

**The Grameen Bank micro-credit model:  
lessons for Australian indigenous  
economic policy**

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Professor Jon Altman  
Director, CAEPR  
The Australian National University  
April 1999

## Foreword

During 1998, two academic staff at the Centre for Aboriginal Economic Policy Research provided Ms Siobhan McDonnell with supervisory advice during her research for an Honours thesis in economics at The Australian National University. Late in 1998, Ms McDonnell completed her thesis 'Giving Credit Where Its Due: A Study of the Feasibility of Replicating a Grameen Bank Type Model in Rural Aboriginal Communities in Australia'.

This thesis was especially topical as during 1998 the House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs (HORSCATSIA) was conducting an Inquiry into Indigenous Business and the issues of access to venture capital and micro-credit were clearly of policy relevance. While undertaking research for her thesis, Ms McDonnell maintained contact with HORSCATSIA staff.

The Federal election of October 1998 cut short the HORSCATSIA Inquiry and a final report on the indigenous business Inquiry was not completed (see CAEPR Discussion Paper No. 177). Nevertheless, the issue of the applicability of Grameen Banks to the indigenous Australian context remains extremely relevant, as does the wider issue of indigenous access to credit. Consequently, in February 1999, I negotiated with Ms McDonnell to spend a period of time at CAEPR as a Visiting Research Scholar (with grant) revising her honours thesis into a CAEPR discussion paper. Since then she has continued working at CAEPR as a part-time Research Assistant to Dr Boyd Hunter, working on indigenous poverty issues.

As a young graduate economist, Ms McDonnell has taken an important initiative in defining a research question and undertaking rigorous desk-based research to address it. I commend her efforts and believe her paper makes a significant contribution to an important, and very current, indigenous economic policy issue.

Professor Jon Altman  
Director, CAEPR  
April 1999



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## Summary

Policy-makers have become increasingly interested in the use of micro-credit models to alleviate poverty among Australian indigenous communities. These models, such as the model developed by the Grameen Bank, work to extend small amounts of credit to entrepreneurs too poor to qualify for commercial lending. The key element of the Grameen Bank model is its peer group lending structure, which fosters mutual accountability for loans among borrowers.

Neither the Aboriginal and Torres Strait Islander Commission (ATSIC) nor commercial lending institutions have utilised micro-credit lending strategies. While internal analysis conducted by ATSIC shows that smaller loans (of less than \$30,000) are more likely to be repaid, ATSIC loans to indigenous businesses continue to be relatively large. Restriction of lending to large loans has, however, effectively excluded large numbers of potential borrowers from access to credit. Credit access problems are further compounded for indigenous women, who often have limited credit records and no collateral.

Case studies of replications of micro-credit programs with indigenous communities in America and Canada show that it is possible to adapt these programs to developed countries. However, policy-makers may encounter a series of problems when trying to adapt a similar model to Australia. In particular the presence of low population density, welfare payments, investment opportunities and specific indigenous cultural practices are problems that need to be addressed if such a model is to be viable.

## Acknowledgments

As always, writing a paper is a learning process. It is for this reason that I am greatly indebted to the staff of the Centre for Aboriginal Economic Policy Research for providing me with a supportive environment in which to work. In particular I must thank Jon Altman, Bill Arthur, Boyd Hunter and John Taylor for their extensive comments on previous drafts of this paper. Thanks also to Pierre van der Eng and Mac Boot, Department of Economic History, The Australian National University, for their encouragement and assistance. Finally, thanks to Linda Roach for editorial assistance and Jennifer Braid for layout.





## Introduction

In their recent submission to the House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs (HORSCATSIA) Inquiry into Indigenous Business the Aboriginal and Torres Strait Islander Commission (ATSIC) argued for the need 'to focus on very small or micro-businesses as having the greatest potential for increasing indigenous economic status and job creation' (ATSIC 1998: iii). If indigenous micro-businesses are ever to generate these gains they must be provided with adequate access to credit. One credit model that has been receiving increasing amounts of attention in Australia is the Grameen Bank micro-credit model.

