



LEIBNIZ-INSTITUTE OF AGRICULTURAL DEVELOPMENT
IN CENTRAL AND EASTERN EUROPE

Microfinance as a valuable tool to foster rural development

Agricultural Policy Forum 2007

*on
"Agricultural and Rural Development Policies –
Challenges for Institutional Set-up and Cooperation in South Eastern Europe"
November 16-18, 2007, Dresden*

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Structure of talk

1. History of microfinance
2. Year of microcredit – Vision & reality
3. The magical triangle of microfinance
4. Microcredit reduces poverty / fosters economic development – An economic law?
5. Outlook



1 History of microfinance



Prof. Yunus

- Credit on the basis of social and business relationships
- Sector- (agricultural sector) & target oriented credit programs
„Giving & forgiving of credit“
- Subsidized interest policy → weak credit institutes
informal financial sector is becoming acceptable
Rural Finance World Development Report 1989
- Microfinance (industry)



1. History
2. Year of microcredit
3. Magical triangle
4. Credit → poverty?

Outlook

1 History of microfinance



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Definition

Small loans, for poor people, who do not have access to the formal financial sector, particularly commercial banks.

- Target group: small entrepreneurs, poor households
- Use of loan: income generating, investments
- Credit conditions: market oriented & flexible
- Comprehension: simple, adapted towards target group

1. History
2. Year of microcredit
3. Magical triangle
4. Credit ➡ poverty?

Outlook

2 Year of microcredit – Vision & reality



UN Year of Microcredit 2005

1995 Consultative Group to Assist the Poorest



1997 Microcredit Summit
Credit for 100 million poor people until 2005

1998 United Nations
declare 2005 as the year of microcredit

2000 United Nations
8 Millennium Summit Development Goals

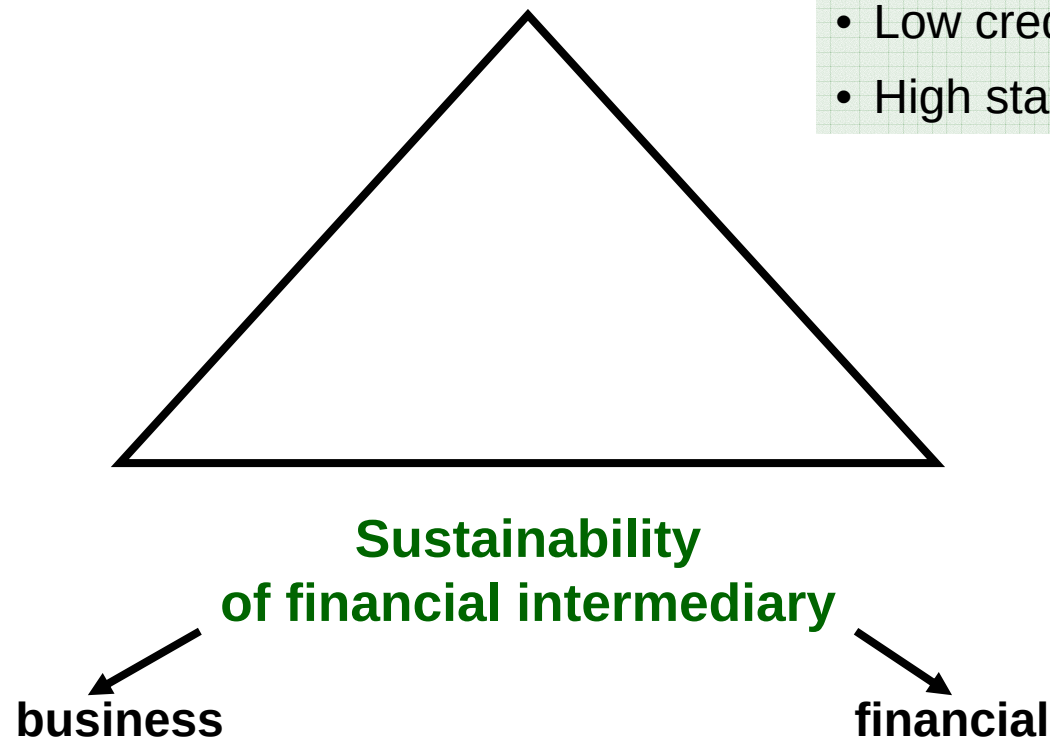
1. History
2. Year of microcredit
3. Magical triangle
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Outlook

