said four hundred million customers out there - you would think that they would be rushing in anyway?

BROWN: Well first, you know, the cost of money in those countries is not as low as it is here. So let's say that the real interest rate in country X is twelve percent and that that's what a big borrower can borrow at. The rate to the small borrower is something like twenty percent and that differential genuinely is the higher transaction cost that it costs as much to borrow a hundred dollars as it does a million. And so we have to innovate to bring that margin down, so they are paying much less over their own equivalent of prime rate in their own country. And there the interesting innovations lie in the hands actually of new technologies, using hand held computers essentially to register the loan for the women or others making the loan, instead of having to fill in paper work in triplicate and send it back to the distant capital. To instead, take a

PDA, a little black brief type devise, record the entry of the loan... and that kind of electronic transaction which we're starting to see in Bangladesh and Central America, and Andean Latin America, its already starting to really bring the costs down so that shortly there may be only a one or two point difference between the real cost of borrowing and what a microfinance borrower pays.

JENKINS: Tom

EASTON: Just following-up on your question.....two questions: Is there any chance that the UN with its formidable resources all over the world could actually find out and publish how much borrowing costs are all around the world? Because we know the spreads are quite different in each country. I don't think that information is currently available. The second - and this is directly related to it - - you know the year goes very, very quickly. You've had an incredibly successful introduction, you've gotten a lot of attention to microfinance. You know, you could call it a year right now and say well you brought the world's attention to a very interesting area. But eleven months from now when it's over, what would you like to see to consider the year to be a real success?

BROWN: Well, one of the products of the year is a much improved data service on microfinance. How many people are borrowing? And I think if we're not, I think we should be looking at what the rates that their borrowing at? We're doing this work with not just the UN – but with the World Bank, and the IMF are very actively participating in this sort of data book that we envisage going forward. And the data book is to lay the ground work for this broader effort to get a kind of more even pick up of microfinance across all regions and appropriate countries because at the moment, it's a run away success in South Asia, Bangladesh was its original big home, run away success in large parts of Latin America, but moving much more slowly in Africa and some other regions. So we want to see regions which are lagging starting to catch up. Second, we do want to see the not-for-profits, who have carried this sector till now, being able to be helped out and joined in it by commercial banks. And here, I've mentioned several partnerships – but our hope is that the promotional activities of the year will make a few other bank boardrooms around the world sit up and see that this is a business they should be in too. So if we could just get the buzz about microfinance more broadly heard regionally and in boardrooms, and get the data about it more out there, then I think the success stories speaks for itself. The growth and the success will create its own momentum.

DEEN: Tony.....

JENKINS: Hang on, hang on just a moment....let me just say that this is World Chronicle and we're talking about the benefits of microfinance with our guest Mark Malloch Brown, the Administrator of UNDP and we have a piece of video, let's take a look at this

START VIDEO:

Litia Mate needed to start a business. Her husband's wages were not enough to pay for the education of their five children. Litia's idea was to sell cooked seafood at the biggest market in Suva, the capital of Fiji. But to do that she needed to find money. How to get credit? UN coordinator in Fiji, Peter Witham.

WITHAM: "Micro-credit, of course, is directed at giving people resources to start a business, to become economically productive, to have their own little business or a job, when those people would not normally qualify for commercial credit through commercial banks."

NARRATION: It was a micro-credit grant that helped Litia to succeed. Now, once a week, she goes to the wharf and waits for the arrival of the fishing boats. She buys seafood and goes home to prepare it. Thanks to a programme supported by the UN Development Programme, voluntary organizations and the country's government, Litia was able to obtain a small loan and get her business going.

At this market in Lautoka, western Fiji, more than 50 percent of women vendors have benefited from the micro-credit scheme. The rate of repayment here is over 90 percent.

In another initiative, the UN is helping successful small entrepreneurs expand their businesses by getting loans from commercial banks. Most people here have never dealt with banks. The idea is to get them to first open a savings account, says Ravindra Singh from Fiji's Colonial National Bank.

