Expanding Microcredit Outreach to Reach the Millennium Development Goal — Some Issues for Attention

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Microcredit Global Picture

Micro-credit Summit of 1997 set the goal to reach 100 million poorest families with microcredit, along with other financial services, preferably through the women in those families by 2005. In the recently held Microcredit Summit +5 in NY, we have just reviewed the progress towards achieving this goal during the last five years. Figures compiled by the Micro-Credit Summit Campaign show that by the end of 2001, more that 54 million families around the world benefited from microcredit. Of this number, 26.8 million are among the poorest, or those who live under US $ 1 a day. This is impressive progress from 1997 when we could count only 7.6 million poorest families.

These figures are based on the best available third-party verified institutional data collected from over two thousand organizations that are working to implement the Summit goal of 2005. I made a guess that by the end of 2002 we'll have reached at least 35 million poorest families with microcredit. If this turns out to be close to the real figure this would be significant progress. This would mean that we have crossed over a quarter of the path by 2001 and over a third of the path by 2002, and most likely we'll cross the half-way mark or 50 million families, by 2003. Once we cross the half-way mark, we'll be better equipped psychologically and institutionally to cover the remaining half of the long journey. If this works out, it will mean that we have a good chance to make it to 100 million, or reasonably close to it, by 2005.

What Has Been the Impact on the Poor ?

Independent studies show that microcredit has a host of positive impacts on families that receive it. A World Bank study in 1998 reported that 5% of Grameen Bank, BRAC, and RD 12 of BRDB borrowers move out of poverty each year. A recent World Bank study by Shahid Khondkar (2003) show that micro-credit programs operating in Bangladesh over a long period, have produced a greater impact on extreme poverty than on moderate poverty. "The results of this study strongly support the view that microcredit not only affects the welfare of participants and non-participants but also the aggregate welfare at village level" — Khondkar concluded.

The role of microcredit in disaster situations and post conflict areas has also been well documented, enabling families in those areas to rebuild economic activities and livelihoods when these services are flexible, convenient and easily accessible. Studies have also shown that microcredit programs improve the coping mechanisms of the poor. This was demonstrated very clearly during times of disaster such as during the floods in Bangladesh in 1998. A large number of impact studies have been made on Grameen Bank from different perspectives. They all came up with findings showing significant impact on its members across wide range of economic and social indicators, including increased income, improved nutrition, better food intake, better consumption on clothing, better housing, lower child mortality, lower birth rate, higher adoption of family-planning practices, better healthcare, better access to education for the children, empowerment of women, participation in social and political activities, etc.

According to Grameen Bank's own internal survey, 42% of its borrower families have crossed the poverty line by 2001, judging this on the basis of ten indicators (size of loan, amount of savings, housing condition, furniture in the house, provision of warm clothing, education of the children, etc.) set by Grameen Bank to track impact of its program on the poor families that it serves. To prepare the next generation to stay out of poverty, Grameen Bank encourages the children of Grameen families to enroll in school, stay in school and do well in school. Grameen Bank offers scholarships to top students of each branch, and gives student loans to all students who are going to universities, medical schools, engineering schools or other professional schools. Recently it has introduced a "Five Star" grading system of branches where a branch can win a star for a particular accomplishment. Two of these stars are related to impact of the program. A branch can win a star if the children of all the borrowers are in school or completed at least primary school. Another star can be obtained if all the families under the branch cross over the poverty line satisfying the stringent conditions laid down by the ten indicators formulated by Grameen Bank.

Impact studies of the Grameen replicators in other countries, such as, ASHI, Dungganon, and CARD in the Philippines, SHARE and ASA in India, Nirdhan and SBP in Nepal all show increases in income among the borrowers.

How to Expand the Outreach

Although the growth of microcredit to the poor is encouraging, there is still a number of constraints to the expansion of microcredit. Bangladesh is still the only country where microcredit outreach is over 75% of the poor families. In most of the countries it has not even reached 10% of the poor families. To reach the Summit goal of 100 million, each country must reach out to 50% of the poor families within that country. Therefore, there is a lot of catching up to do. Why this is not happening yet ? Donors explain that there is not enough capacity on the ground to build a higher outreach. Microcredit organizations complain that they are stuck with unutilized capacity, but no money, grant money or soft loan or market money, is available to them.