The Grameen Bank defines micro-credit as the extension of small loans to entrepreneurs too poor to qualify for commercial lending. Accordingly, micro-credit programs extend small loans to poor people for income generating self-employment projects. The Grameen Bank micro-credit model has been successful in providing financially viable lending structures in a number of countries in ways that economically empower impoverished women by giving them access to credit. This success has led to replications of the Grameen Bank's model throughout the world.

This discussion paper explores key features of the Grameen Bank model and examines lessons that can be learnt from its replication in other countries. These lessons may be helpful in formulating policy to enable indigenous people, and in particular women, gain access to credit. Part one of the paper details the problems that indigenous people have in accessing credit. This is followed by a brief description of the Grameen Bank model, its application in indigenous communities in Canada and America, and a brief discussion of the problems that may be encountered if the model is to be adopted in indigenous communities in Australia.

## Current ATSIC business programs

Analysis of current ATSIC business programs shows that they have not utilised micro-credit lending strategies.<sup>1</sup> Current ATSIC programs aimed at supplying credit to indigenous businesses include the Commercial Development Corporation (CDC), the Business Funding Scheme, and the Indigenous Business Incentive Program which works in conjunction with the Community Development Employment Projects (CDEP) scheme.

The CDC deals with large-scale business enterprises, investing only in programs requiring a minimum of \$500,000. In accordance with this criterion, the Corporation invests predominantly in joint ventures between indigenous and non-indigenous partners. While the rationale behind investing in joint ventures is that they enable poorly skilled indigenous people to develop entrepreneurial skills, questions have been raised as to whether this rationale is justified (Arthur 1996). Although indigenous partners participate on the Boards of Management of all joint ventures, it is unclear in what capacity they participate and thus the degree to which their entrepreneurial and managerial skills are being developed (Arthur 1996).

Another aspect of the CDC's joint venture schemes is that they are orientated towards forming partnerships with indigenous communities rather than with families or individuals. Dealing with communities rather than families and individuals changes the incentive structure within a business and allows a diffusion of responsibility over a business venture. Thus, it is argued that it may be more appropriate in some cases for joint ventures to be formed with individuals or family groups rather than whole communities (Arthur 1996). The large size of CDC loans and their preference for funding joint ventures indicates that the Corporation's priorities are far removed from the provision of micro-credit.

ATSIC programs which focus on smaller businesses include the Business Funding Scheme (BFS) and the Indigenous Business Incentive Program (IBIP). While the BFS operates within strict commercial parameters it nevertheless offers indigenous borrowers access to concessional finance in the form of loans, grants and guarantees, wage subsidies (for up to twelve months), and access to expert advice on the establishment and ongoing management of businesses (ATSIC 1998: 8-

10). Under the BFS the maximum amount of funding available is \$500,000. Interest rates vary, with loans of up to \$50,000 charged 1.5 per cent interest, while loans of between \$100,000 and \$500,000 are charged 6.5 per cent interest. Applicants must contribute at least 20 per cent equity to the enterprise, provide security to cover the loan and demonstrate that they have an aptitude for business. These requirements restrict access to the scheme to relatively well-off indigenous entrepreneurs who might otherwise be served by mainstream commercial financial institutions. What they do not do is offer an alternative source of finance to indigenous entrepreneurs who cannot access credit from commercial institutions.

The Royal Commission into Aboriginal Deaths in Custody criticised the stringent commercial eligibility requirements associated with ATSIC business loan schemes. ATSIC's IBIP was formed in 1992-93 following recommendations from the Royal Commission that ATSIC introduce a 'softer' business support program. The IBIP assists indigenous people to enter business by emphasising the funding, training and support requirements of new indigenous businesses. The Program provides concessional finance in the form of 'seed funding', or grants of up to \$10,000, and equity grants of up to 25 per cent of the funding required (to a maximum of \$50,000). Funding is only available to borrowers who have either undertaken a business training program or can demonstrate adequate business expertise (ATSIC 1998).