SINGH: At least, they do save something and we are trying to educate them on that. We are also trying to educate them about fees and charges where they can save and we are also giving them business tips too."

NARRATION: 2005 will be the International Year of Micro-Credit. It will be an opportunity to boost micro-credit schemes all over the world. These programmes are a proven way for people to generate income, create jobs and lead a dignified life.

END VIDEO

JENKINS: Now Mark, one of the characteristics of microcredit as we saw in that video is that it seems to be targeted mainly at women. Why is that? I mean I know what my wife would say, but are women a better, safer bet than men? I mean why are you targeting women?

BROWN: Well certainly in the developing countries where micro finances has taken off, one of the characteristics is women do seem to be a safer credit risk.

JENKINS: Oh really! Literally?

BROWN: Yes, Well I think there are several reasons for this. One is that certainly in some places, they have felt excluded from business, disadvantaged in their gender relationships from full participation in the economy. And so microfinance has been a lifeline that they've treated with huge respect. Some other countries, you know, women really are, if you like, the heart of the business group, the ones who really go out and try to earn that decent living wage for the family unit as a whole. So I think there are a lot of those issues. But I think as microfinance grows it will probably lose some of this wonderfully reversed gender bias. And we guys will have a better shot at accessing it too. [all laugh]

JENKINS: Thalif...

DEEN: Tony raised the question of high interest rates on credit. I was wondering how microcredit will play in predominately Muslim countries like Indonesia, where religion forbids interests on loans?

BROWN: Well, as far as I know, in the same way that...you know... banking has - in Muslim banking has found a way - of working rather effectively without ever calling a loan a loan. In the same way, I believe that ways have been found of constructing microfinance schemes in a way which is consistent with the principles of Islam and yet allows it dynamic growth. So, I think, I think we have overcome that difficulty.

JENKINS: Tom...

EASTON: In putting together your year, there must have been some challenges that just seem particularly difficult. In some areas where you just haven't yet gotten the results that you want to get. I mean there is always that kind of thing coming up. What are the things that you have run into?

BROWN: Well I think the first – in a sense with any of these years, which the UN has quite a lot at any one time. The issue is – you know - the crowded – um...the crowded environment out there where it's difficult to be heard. And the striking thing about microfinance is the instant plausibility to so many people. People are very cautious about development aid in general, but who instantly like the idea of giving the poor a bank loan. That that sort of makes good sense to them - the chance of allowing somebody to work their own way out of poverty by extending them that little bit of financial where-with-all to get on-to the first ladder toward prosperity. So, you know...what we found is whenever we call a meeting related to this year, it's the only meetings I've ever been associated with at the UN – I think – where the turnout is three or four times higher than you expected; rather than fifty percent of what you expected. This has a real sort of...kind of grassroots... interest and momentum to it. So, that's the upside. The downside is that it has been entrapped a little in a group of people like UNDP and our civil

society partners - whose huge enthusiasts for it – that it's kind of not out grown us – it has not gone to that next stage to being picked up by commercial banks or others who can really take it to a bigger scale that we can do a loan. And so, persuading, making sure we let go a bit, and go out there and promote it and look at getting partners onboard as a win, not a kind of loss of our own leadership role in the sector is an enormously important message for us in the community that we've got to be big enough to let our young child here, grow up and leave the nest and take a mainstream role in business in developing countries.

JENKINS: This is sort of an anti-UN wind blowing through the United States – or parts of the United States at the moment. Is this one – referring back to what you were just saying – Is this one of the areas where – in fact people who might be instinctively critical of the UN find that they're on the other side of the scale? That they actually – in other words – are the people in the Bush administration, who might not be friendly to other UN programmes, that you find coming in and jumping on this programme?

BROWN: Yes, I mean the Bush administration and I and UNDP have a huge active partnership around private sector development – which is not just microfinance, but the next step up, small and medium sized enterprise development as well, because we have an absolute meeting of minds that important though public aid may be – to build health and education and other basic services - a developing country's long term exit strategy from dependence on aid comes from a vigorous private sector. And a vigorous private sector starts small with one man and one woman businesses, who grow into the IBM's and GM's of tomorrow. And so starting that business chain in poor countries is something that I think the U.S. government and the U.S. private sector, and U.S. citizens – you know - are very keen on and where you are absolutely right there is...the UN and the American message resonate rather than conflict with each other.