Why Money is not Being Available ?

If micro-credit is such a sensational idea, how come money is not flowing in to make the growth of outreach happen ?

I see the following problems.

I. Lack of initiative in creating financing institutions.

II. Absence of legal framework for creating microcredit institutions.

III. Barriers in accepting deposits.

IV. Absence of regulatory framework.

V. Lack of conceptual clarity.

I. Source of Fund for Microcredit :Wholesale Fund

A : PKSF

Delivering microcredit to the poor and the poorest still is basically an NGO activity. That's probably the reason why we see all the dynamism around it. We'll not be too far off the mark if we guess that globally at least three-fourth of the borrowers receive microcredit from NGOs. For quick expansion of outreach of microcredit, NGOs proved to be the best vehicle. New concepts needed experimentation. Institution building takes time; creating new legal framework needs experience. Now, of course, many NGOs have matured in their management skill of handling microcredit. But at the same time they have started facing new problems because they are not part of the formal financial structure. Time has come that selectively some of the NGOs are allowed to assume the role of formal financial institutions, if they are interested in it. We should open the door. Let the NGOs decide who will enter when, if they'll enter at all.

Most critical problem faced by NGOs today is finding money to lend out to the poor. Existing microcredit programmes are coming to virtual halt in their expansion programme, and finding it difficult to continue their present programme because of lack of funds.

One solution that Bangladesh found to this problem is to create a national wholesale fund — PKSF. Government and the World Bank put their money into PKSF, which in turn makes this money available to the NGOs. The reason NGOs in Bangladesh demonstrated a hefty growth rate is because of this existence of the wholesale fund.

It has provided about US $ 262 million to nearly 200 NGOs to carry out microcredit programmes. It has been argued that in countries where there are not enough microcredit programmes, the establishment of wholesale fund cannot be justified. This is a chicken-and-egg issue. One can argue the other way around by stating that the main reason for microcredit programmes not getting off the ground in a country is because there are no a priori funds available for start up of microcredit programmes and for their expansion. Bangladesh microcredit NGOs have benefited from PKSF enormously. Philippines, Pakistan and Nepal also have created wholesale funds. Important consideration in creating these wholesale funds is to make sure they are kept away from Government influence and control. Wholesale funds can be created in many different ways. Two or more banks can join hands to create microcredit wholesale funds. A single bank can do that too. Foundations and trusts can create wholesale funds. Business enterprises, NGOs, any civil society organisation (such as, Rotary Club, Lions etc.) can create wholesale funds. It would be a good idea to have several wholesale funds, rather than just have one national wholesale fund. There should be local, regional wholesale funds as well.

B : Grameen Trust --- An International Wholesale Fund

It is a good idea even to start wholesale funds internationally. This may set the stage for setting up wholesale funds within each country. Grameen Trust was created in 1989 to provide support to start Grameen replications in other countries. It became clear that NGOs could not attract even a small amount of money to start a microcredit programme because they had no track record. How can you have a track record if you don't get any money to create a track record ? Grameen Trust started providing start-up money for projects all around the world since 1991. In most of the cases Grameen Trust's support was provided to create microcredit programmes from scratch. In several cases, individual persons were encouraged to create NGOs to start Grameen programmes with Grameen Trust funds. Grameen Trust provided loan funds, operational funds, training, and technical assistance which enabled these projects to establish their programmes, build track records, and eventually source funds locally and internationally. Seed money from Grameen Trust has now created a large number of successful microcredit programmes around the world.

Funded by donors to-date, Grameen Trust has supported 113 organizations in 34 countries in Asia and the Pacific, Africa, Latin America and Europe. It has lent a total of US $ 16 million to these organizations, who have in turn lent out US $ 374 million, mostly donor money, to their borrowers, an indication of how these organizations have leveraged the loans of between US $ 50,000 and US $ 150,000 that Grameen Trust has provided. The total outreach of these organizations is now a million members, 99% of whom are women.