The IBIP works in conjunction with the CDEP scheme to establish small businesses (defined as those employing six to nine employees) in rural Aboriginal and Torres Strait Islander communities. The CDEP scheme was established in 1977 to provide part-time work and training for Aboriginal and Torres Strait Islander people in remote communities, as an alternative to unemployment benefits. The CDEP scheme has since been expanded to include indigenous participants who live in both rural and urban areas, although approximately 70 per cent of participants are members of remote communities. In 1997, the scheme employed over 30,000 participants in more than 270 Aboriginal communities (Altman 1997: 6). Funds of up to \$30,000 per full-time position may be granted to CDEPs on the basis of employment outcomes. In 1995-96, 60 CDEPs received funding for business development from the former Community Economic Initiatives Scheme (ATSIC 1998).

ATSIC is committed to funding programs that supply credit to indigenous businesses. In 1997-98 it allocated \$14.5 million to the BFS and \$30 million to the IBIP. Between 1994 and 1997 the annual expenditure of the BFS has averaged \$15.6 million. In the same period the annual expenditure of the Community Economic Initiatives Scheme increased steadily from \$17.9 million in 1994 to \$20.3 million in 1997.

Since 1970, ATSIC and its predecessor organisations have provided 1,457 loans at a total expenditure of \$80 million, with approximately 70 per cent of loans being used to develop businesses in the agricultural, building, retailing and contract services industries. Of these loans 403 are still being repaid and 651 have been fully repaid. Of the remaining loans, 276 are deemed unrecoverable and 127 have been frozen, with a residual balance owing (ATSIC 1998: 10-13). As of March 1998, 43 per cent of the total amount of active loans were overdue (Table 1), indicating that the organisation has serious problems with loan defaults. Internal analysis conducted by ATSIC also shows that defaults are more likely to occur if loans are in rural areas, a finding which has resulted in fewer loans being made in rural areas (ATSIC 1998). Tightening eligibility rules have further exacerbated the difficulty that rural indigenous people have in accessing loans.

**Table 1. ATSIC business loan arrears as of March 1998**

Arrears	Restructured loans <sup>a</sup>	Overdue 31-90 days	Overdue 91+ days	Impending legal outcome	Total overdue
Value \$000s	558	78	1,212	2,677	4,596
As percentage of total outstanding	1.4	0.2	3.2	6.8	11.6

Number	42	34	42	68	186
As percentage of total active borrowers	10.2	8.3	7.8	16.6	43

Note: a. A restructured loan refers to bad loans that have been restructured to ease the burden of repayment, usually by extending the period of repayment.

Source: ATSIK 1998.

Further internal investigations conducted by ATSIK have shown that smaller loans (of less than \$30,000) are more likely to be repaid. In spite of this, ATSIK continues to focus on making large loans to indigenous businesses. For example, between 1993 and 1998 the average size of ATSIK loans was \$94,200 and in 1998 the average loan from the IBIP was \$83,333 (ATSIK 1998: 15). Similarly, in 1995-96 the average loan from the Community Economic Initiatives Scheme was \$130,000 (ATSIK 1997: 46). This large average loan size shows that while these programs are supposedly directed at 'small' businesses they are not concerned with the provision of micro-credit funding. For example, these amounts stand in stark contrast to the average loan size of \$8,500 made by the Australian micro-credit scheme, First Business Finance (FBF) (FBF 1996: 4).

One of the reasons for the failure of ATSIK to provide micro-credit funding for indigenous businesses is the tighter eligibility criteria on business loans introduced in 1993 following a review of ATSIK's lending procedures. Prior to the review over 50 per cent of ATSIK business loans were for amounts of less than \$25,000; since 1993 this has fallen to 25 per cent (Table 2). The most common loan size before 1993 was \$10,000; since 1993 this amount has increased to \$50,000 (Table 3). These figures suggest that in tightening the eligibility requirements on loans ATSIK has focused increasingly on large rather than small-scale lending, thus reducing the possibility of providing micro-credit funding for indigenous businesses.

**Table 2. ATSIK business loan sizes pre- and post-1993**

Loan size	Pre-1993 Number	Pre-1993 Percentage	Post-1993 Number	Post-1993 Percentage
\$0 to \$25,000	586	50.52	85	25.07
\$25,001 to \$50,000	219	18.88	98	28.91
\$50,001 to \$75,000	111	9.57	41	12.09
\$75,001 to \$10,0000	76	6.55	46	13.57
\$10,0001 to \$200,000	104	8.96	26	7.68
\$200,000 to \$500,000	47	4.05	41	12.09
More than \$500,000	17	1.47	2	0.59
Totals	1160	100	339	100

Source: ATSIK 1998.