DEEN: When you speak of banks, I noticed that you don't make any reference to the World Bank or the Asian Development Bank, or the African Development Bank. Do they have a role to play in microcredit?

BROWN: Absolutely...I mean....um....they do..... I mean like....they have been a provider of funds to local retail operations to on-lend them to the poor. The World Bank itself hosts the main syndicate, the Secretariat that serves the main syndicate of microfinance institutions and the Secretariat called CGAP, which we at UNDP are also active supporters of. So, you know the World Bank is very important as are the Regional Development Banks. But again, if this is never really going to become self sustaining, it's got to outgrow its roots in

development agencies – be they NGOs or the World Bank or UNDP, and become something that is main streamed into real business and where commercial banks pick it up and run with it.

EASTON: Traditionally, I think finance from wealthy companies. ...from wealthy countries to poor countries has been based on providing large electrical power stations or roads or huge infrastructure projects, and you can see that being beneficial for two reasons. One is... it can make a tremendous difference to the country, but the second is it's easier to monitor the construction of a huge hydro electric plant than it is thousands, if not millions of small loans. Is it possible that this interest in microfinance reflects a change in philosophy between how wealthy and poor countries should relate to each other in terms of development? And if the model that we saw in the past, of the hydro electric plant or the roads or the big infrastructure project, is really a model of the past and this maybe the ethnological model of how you relate to poor countries in the future.

JENKINS: Is this a polite way of asking if rich countries are becoming cheapskates?

EASTON: Well that's another way of looking at it. I....

BROWN: I mean look...I think.....

EASTON: Is it a failure of rich countries if we...

BROWN: ...Look, I mean one of the many things that microfinance ultimately cannot work without is infrastructure. Small businesses, even if they have cheap loans, will stay very small if there's not a reliable source of energy, and if their not roads out down which they can take the goods they've manufactured for sale and export in markets away from the place of manufacturer. So I would argue that the development model – if you like – has not so much changed, as evolved. Infrastructure still has its place and in fact, if we've been having this conversation five years ago, one might have said... all those big infrastructure projects are something of the past, we don't need them. I think it has now become clear again that we do need them but that they are not by themselves a total development strategy, that you need to combine that –if you like – hardware of development with the software, which is microfinance, it's health, it's education, it's the human capital and the financial support to that human capital. So, you need both, but the fact is different institutions have skills for each, and the World Bank is particularly skilled frankly at some of the more big capital intensive stuff, and I think others need to focus more on issues such as microfinance.

DEEN: What's the role played by donor nations? Are they cooperating on the microscheme?

BROWN: Donor nations love it because in development there are too often failures. What everybody loves about microfinance is it's usually a success story. So it's very popular

and resources are available. In fact, at the moment with microfinance the real constraint is not lack of donor support, it again comes to this issue of reforming the business model, to bring the costs down and allow it to spread and get it into more countries.

JENKINS: Mark, I love the image that you put into my head just now, when you said eventually this will lead to an IBM or a General Motors. We go from the image of a women buying and selling fish to potentially an IBM – I think that's one of the programmes that the UN presumably is very proud of and feels quite optimistic about it in the future. Good luck on the International Year. That's all the time we have I'm afraid. Thank you for being with us on this edition of World Chronicle. Our guest today has been Mark Malloch Brown, Administrator of the UN Development Programme. He was interviewed by Thalif Deen of Inter Press Service and Tom Easton of the Economist. I'm Tony Jenkins. Thank you for joining us. We invite you to be with us for the next edition of **World Chronicle**.

ANNOUNCER: Electronic transcripts of this programme may be obtained free of charge by contacting World Chronicle at the address on your screen:

World Chronicle

United Nations, Room S-827

New York, N.Y., 10017.

Or by email at: poinesette@un.org

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