The organizations which entered the microcredit world with Grameen Trust's seed capital have grown to become top performing NGOs in their countries, for example, KASHF in Pakistan, SHARE in India, Dunganon and ASHI in Philippines, SBP in Nepal, Capital Aid Fund in Vietnam, all of whom have reached thousands of members and are now raising funds from local banks and financial institutions. Some have transformed themselves into banks, such as, CARD in the Philippines, and Nirdhan Utthan Bank in Nepal.

The key features of Grameen Trust's programme is that it extends loans, rather than grant, to provide incentive to create sustainable programmes. It has created new microcredit organizations by supporting start-ups. It has developed methodology to select NGOs or individual persons to start NGOs in far away countries, speaking different languages, to provide funds to these NGOs to start a microcredit programme and run it successfully. Grameen Trust's location in Bangladesh has enabled it to keep its administrative cost low.

BOT Approach of Grameen Trust

Another type of donor funded programme Grameen Trust undertook was to go to a country to create a microcredit programme by themselves under a Build-Operate-Transfer (BOT) contract. In such cases Grameen Trust sent their own staff to build and operate a microcredit programme on site, by recruiting and training local staff. This approach we found produced results the fastest. Lag time between a decision to start a programme and actually get going with the programme on the ground is minimal. Probability of success is also very high. Many risks and uncertainties can be bypassed under this arrangement. Donors and governments can try this arrangement whenever they are in doubt about the success of the programme. BOT approach can contribute to rapid expansion of microcredit in areas where it doesn't exist.

Grameen Trust set up BOT projects in Myanmar and in Kosovo. The Myanmar programme which has been handed over to the local management recently, reached 37,000 borrowers in 5 years. Kosovo programme began two years back. It now has over 5000 women members. It was quite a challenge to Bangladeshi staff to go from tropical Bangladesh and build a programme in a part of Europe which remains covered with snow for a good part of the year. This program has helped rebuild economic activities of the war ravaged families of Kosovo.

Interest Rate Policy for Wholesale Funds

Experience of PKSF and Grameen Trust tells us very clearly that the wholesale funds can manage donor money for microcredit in the best possible way. They can play a very important role in bringing standardisation and promoting best practices among the microcredit programmes, and act as a pivot linking the informal microcredit programmes with the mainstream financial system through financial intermediation.

For long term sustainability of the NGO microcredit programmes and the wholesale funds the interest rate policy of the wholesale funds must be carefully designed. Its interest rate should start at near zero for start-up programmes. At the other extreme, wholesale funds must charge market interest to mature programmes. In other words, a wholesale fund should draw a line beyond which it will provide loans only at the market rate. There will be in-between rates for other programmes. The interest rate policy should neither be one-rate-for-all, nor same-rate-for-the-same-organization-for-all-times. Objective of the policy would be to graduate a microcredit programme from subsidized loans to market rate loans within a reasonable time span. If a microcredit programme feels that it has unlimited access to subsidized loans it will never take initiative to prepare itself to operate in a market environment.

Loan Guarantee Service — Another Way to Source Funds

Besides providing funds, wholesale funds may also provide loan guarantee services to the partner organisations when they wish to borrow from banks and other sources. The most important service would be to provide guarantee to public deposits collected by a partner organization. A wholesale fund can persuade the central bank to allow the partner organizations to collect public deposit upto a limit (such as, not exceeding 50% of the loan outstanding) with its guarantee. This will open up a new source of fund for the partner organizations. Wholesale funds will be relieved from the constant pressure to find new money to feed the partner organizations.

Introducing a deposit insurance programme to cover the deposits in the NGO microcredit programmes can be another solution. An NGO may be allowed to take public deposit provided it is 100 per cent covered under this insurance programme. Wholesale funds may organise such a programme in collaboration with central bank, insurance companies or government agencies.

Most important responsibility that I see coming to the wholesale funds is to help partner organizations become formal microcredit organizations within a new legal framework. Wholesale funds can play the role of midwives, overseeing the transition process from NGOs to formal financial institutions.