**Table 3. Mean, median and modal figures for ATSIK loans pre- and post-1993**

Statistic	Loans made prior to 1993	Loans made post 1993
Mean	\$62,400	\$94,200
Median	\$25,000	\$50,000
Mode	\$10,000	\$50,000

Source: ATSIK 1998.

## **Aboriginal access to non-government micro-credit**

Just as the government has failed to address the micro-credit needs of indigenous businesses, so too has the private sector. Micro-businesses (defined as those employing less than five people)

have a high failure rate and are considered high risk investments (Dahn 1992). Micro-business borrowers seek to borrow sums that, because of their small, often non-standard, character, incur disproportionately high transaction costs (Dahn 1992). These characteristics make lending to micro-businesses appear high-risk as well as high-cost, causing banks to charge interest rates that are far higher than those for larger businesses. Reports indicate that in 1998 banks were charging interest rates for micro-businesses that were 5 to 6 percentage points higher than those for housing loans (Micro Business Consultancy Group 1998: 69). The effect of these high interest rates is to increase borrowing disincentives and add additional cost pressures to micro-businesses borrowers.

Credit access problems are further compounded for indigenous entrepreneurs who often have limited credit records and no collateral. In addition to language barriers, most indigenous communities lack savings, Commonwealth and State legislation prohibits the use of communal Aboriginal land as collateral, and indigenous people have few employment opportunities in rural areas from which to accumulate equity (ATSIC 1998: 22-23).<sup>2</sup> Another reason for the lack of access to credit is that financial institutions have limited information on indigenous business and borrowers and are unaccustomed to dealing with them. This creates serious problems for financial institutions when determining the credit-worthiness of indigenous borrowers. Thus, existing financial institutions find it unprofitable to bear the risks of lending to indigenous people.

### **Access to credit among indigenous women entrepreneurs**

In 1991 self-employed indigenous Australian's made up 4 per cent of the total indigenous labour force (Daly 1995). Research into the composition of indigenous self-employed people has shown that in 1991 there were 1.96 self-employed indigenous males to every self-employed indigenous female (Hunter 1999: 6-7). By 1996 this ratio had fallen to 1.73, indicating that there may have been an increase in the number of self-employed indigenous women (Hunter 1999: 6-7). Analysis by Hunter (1999) of 1986, 1991 and 1996 census data shows that indigenous females are proportionately more likely to be qualified in business-related fields than non-indigenous males. This finding suggests that, if the quality of qualifications received by both groups is not substantially different, then there may be potential for conducting business among indigenous females (Hunter 1999: 7).

Problems faced by indigenous women in terms of access to credit are often more acute than those faced by the general indigenous community. Indigenous women are less likely to have personal collateral or a credit history than their male counterparts making the perceived risks of lending to them even greater (Dana 1996: 55). Further, women in general are considered less financially attractive by lending institutions than men because they tend to borrow smaller loans (Howell 1993: 20-23). In spite of these problems the ATSIC BFS estimated that in 1995-96 indigenous women made up 37 per cent of their total loan recipients (ATSIC 1996: 42).

While little has been written on indigenous women entrepreneurs, a study conducted by Dana in 1996, using a sample of 76 Aboriginal women entrepreneurs, provides evidence of the role of Aboriginal women in the economy. Dana's study suggests that Aboriginal women entrepreneurs invest in a range of commercial enterprises throughout Australia. The majority of these enterprises were located in activities commonly associated with women, such as retail clothing stores, arts and crafts manufacturing, child care centres and beauty salons. Self-employed women were located in retail, service and arts and crafts enterprises as well as professional consultancies and enterprises (Dana 1996: 94-95). Similarly, research conducted by Arthur in Torres Strait showed a number of women 'petty traders' engaged in self-employed activities, such as selling cigarettes or soft-drink from their houses (Arthur 1990: 33).

