

THE TOOLS TO END OF POVERTY: MICRO-CREDIT

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Abstract

Micro-credit programs lend small sums of money to help people help themselves. The programs were initiated by Dr. Muhammad Yunus in Bangladesh, since 1976. Thailand has also set up a micro-credit program called "National Village and Community-Fund (NVCF)," proposed by Dr. Thaksin Shinawatra, Prime Minister. Seemingly, NVCF's project has delegated credit authority on weakening hand of the village-fund committees with unrestricted loan conditionalities. If the micro-credit system has evolved gradually through a structures learning process involving trials, errors, and continuous adjustments, the micro-credit program of NVCF will be the tools to end of poverty in Thai society.

INTRODUCTION TO THE MICRO-CREDIT PHILOSOPHY

Micro-credit programs lend small sums of money to help people help themselves. People, the most micro-credit programs target, are the poorest of the poor. They would not able to get credit elsewhere to set up their small businesses. Moreover, they are "not in a position to undertake an economic activity, partly because they lack business skills and even the motivation for business (United Nations, 1998)." The programs were initiated by Dr. Muhammad Yunus, an economics professor who was a founder of the Grameen Bank in Bangladesh since 1976. It started with Dr. Yunus' lending of \$26 to 42 borrowers who each used of 62 cents to buy the materials for a working day. At the end of the day, they were able to repay the loan. Dr. Yunus found that micro-enterprise programs were a powerful tool to fight poverty and promote economic and social development.

Currently, Grameen Bank is the largest rural finance institution in the country. It has more than 2.3 million borrowers, 94 percent of whom are women. With 1,128 branches, Grameen Bank provides services in 38,951 villages, covering more than

half of the total villages in Bangladesh. The repayment of its loans, which average is over 95 percent. Moreover, borrowers of the bank own 90 percent of its shares, while remaining 10 percent is owned by the government (Grameen Communication, 1998).

Grameen Bank has reversed conventional banking practice by removing the need for collateral and created a banking system based on mutual trust, accountability, participation, and creativity. Over the last fifteen years, Grameen Bank has inspired more than 4,000 people from some hundred countries through its training/exposure programs. Some of these trainees have replicated the Grameen Bank financial system to help the poor people in their own countries to overcome poverty. A total of 223 Grameen replication programs in 58 countries have been established during the year of 1986-1995 (Grameen Communication, 1998). The particular genius of the Grameen Bank model is one of the few great success practices of international development, especially all over the developing world. For example, in Uganda, an anti-poverty program

extends small loans to the poorest families, particular to women, so they can start small businesses and lift themselves out of poverty (Washington Post, 1998). Certainly, the succeeded in replicating the Garmeen Bank model is the powerful demand for an economic stabilization program. But the micro-credit program differs from country to country that most terms and conditions for micro-credit loans should be flexible, easy to understand, and suited to the local conditions of the community.

THAI MICRO-CREDIT PROGRAM: "NATIONAL VILLAGE AND COMMUNITY- FUND"

Thailand is one of the developing countries in the Third World. Due to the poverty of Thai people, micro-entrepreneurs need capital to build financial self-sufficiency, to start their businesses, and to improve their families living conditions. So, Thailand has also set up a micro-credit program called "National Village and Community-Fund (NVCF)". The program was proposed by Thai government under Dr. Thaksin Shinawatra, Prime Minister. NVCF would pledge one million baht to each village across Thai Kingdom. There are totally 71,364 villages from 75 provinces, except Bangkok, the capital city of Thailand and Pattaya City. This money will be used as revolving fund for lending to villagers as an initial investment. NVCF does not aim only to the poor as the members. Dr. Thaksin has a main objective to strengthen the Thai economy through the development from the grass-root communities. Thus, a key membership requirement is a local/village resident who is screened and accepted by village-fund committees. The borrowers must be approved as the fund members in order to have a right the make a loan. The size of loan would be between 20,000-50,000 baht for each member depending on the potential of the project. The loans must be paid back with a year. For the repayment schedule and interest rates, there is no any certain restriction and

regulation. It depends upon the village-fund committees' agreements. Seemingly, NVCF's project has delegated credit authority on weakening hand of the village-fund committees with the unrestricted loan conditionalities. The qualification of committees' members are age over 20 years old, residents (at least two consecutive years in the area), high moral people. Despite the high responsibility of the village-fund committees, the selection criteria of the committees are unclear and unqualified that may fail the NVCF project's objectives. So, Thai government must study the micro-credit concept and establish appropriate credit delivery system particularly suitable for each village/community conditions.

Kaltenheuser (1997) found that some successful micro-credit programs have been closely modeled on Garmeen Bank. Even many other programs have work their own variations, but there are a few constant. Based on the numerous studies, the successful micro-finance organizations should reach and share a common set of lending strategies as the key following pinpoints (Where Credit is Due-Poor women and financial services, 1997):

- To set interest rates at or above market rates, rather than subsidizing loans;
- To offer non-traditional forms of collateral, including group guarantees;
- To simplify application procedures, provide assistance with paperwork, and locate offices convenient to where the clients live and work;
- To reduce a duration between loan application and disbursement;
- To keep loan terms in short period of time (within one year), and more frequently receive the small repayments;
- To advertise and provide information about loans at convenient times and places where most of the clients are gathered together.