Legal Framework to Graduate From Informal to Formal Financial Institutions

Absence of legal framework for microcredit programmes is a big constraint to their expansion. Microcredit institutions operate in a variety of institutional structures — research projects (China), NGOs, trusts, non-bank finance corporations, banks, financial companies, and so on. Since there is no berthing place in the legal slots where a microcredit programme can fit in, it adopts an uncomfortable home just to give itself a legal cover. While it solves the immediate problem of legal cover, it runs into the problems of being a guest in an adopted "home". Many programmes that have reached scale and wish to convert themselves into financial institutions are unwilling to do so because of these problems. Then there are the problems of minimum capital requirement and the most terrifying requirement, of taking collateral against their loans.

Caught in a Strange Situation

Microcredit programmes are caught in a strange situation. They are blamed that they always remains donor dependent. It is pointed out that they cannot scale up their programmes because they do not have absorptive capacity. But in reality most of the programmes neither want to be dependent on donors, nor do they have to be donor dependent at all if they are allowed to take public deposits. But law does not allow them to do so, because they are not financial institutions. Once they can take deposits they can be totally independent from the donor money and scale up their programmes with the money they mobilize. Some of Grameen Trust's partners have transformed themselves into banks (CARD, Nirdhan), but others still struggle with the issue of legal identity and operate in gray area of the law. Creating the legal space for microcredit programmes is essential to enable them to grow unhampered.

Once a microcredit programme is legally allowed to accept public deposit it can immediately solve the problem of sourcing funds for expansion of the programme. In Grameen Bank we see it very clearly. Recently we introduced a new system for opening new branches of Grameen Bank. A new branch now starts with taking public deposits, rather than starting with looking for new groups of borrowers — which was the traditional style of opening a new branch in Grameen Bank. A new branch looks for borrowers only when it mobilises enough funds to carry on its lending activities entirely with its own deposits. We make it very clear to these branches that they'll have to find their funds locally, they'll never get any loanable fund from the head office. It is working out very well.

In some countries, such as, the Philippines, Pakistan, Nepal, Uganda, Mexico, and Venezuela laws for microcredit have been created. These laws can serve as examples for microcredit laws in other countries. It would be useful to design the general framework of a law for setting up microcredit banks, the core elements of which can be applied or adapted in each country.

Microcredit has come a long way. Leading NGOs running microcredit programmes have now reached a stage of development where they may seriously consider the pros and cons for converting themselves into formal financial institutions if conducive laws are available to them. Grameen Bank became a formal bank back in 1983 under a special law passed by the parliament. On many occasions I have argued to generalise the Grameen Bank law to allow NGOs in Bangladesh to create formal banks under this general law. Now time has come to look at this issue very seriously.

Pakistan has passed a law to create Microfinance Banks (MFB). First Microfinance Bank has already been created in Pakistan under this law. This would be a good case to study before drafting a new legislation for creating a MFB.

Some Issues For Lawmakers' Consideration

Here are some of the considerations which should be kept in mind while drafting a law for creating microfinance Banks :

a) The most important consideration is that the law should be designed in such a way that it makes it attractive for the NGOs to convert themselves into formal financial institutions.

b) The second important consideration is that a regulatory body should also be created simultaneously to oversee the operation of the microfinance banks and to facilitate their activities. Microfinance regulatory body should be independent from the central bank, but participated by the central bank. It can be created in the form of a "Microfinance Commission". At least one of the commission members must be with grassroot microfinance experience, while one member should be from the central bank. First chairman of the commission will play the most important role in creating the formal microfinance regulatory environment.

He/she may be chosen very carefully so that the Commission does not scare away the NGOs from entering the formal world. Rather they queue up to become formal microfinance institutions.

c) The law may allow creation of microfinance banks with several options in terms of operational areas and levels of services.

The law may give options for several levels of operational areas for MFBs. These levels may be defined by geographical areas, like, sub-districts, districts, provinces etc. I think defining by geographical areas would not only be convenient administratively, but also more meaningful in terms of making an MFB focus its services to a given area, local pride may give impetus leading to the success of the MFB, inter-area competition can also help improvement of efficiency of the MFB's.

Four type of licenses can be issued for setting up MFBs.

Type A : Allows operation only at the lowest level administrative area, such as, sub-district, upajela, block, thana etc.

Type B : Allows operation within a district or county only.

Type C : Allows operation within a province or state or division, as the case may be.