Of the 76 commercial enterprise owners interviewed by Dana, 62 were located in urban areas. The remaining 14 enterprises were located in rural areas and were either partnerships or informal operators. Importantly, none of the commercial enterprises studied were located in remote areas. Conversely, of the seven community enterprises studied (all of which were non-

profit), all except one were located in remote areas. Thus Dana argues that in moving from rural to urban settings Aboriginal women become increasingly involved in self-employed commercial, rather than community, operations (Dana 1996: 91-93).

A possible explanation for the failure of rural Aboriginal women to become involved in commercial enterprises may be a lack of access to credit. Of the Aboriginal women entrepreneurs studied, 51 per cent were funded through ATSIC's BFS, 28 per cent used personal finances to support their enterprises, 13 per cent had access to commercial funding, and 8 per cent had access to other government funding assistance.

While over half of the Aboriginal women studied were able to access government funding one of the main reasons given for failure of the women studied to access government funds, in the form of government sponsored low interest loans or guarantees, was an ignorance of the operation of these funds (Dana 1996). Of the Aboriginal women entrepreneurs surveyed, only ten accessed loans from commercial lending institutions, and of these seven were employers. Dana reports that these employers preferred commercial lending institutions rather than government or ATSIC loans, despite the higher interest rate charged, because non-commercial lenders were paternalistic, attaching 'too many strings' to loans (Dana 1996: 117). However, the reasons given by Aboriginal women for their failure to access commercial loans included an anticipation of rejection based on a lack of collateral and formal education or training, 'intimidation' in dealing with 'white men' (lenders), and a belief that lenders would be 'prejudiced against Aboriginal people' and women (Dana 1996: 117).

Dana argues that ATSIC's BFS was viewed by Aboriginal women entrepreneurs as intrusive based on the over-involvement of ATSIC agents in women's enterprise plans. Another criticism of the Scheme was the excessive time it took from application to loan disbursement.<sup>3</sup> Finally, many of the Aboriginal women surveyed, particularly informal operators, could not access funding from the Scheme. These informal operators felt that their loans had been rejected because ATSIC officers failed to understand the nature of their loan proposals (Dana 1996: 119-25).

Lack of access to adequate funding appears to be a significant factor affecting the ability of rural Aboriginal women entrepreneurs to operate businesses. For example, women with adequate access to capital operated full-time enterprises in the formal sector whereas women with less than adequate access to funding operated part-time or casual enterprises in the informal sector (Dana 1996: 167-68). Dana's work suggests that there are deficiencies in the current sources of finance available to rural Aboriginal women.

## **The key elements of the Grameen Bank micro-credit model**

Problems with access to credit are not unique to Australia's indigenous communities. Similar problems exist not only in other Fourth world indigenous communities but also in developing countries. One financial institution that has emerged specifically to deal with these problems is the Grameen Bank. The Grameen Bank originated in rural Bangladesh in 1976. Initially, the Bank was formed to test the hypothesis that if financial resources were available to the poor at reasonable rates of interest, they would be able to generate productive self-employment without external assistance. In line with this hypothesis, the target group of the Bank are the poorest of the poor, who are almost exclusively women.

Experience obtained by the Grameen Bank suggests that potential borrowers need to complete several steps in order to ensure loan repayment. The first is for members to self-select themselves into groups of five. Experience has taught the Bank that loans are more likely to be repaid if groups include only individuals of the same gender, from the same village and from similar economic backgrounds (Khandker, Khalily and Khan 1995: 10). Before a loan is granted, groups participate in a week long training program where they are taught the rules and regulations of the Bank. If the Bank is satisfied with the group's response to this training then loans are issued. Each member identifies the purpose of their loan with guidance from other members of the group. Loans issued to new members are small, approximately Bangladesh Taka

2,000 to 5,000 (A\$100 to A\$250) with an upper limit of 10,000 (A\$500). All loans are repaid in weekly instalments over a period of a year. Interest rates are currently fixed at 20 per cent per annum (Hossain 1993: 24-29).