Now, over a quarter of the first amount of fund (7,125 million bath) had already transferred one million

bath to each of 7,125 pre-qualified communities across the country in July, 2001. The first phase of NVCF's project implementation, there were some technical errors on the online transfer system at Government Savings Bank (GSB) who is in charge of the money transfers of the project (The Nation, 2001). This made some of the village-fund committee worry and complain. The rest of fund, more than 7,000 millions baht, would be completely reached every listing villages and communities before the year end. Not only the proper infrastructure to delivery micro-finance, but also the simple tool and government supports must be matched a sudden rush of resources unless the credit lending may be flopped.

In practice, credit alone cannot break the cycle of the poverty to the poor who are participating in the NVCF program. Mayfield (1998) have learnt that the successful replicating programs should develop a strong commitment to meet with the members/participants (borrowers) every week on regular schedule, to give training in community development, marketing and entrepreneurial skills and accounting knowledge. The technical assistance along with some training in income generation as well as the civil society and private sector supports, should incorporate in micro-credit programs for a poverty elimination. Only a few months of NVCF's project implementation, the more and more project's obstacles have emerged on its operating functions to the project staffs, the village-fund committees, and project's members (borrowers) in term of impractical policies, illiteracy of the members, the break up of communication and network, the lack of investment plan, complicated accounting system, and so on. Therefore, the NVCF's structure and system is required the special training needed for development of a highly motivated staffs, restrict credit to income-generating production operations, stress on credit discipline and collective borrower responsibility, closely supervision and monitoring standard, and transparency.

THE MYTH OF MICRO-CREDIT: WOMEN PARTICIPATION

Another key successful myth of the Grameen Bank practice is the emphasis on the poor women as the major project clients. As an evidence of the success, the larger than 90 percent of women participants and the extremely high repayment rates of over 95 percent, targeting women is being increasingly advocated (Chronicle, 1998). The United Nations (1999) also recorded that 74 percent of the poorest clients of the 40 largest micro-credit programs involved in the survey were women. Especially, Asian micro-credit practitioners reported that approximately 80 percent of the programs' clients were women (New Straits Times, 2001). As an assessment study on the status of Amahan Ikhtiar Malaysia (AIM)'s micro-credit program revealed about 84 percent of women participants had increased in their monthly household income with an average of RM136 per month while only 65 percent of the male borrowers had increased in their monthly household income with an average of RM65 (New Straits Times, 2001).

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There were many reasons behind the myth of women endowments leading to the success of micro-credit program. One main reason was women lack of access to the loans. Because, traditionally, women were vulnerable, lack of access to education and training, and lack of political power or legal protection (Grawood, 2000). The previous research studied that women could start their businesses with sums of small borrowing money. They were eager to repay the loans and spent their earnings on their family's nutrition, health care, and education (Islam, 1998). Another significant reason was the limited mobility of rural women. In Bangladesh, men have been working outside the village or trading in a provincial market whereas women did not have any specific job (Wahid, 1999). According to the traditional and local culture, this inhibited women's participation in the economy and social roles despite that they had

demonstrated the ability of better repayment rates than men and improving their family's quality of life. Therefore, their needs had begun to change. They need money to spend on themselves and their families (Tinker, 1999). Basu (2000) also said "One reason that women are focused upon is that, in general, women have better retainment rates than men. Women are the ones who come and participated regularly. They are much more faithful clients. And once they get a bit more cash in the household, that cash tends to go toward healthcare and education".

Due to a decade of research shows that the low risk of lending to women has promoted into several programs, originated by the Grameen Bank in Bangladesh. Thus, NVCF of Thailand should have learned that women are more dependable on repaying their loan and put more of the proceeds from their enterprises toward the well-being of their children. If the village-fund committees do really eliminate the poverty, then they should expand micro-credit to Thai women. Moreover, the avoidance of a micro-credit misuse, the NVCF project should be conducted openly in villages to mitigate the chances for corruption and the village-fund committees should also encourage the social returns such as micro-health insurance, the literacy program by establishing the potential of a savings and credit scheme.

Truthfully, there is a risk that micro-credit initiative to combat poverty could be derailed on the lack of appropriate laws, lack of confidence in the abilities of the poor, and uneducated borrowers. Even though, there are a big bunch of NVCF project's obstacles and limitations in the moment of starting period. The hope of success or the fear of failure is unable to anticipate the actual result in the recent future. However, the trial of micro-credit projects is a way in giving Thai people a chance for eradication of poverty, illiteracy, and superstition! In common, some projects may make a trial-and-error, but some other projects may make a trial-and-success. If the micro-

credit system has evolved gradually through a structures learning process involving trials, errors, and continuous adjustments, the micro-credit program of NVCF will be the tools to end of poverty in Thai society.

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