Type D : Allows nationwide operation.

License fees should be made the cheapest and other requirements the easiest, for Type A MFBs. Fees should get higher and other requirements tougher as the MFBs go for wider geographical coverage. In Bangladesh, for example, an MFB may be allowed to start with a nominal paid-up capital of, say, Tk 250,000 (US $ 4,300) for a Type A license. For a national license it can be fixed at, say, Tk 5.0 million (US $ 86,000).

Licenses can be provided after a long and hard quality-check of the microcredit operation of an NGO. An NGO can apply for an MFB license for any level of geographical coverage. After preliminary scrutiny of the application an NGO may qualify to be considered for a license. Then a year-long mutual consultation and orientation process may begin. If the regulatory commission finds everything satisfactory it may grant a license after the completion of the waiting period.

d) License fees may vary according to the ownership structure of the MFBs. If more than 50% ownership is with the poor borrowers, license fees will be the lowest. Next lowest will be if MFB is created as a not-for-profit company. A for-profit MFB can be owned fully or partially by a non-profit organisation. Borrowers may own an MFB jointly with an NGO.

e) MFBs will be allowed to take public deposits. But there should be a limit upto which public deposit can be accepted; for example, balance of public deposits should not exceed the amount of total loan outstanding by a certain percentage.

f) National MFBs will be allowed to give agricultural loans, rural SME loans, and all other rural loans, but the loans to microcredit borrowers must form more than half of the total loan portfolio.

g) MFBs can be set up as a start-up bank, without any microcredit track record. In such cases, a provisional license can be issued only for a sub-district level MFB for a year or two. This may be confirmed and upgraded to a higher level license after reviewing the performance. Direct license for a higher level MFB may not be issued, for a start-up MFB.

If the above type of legal framework is created, I am sure NGOs will come forward to try out the legal water by converting some of their branches into MFBs while keeping the bulk of their operation under the NGO format. It is upto the regulatory commission to make the newly created test case MFBs feel comfortable and convince the NGOs that it is so much advantageous to convert informal microcredit programmes into MFBs.

Transforming NGOs into MFB is the only way to self-reliance for microcredit programmes. Besides, creation of MFBs can strengthen the financial system of a third world country by filling in a vacuum left by the conventional banks, and give a boost to the emergence of a local level grass-root economy.

For fastest expansion of the outreach of microcredit it is the donors who have to take the lead role. It has been well-demonstrated already that the sure way to expand microcredit is to help NGOs to get involved with microcredit programmes. NGOs can do that if donors are willing to support them with grant money or soft loans. Donors can provide the money directly to the NGOs, but the best way to deliver it to NGOs would be to do it through wholesale funds. It is difficult for an NGO start-up to become financially sustainable immediately. During this phase they need subsidized funds, not necessarily grant money. Giving grant money to microcredit NGOs may be rather a wrong strategy. Grant money can go to the wholesale funds, which can on-lend it to the NGO start-ups as subsidized loans. Gradually subsidy can be reduced as the microcredit programmes mature. MFBs, however, may not need subsidized money.

Donors As Source of Fund

During eighties donors showed strong support to microcredit. It was hoped that donors will continue to support microcredit programmes in an enthusiastic way because it addresses all the issues that have high priority in their agenda. Poverty reduction, women empowerment, nutrition, health, family planning, education, housing, self-reliance, sustainability all are addressed by microfinance. But in reality the donors gradually became rather skeptical about something or other about microfinance. Sometimes it is sustainability issue, sometimes it is not-reaching-poorest issue, sometimes commercialisation issue, sometimes impact issue. Some how they now give the impression of being cautious observers of microcredit, rather than its enthusiastic promoters. One explanation for this may be that the donor officials have been receiving confusing advice. They create confusion by formulating their questions in a wrong way. Their discussion goes on endlessly about whether microcredit can reach the poor, whether it reduces poverty, whether it is sustainable, etc. Instead, the right way to proceed would have been to identify the microcredit programmes who do all these and encourage the donors to support them. They want all types of microcredit programmes to show the same result. Donor advisors come from different direction of expertise. Most of them do not come with any "microcredit" expertise. So they assemble everything under the sun which come in the shape of small loans, and call all of these as microfinance. From this big pot, full of "microfinance" stew, they pick up all kinds of examples to come up with all kinds of conclusions.