To overcome problems of loan defaults the Grameen Bank has developed a system of mutual accountability based on a peer group lending structure. Under this structure the group as a whole becomes ineligible to receive any additional loans if any member of the group defaults. This ensures that peer pressure is exerted on members to maintain regular payments. A group may decide to fine or expel a member who fails to attend group meetings or who wilfully defaults on payments of instalments. Conversely, groups may encourage and support a member who cannot repay in times of genuine difficulty. A member may leave the group when their loan is repaid. If a member leaves before repaying their loan, the responsibility for repayment falls on the group as a whole. In this way the mutual accountability fostered by the Bank works as a form of social capital, as opposed to the financial capital which is the basis for mainstream commercial banking (Hossain 1988).

The process of forming groups by allowing members to self-select has been found to reduce the credit risks associated with lending. Given that each member of a group is awarded loans depending on the outcome of other members' loans, individuals have an incentive to join a group where all members have an equal, if not lower, credit risk than themselves (Varian 1990). Put another way, when one individual is a higher credit risk than all other group members, then that individual is being subsidised by the rest of the group (Stiglitz 1990). The Grameen Bank policy of lending to relatively homogenous groups comprised of members of the same sex and from similar economic backgrounds helps to explain why the Bank's repayment rates are far higher than loans programs in which groups are formed on the basis of administrative decisions (Huppi and Feder 1990). Thus it appears that successful peer monitoring requires that borrower groups are comprised of relatively homogeneous membership.

Successful peer monitoring also requires a small borrower group. Small groups foster closer ties among members and can reduce the cost associated with accessing information. Practice has shown that group size has a marked impact on the repayment rate associated with loans, with groups of 100 members performing far worse than groups of 10 to 20 members. The Grameen Bank has settled on a group size of five through a process of trial and error. Initially the size of Grameen Bank groups was ten or more members. This proved unsatisfactory however, because as groups become larger the diversity among the economic conditions of members increased and the decision-making process became lengthy. In the end five-member groups proved the most practical size (Huppi and Feder 1990). Another reason for maintaining a small group size is that as group size increases, the incentives of individual members to monitor the action of their peers' falls. This reduced incentive occurs because with increasing membership the costs to each individual from a defaulting member falls and therefore the incentive to monitor behaviour decreases. Finally, it is argued that there is a free-rider problem associated with large groups in that each member would prefer that others monitor and incur the ill will resulting from reporting offenders who have misused the funds lent to them (Stiglitz 1990: 361).

The social relationship or social capital that exists between members also has a direct impact on the repayment rate of a group. A dominant feature of many communities in developed countries is the degree of interdependency that exists between individuals. Within this context village organisations often serve to provide welfare services and infrastructure. Participation in village life often requires a restraint on self-interested behaviour, and a variety of enforcement mechanisms, in the form of social sanctions, are invoked to ensure this. Working from this understanding, it has been argued that if an individual does not repay their loan this will cause a loss to other members of the group invoking social sanctions against the defaulting member (Besley and Coate 1995, Cable and Shane 1997).

The types of penalties that may be imposed on a defaulting member of a group include the loss of material goods and reputation. Within the Grameen Bank, contributing members' report the behaviour of a defaulting member at a centre meeting, thereby augmenting the admonishment felt by the defaulting member. Also other members of the group will reduce their

cooperation with the defaulting member in the future. This penalty can be particularly devastating if there is some form of exchange or mutual support that occurs between group members independent of the loan scheme. For example, group members may rely on each other's help in productive activities or may help each other in times of trouble. Finally, if social penalties are sufficiently severe, group lending will yield higher repayment rates than individual lending (Beasley and Coate 1995).

Thus it appears that social capital, in the form of sanctions available to community members to discipline poor repayment behaviour, is a key element in the operation of group lending schemes. This may explain why group lending schemes, such as the Grameen Bank, have been so successful in developing countries where interdependence within communities is typically high (Besley and Coate 1995). In contrast, an absence of interdependence in most communities in developed countries may help to explain why group lending schemes in these countries have been less successful.

