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# 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**