If we can clarify what we exactly mean by the word "microcredit" when we use it in our dialogue with donor officials we may help them to take appropriate decisions for each category of "microcredit". They may not feel as hesitant as they are now. I am focusing on the word "microcredit", instead of "microfinance" because all the problems are concentrated in the "credit" component of microfinance. Once we get a clear picture of "microcredit", we won't have any problem left with "microfinance". Inter-disciplinary (health, education, technology, human-capital, etc.) competition with microcredit within the donor agencies, may take a turn to inter-agency collaboration with microcredit if right type of microcredit programme/s can be isolated.

Which Microcredit We Are Talking About ?

The word "microcredit" did not exist before the seventies. Now it has become a buzz-word among the development practitioners. In the process, the word has been imputed to mean everything to everybody. No one now gets shocked if somebody uses the term "microcredit" to mean agricultural credit, or rural credit, or cooperative credit, or consumer credit, credit from the savings and loan associations, or from credit unions, or from money lenders. When someone claims microcredit has a thousand year history, or a hundred year history, nobody finds it as an exciting piece of historical information.

I think this is creating a lot of misunderstanding and confusion in the discussion about microcredit. We really don't know who is talking about what. I am proposing that we put labels to various types of microcredit so that we can clarify at the beginning of our discussion which microcredit we are talking about. This is very important for arriving at clear conclusions, formulating right policies, designing appropriate institutions and methodologies. Instead of just saying "microcredit" we should specify which category of microcredit.

Let me suggest a broad classification of microcredit :

A) Traditional informal microcredit (such as, moneylender's credit, pawn shops, loans from friends and relatives, consumer credit in informal market, etc.)

B) Microcredit based on traditional informal groups (such as, tontin, su su, ROSCA, etc.)

C) Activity-based microcredit through conventional or specialised banks (such as, agricultural credit, livestock credit, fisheries credit, handloom credit, etc.)

D) Rural credit through specialised banks.

E) Cooperative microcredit (cooperative credit, credit union, savings and loan associations, savings banks, etc.)

F) Consumer microcredit.

G) Bank-NGO partnership based microcredit.

H) Grameen type microcredit or Grameencredit.

I) Other types of NGO microcredit.

J) Other types of non-NGO non-collateralized microcredit.

This is a very quick attempt at classification of microcredit just to make a point. The point is — every time we use the word "microcredit" we should make it clear which type (or cluster of types) of microcredit we are talking about. Otherwise we'll continue to create endless confusion in our discussion. Needless to say that the classification I have suggested is only tentative. We can refine this to allow better understanding and better policy decisions. Classification can also be made in the context of the issue under discussion. I am arguing that we must discontinue using the term "microcredit" or "microfinance" without identifying its category.

Microcredit data are compiled and published by different organizations. We find them useful. I propose that while publishing these data we identify the category or categories of microcredit each organization provides. Then we can prepare another set of important information — number of poor borrowers, and their gender composition, loan disbursed, loan outstanding, balance of savings, etc. under each of these categories, countrywise, regionwise, and globally.

These sets of information will tell us which category of microcredit is serving how many poor borrowers, their gender break-up, their growth during a year or a period, loans disbursed, loans outstanding, savings, etc. The categories which are doing better, more support can go in their direction. The categories which are doing poorly may be helped to improve their performance. For policy-maters this will be enormously helpful. For analysis purpose this will make a world of difference.

I urge Microcredit Summit Campaign secretariat to present the information that they already collect on number of clients, number of the poorest among them, number of poorest clients that are women, number of clients that have crossed the poverty line — broken down for each of the categories of microcredit. This will help donors to select the categories they would like to support. This sorting out is very important for the donors, as well as the policymakers.

Grameencredit

Whenever I use ~~d~~ the word "microcredit" I actually have in mind Grameen type microcredit or Grameencredit. But if the person I am talking to understands it as some other category of microcredit my arguments will not make any sense to him. Let me list below the distinguishing features of Grameencredit. This is an exhaustive list of such features. Not every Grameen type programme has all these features present in the programme. Some programmes are strong in some of the features, while others are strong in some other features. But on the whole they display a general convergence to some basic features on the basis of which they introduce themselves as Grameen replication programmes or Grameen type programmes.