Indications of the success of the Grameen Bank's micro-credit model in Bangladesh are the repayment rate of its loans and in the benefits accompanying its membership. Between 1987 and 1992 the repayment rates of the Grameen Bank's individual loans were consistently in excess of 95 per cent. These repayment rates are higher than those recorded by most mainstream financial institutions. In terms of the benefits that accrue to members, studies indicate that membership of the Grameen Bank empowers women (who make up approximately 95 per cent of all members) (Rahman 1986; Goetz and Sen Gupta 1994; Hashemi, Schuler and Riley 1996), increases the income and employment opportunities of members (Hossain 1985; Hossain 1988; Alam 1988; Khandker, Khalily and Khan 1995) and improves their housing (Rahman and Hasnat 1993; Wahid 1994;) and nutrition (Wahid 1994).

### **Case studies of replications of the Grameen micro-credit model**

The financial viability of the Grameen Bank and its ability to promote welfare gains for the poor has led to attempts to replicate the model in developing countries in Asia, Latin America and Africa, and in developed countries such as the United States, Canada and Australia. This paper focuses on case studies that have used the Grameen model for piloting credit delivery projects outside Bangladesh, with particular reference to the experience of credit programs designed for indigenous populations. Lessons learned from this experience suggest that various key elements are pre-requisites for successful replication. Studying these attempts also helps to identify some of the problems experienced when credit programs designed for the poor are introduced into developed countries.

Opinions as to the feasibility of replicating the Grameen Bank credit delivery model vary. Muhammad Yunus the founder of the Grameen Bank, as well as other founders of Grameen Bank replications in Asia, advocate an approach in which that the Bank model can be used as a pilot project in another country. They argue, that successful replication depends on the economic, social and political climates of the other countries being sufficiently similar to those found in Bangladesh, and on the creation of organisations that are capable of training personnel with the relevant skills, attitudes and knowledge of the Grameen Bank model (Hulme 1990; Hulme and Turner 1990). One benefit of establishing pilot projects is that it enables a 'learning processes approach' (Hulme 1990: 297-8). Under this approach the Grameen Bank is first introduced as a small-scale experiment in a new country. The experiment is closely monitored and the institution is modified to suit its new environment. Importantly, the learning processes approach recognises the inherently experimental nature of the transfer process and acknowledges that success is not guaranteed (Hulme 1990).

Lessons from Credit and Savings for the Hardcore Poor (CASHPOR), the main organisation that administers Grameen Bank replications in Asia, suggest that pilot projects apply the complete Grameen model in the initial stages of introduction leaving changes to be made to the model only when they prove necessary.<sup>4</sup> This ensures that failure is not attributed to Grameen features when it has resulted from adaptations introduced into the model. Gibbons, the director

of CASHPOR, distinguishes between the 'essential Grameen', which he terms 'the coherent set of principles and procedures that delivers credit cost effectively to the poor', and non-essential culture specific elements of the model which can be adapted to the local culture (Gibbons 1994: 102). The 'essential Grameen' features are, according to Gibbons, an exclusive focus on the poor (and particularly poor women), simple loans procedures administered at a village level, small loans repaid weekly, self-selected loan projects, collective responsibility through a group repayment structure, compulsory group savings, strict credit discipline, and close supervision of loan repayments. Other 'essential Grameen' requirements to be applied at the individual project level are: field-orientated management, political neutrality, open and transparent conduct of all business, and the setting of interest rates to cover operating costs (Gibbons 1994).

Features relevant to the process of replication include the ability to reduce costs incurred by a lending agency by maintaining high repayment rates and lowering transaction costs incurred by borrowers (Hulme 1990; Todd 1996;).<sup>5</sup> The experience in Malaysia, Sri Lanka and Peru has pointed out that the high repayment rate of the Grameen Bank is closely associated with its peer group lending structure. In these countries the peer lending structure enables agencies to keep costs low by allowing field officers to handle relatively high account loads, up to 300 per officer (Hulme 1990; Todd 1996).<sup>6</sup> Experience also shows that the Grameen Bank minimises transaction costs by conducting all transactions close to the borrowers' residence. Replication of this feature may be problematic in countries with low population densities because the distance of meeting sites from borrower residents is likely to be large (Hulme 1990; Todd 1996;).

Pilot projects studied by Todd (1996) all managed to overcome their difficulties and implement the 'essential Grameen' features. In the projects involved, poor women formed into peer groups, all projects recorded high repayment rates and showed prospects of becoming financially viable. The principal conclusion of this review was that the success of the Grameen Bank replications in India, Nepal and Vietnam, when taken in conjunction with the success of past replications in Malaysia, the Philippines and Indonesia, established once and for all the international replicability of the Grameen Bank model (Todd 1996: 99).