3 The magical triangle of microcredit



- Market interest rate
- Low credit loss rate
- High staff productivity



1. History
2. Year of microcredit
3. **Magical triangle**
4. Credit ➡ poverty?

Outlook

3 The magical triangle of microcredit



Outreach to poorer
population groups

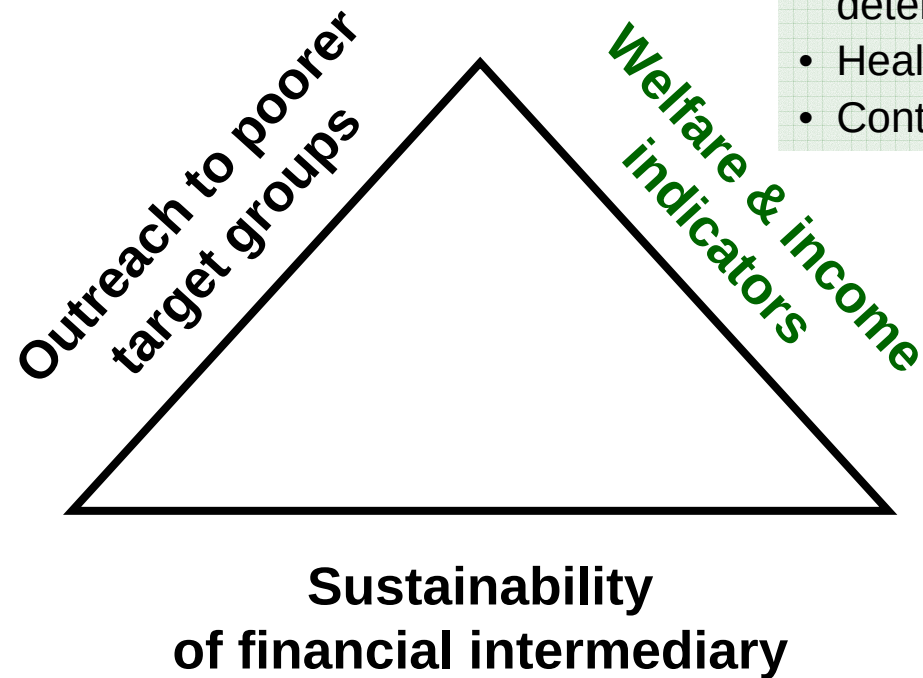
Sustainability
of financial intermediary

- Average credit size
- Income indicators of clientele
- Share of women
- Share of rural clientele

1. History
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3. **Magical triangle**
4. Credit ➡ poverty?

Outlook

3 The magical triangle of microcredit



- Economic potential ↗
- Political and economic influence ↗
- Gender equity
- Organisational capacity & self-determined activity ↗
- Health & food security ↗
- Contribution to regional development

1. History
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3. **Magical triangle**
4. Credit ↘ poverty?

Outlook

4 Microcredit reduces poverty / fosters econ. development – An economic law?



FINCA

Small Loans-Big Changes

Impact =

A long-term and sustainable change (positive or negative), due to a certain intervention in the lives of the target group.

Blankenberg (1995)

1. History
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3. Magical triangle
4. **Credit** ➡ Poverty?

Outlook

5 Outlook



- ~~Market failure — state failure~~
- Apparently efficient development approach
- Good outreach & reach target group
- Economic & social capacity is fostered
- Social situation of women is improved
- Contribution to regional development

1. History
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Outlook



The End

I've heard a lot about money, and now I would like to try some.