

COMMUNITY DRIVEN DEVELOPMENT IN ECA:  
EXPERIENCE WITH MICROCREDIT.

Brown Bag Lunch, April 10, 2001  
12:30-2:00 PM

The Brown Bag Lunch (BBL) of April 10<sup>th</sup> on Community Development experience with Microcredit was the fifth BBL of the series on Community Driven Development in ECA. The BBLs are organized by the ECSSD Social Development Unit. The objective of this BBL was to explore community involvement with Microcredit and discuss the implications of the CDD approach for the future developments in the Microcredit area.

Laura Tuck chaired the BBL, followed by presentations by Douglas Pearce (The Consultative Group to Assist the Poorest, CGAP) and Kathryn Funk. Douglas presented the general topic of Microcredit in the ECA Region and the linkages with community driven development. Douglas gave a basic definition of microcredit and briefly introduced CGAP. He outlined the characteristics of microcredit in ECA in comparison to other regions as: (1) being a new emerging industry in the region, (2) having fewer microfinance institutions, (3) more focused on enterprise lending than financial services for the poor, (4) having a higher-end clientele (e.g. globally microcredits average around \$600, in ECA as high as \$2,000), and (5) significant differences in the development of this sector between countries. One way forward for the microcredit sector in ECA is through building on existing community-owned or managed institutions.. The credit union model offers great potential for formalization of community-level savings and credit mechanisms. In addition to other issues, Douglas addressed situations where microcredit may not be a suitable response in ECA, or where it should be complemented by other interventions. He concluded the presentation with three main points for further discussion: (i) microcredit has great potential to promote economic development, but other interventions may be required first; (ii) improved linkages between microcredit and CDD are needed, including inter-linked programming responses; and (iii) the scope for informal financial institutions may be more limited in ECA than elsewhere, thus, assistance is needed to help informal financial sector institutions to formalize.

Kathryn presented community aspects of the rural component of the Albania Microcredit Project. Kathryn discussed the development of the project since 1993 when the first village credit funds were started in a participatory way. In the context of the project, she addressed the extremely difficult economic and institutional conditions in the country. For the project implementation, the main challenge has been that the implementing agency – an autonomous government foundation (Albanian Development Fund, ADF) -- has not provided an institutional environment conducive to fiscal discipline or sustainability. By 1999, when the second microcredit project became effective, the focus has been shifted to development of private, sustainable savings and credit associations (SCA), that are governed by a private SCA union. Kathryn pointed out that the main lessons learned are (1) the credit delivery mechanisms have to be based on local context and tradition, (2) community-based microfinance can overcome rural finance systemic weaknesses and withstand political/civil crises, and (3) early emphasis has to be placed on financial sustainability and institutional environment. For further details on the presentations, please see the attached PowerPoint presentations.

The presentations were followed by a discussion addressing such issues as:

- In comparison to other areas in the world, the scope for informal microcredit arrangements in ECA is more limited. For one reason, in ECA there is a stricter interpretation of the law. Additionally, once governments' administrative capacity improves, they start imposing taxes and other regulations that make informal microcredit arrangements more difficult. In the ECA countries there is a strong demand for safe savings and deposits, and only formal institutions are generally allowed to offer savings services. Informal arrangements are also not able to offer a wider range of financial services. Informal arrangements built on existing community level structures would benefit from modification to a recognized legal form, in order to ensure their long-term sustainability
- There have not been many studies on microcredit in the region that explicitly focus on poverty issues. The studies carried out so far have been more concerned with financial sustainability of the project and it is not exactly clear how microcredit impacts poverty, what are psychological effects of microcredit programs and how microcredit affects household level incomes. As was pointed out, the fact that the farmers have a good record of paying back on their loans might be a result of pressures, yet might not have an impact on poverty reduction. Based on the studies carried out in Albania, there is evidence that people often do not pay back with investment income because, for instance, they build up their animal stock.
- The BBL's concentration was mostly on rural microcredit, but in practical terms there is often little difference whether microcredit programs are in rural or urban settings. An urban environment provides higher population densities and economic activity levels, while in the countryside a low level of economic activity and isolation can be a hindrance. Microcredit in urban areas is often more formal and relies less on informal communal arrangements.
- Behind the success in microcredit projects, there are often charismatic managers with a vision to offer. Their role has also been important in terms of not being susceptible of political pressures. However, in Albania it is the people in the communities who make the loan decisions and make sure the loans are repaid. The project uses village solidarity to ensure loan repayment and loan security is maximized by bringing loan allocation decisions to the village level and making follow-up the responsibility of VCCs. By enforcing a 100 percent repayment protocol, and making this a condition of future disbursement, the incentive for VCCs to collect repayment has remained high.
- Depending on the institutional development level, it might not be necessary to introduce small scale financing through the initial informal microcredit process. Micro Enterprise Banks have been used for instance in Georgia and Bosnia. In rural Albania, with the poor as the intended clientele, a community based financing model provided the most viable model, and a reliable way to ensure loan repayment.

Over 30 people attended the BBL.

For further information on the BBLs, please contact Evelin Lehis at extension #32884.