General features of Grameencredit are :

(a) It's mission is to help the poor families to help themselves to overcome poverty. It is targeted to the poor, particularly poor women. Reaching the poor is its non-negotiable mission. Reaching sustainability is a directional goal. It must reach sustainability as soon as possible, so that it can expand its outreach without fund constraints.

(b) It is offered for creating self-employment for income-generating activities and housing for the poor, as opposed to consumption.

(c) Most distinctive feature of Grameencredit is that it is not based on any collateral, or legally enforceable contracts. It is based on "trust", not on legal procedures and system.

(d) All loans are to be paid back in installments (weekly, or bi-weekly).

(e) In order to obtain loans a borrower must join a group of borrowers.

(f) Loans can be received in a continuous sequence. New loan becomes available to a borrower if her previous loan is repaid.

(g) Simultaneously more than one loan can be received by a borrower.

(h) It comes with both obligatory and voluntary savings programmes for the borrowers.

(i) Generally these loans are given through non-profit organizations or through institutions owned primarily by the borrowers. If it is done through for-profit institutions not owned by the borrowers, efforts are made to keep the interest rate at a level which is close to a level commensurate with sustainability of the programme rather than bringing attractive return for the investors. Grameencredit's thumb-rule is to keep the interest rate as close to the market rate, prevailing in the commercial banking sector, as possible, without sacrificing sustainability. In fixing the interest rate market interest rate is taken as the reference rate, rather than the moneylenders' rate.

(j) It was initiated as a challenge to the conventional banking which rejected the poor by classifying them to be "not creditworthy". As a result it rejected the basic methodology of the conventional banking and created its own methodology.

(k) Grameencredit gives high priority on building social capital. It is promoted through formation of groups and centres, developing leadership quality through annual election of group and centre leaders, electing board members when the institution is owned by the borrowers. To develop a social agenda owned by the borrowers, something similar to the "sixteen decisions", it undertakes a process of intensive discussion among the borrowers, and encourage them to take these decisions seriously and implement them. It gives special emphasis on the formation of human capital and concern for protecting environment. It monitors children's education, provides scholarships and student loans for higher education. For formation of human capital it makes efforts to bring technology, like mobile phones, solar power, and promote mechanical power to replace manual power.

(l) It provides service at the door-step of the poor based on the principle that the people should not go to the bank, bank should go to the people.

(m) It promotes credit as a human right.

Grameencredit is based on the premise that the poor have skills which remain unutilised or under-utilised. It is definitely not the lack of skills which make poor people poor. Grameen believes that the poverty is not created by the poor, it is created by the institutions and policies which surround them. In order to eliminate poverty all we need to do is to make appropriate changes in the institutions and policies, and/or create new ones. Grameen believes that charity is not an answer to poverty. It only helps poverty to continue. It creates dependency and takes away individual's initiative to break through the wall of poverty. Unleashing of energy and creativity in each human being is the answer to poverty.

Grameen brought credit to the poor, women, the illiterate, the people who pleaded that they did not know how to invest money and earn an income. Grameen created a methodology and an institution around the financial needs of the poor, and created access to credit on reasonable term enabling the poor to build on their existing skill to earn a better income in each cycle of loans.

If donors can frame categorywise microcredit policies they may overcome some of their discomforts. General policy for microcredit in its wider sense, is bound to be devoid of focus and sharpness.

Conclusion

Next five years will be very critical in terms of making adequate institutional, financial, and policy preparations for reaching the MDG of 2015. In five years we'll cross the half way mark along the time span allocated for reaching the goal. If we fail to make appropriate preparations we'll fail to achieve the goal. Certainly we do not wish to accept the option of failure.

Microcredit can play a vital role in attaining the MDG. Information technology supported by microcredit can be a very powerful force getting half the world's poor out of poverty by 2015. Issues raised in this paper needs to be seriously considered to get the world ready for successfully completing the most exciting task mankind ever embarked on. Let us not fail in this endeavour.