### **Replicability in communities in developed countries: some questions**

While Todd and others are convinced of the ability to replicate the Grameen Bank model successfully in Asia, questions remain about the ability to replicate it in developed countries. In an attempt to address these questions case studies of the FBF micro-credit program that operated in Australia and of the Lakota and First People's Fund micro-credit programs that operate in rural indigenous communities in America and Canada respectively, are considered. The aim of these projects has been to enable poor people to develop their own micro-enterprises. To achieve this aim all three projects adopted the Grameen Bank's concept of lending micro-credit, and both the Lakota Fund and First People's Fund projects adopted the Grameen Bank's peer lending model.

The FBF scheme was an initiative of the New South Wales government that operated between 1994 and 1997 with the aim of providing micro-credit finance to fund micro-businesses. In the FBF scheme, loans were made to borrowers who had few assets, a low level of savings and were often unemployed.<sup>7</sup> Of the borrowers approved by FBF in the 1995-96 financial year, 11 were female, 20 were male and the remaining 15 were partnerships (Table 4). It is significant that while women represented only 18 per cent of all applicants they had a higher average approval rating, at 55 per cent, than either their male counterparts, on 34 per cent, or partnerships, on 48 per cent (FBF 1996: 6). Many of the borrowers in the scheme already had some training in small business management, with a large number being graduates of the New Enterprise Incentive Scheme, a Federal Government training and support program assisting unemployed people to start their own businesses (Evans 1996: 1-5).

**Table 4. FBF approval rate by applicant 1995-96**

Number of submissions	Value of submissions	Number of approvals	Value of approvals	Approval rate (per
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		(\$000s)		(\$000s)	cent)
Male	58	501.5	20	184.0	34
Female	20	164.5	11	82.0	55
Partnership	31	269.8	15	132.8	48
Total	109	935.8	46	398.8	42

Source: FBF 1995-96.

Before a loan could be granted, FBF applicants had to prepare a written business plan that was assessed and approved by business professionals within the community. Borrowers were required to repay their loans regardless of whether or not their business was successful (Evans 1996). The maximum amount available to borrowers under the scheme was \$10,000. The majority of businesses in the scheme were either new or in the early stages of growth, and ranged from small-scale manufacturers to health practitioners and information technology specialists (Evans 1996). After two years of operation the net losses recorded by FBF were \$16,120.63 or approximately 3 per cent of the total loan portfolio, a result that indicates that FBF had, at least initially, achieved reasonable financial viability (FBF 1996: 7).

The benefits associated with micro-enterprise projects, such as their ability to develop self-esteem, leadership skills and economic literacy among members, has led to demand for these projects in indigenous communities in developed countries. Unlike the problems faced in trying to target the poorest of the poor in many Grameen Bank replication projects in developed countries, the target group for projects within indigenous communities is easily defined. The Pine Ridge Reservation in South Dakota in which the Lakota Fund is located, was ranked as one of the poorest areas in both the 1980 and 1990 United States Census (Environmental Protection Authority 1996). In 1992 total unemployment on the Reservation was 95 per cent. In 1985 the per capita income of people on the Reservation was US\$2,367 (A\$2,840), the majority of which came from welfare payments. In addition the Reservation suffered from a high degree of alcoholism and substance abuse (Novagratz 1992).

The Lakota Fund was established in 1985 by the First Nations Development Institute. The aim of the Fund was 'to support the development of private, Lakota owned and operated businesses on the Pine Ridge Indian Reservation by providing technical assistance and fostering personal development' (Novagratz 1992). The importance of this development was that at the time of the Fund's inception Pine Ridge had less than 40 businesses, the majority of which were owned by people who were not Native Americans (The Grameen Dialogue 1998). In 1992, the Lakota Fund became a separate non-profit organisation, to be controlled by the Ogola Lakota people rather than the First Nations Development Institute. Under this arrangement the Lakota Fund is staffed by four tribal members. The nine-member board of directors is also composed of tribal members who reside on the Reservation, with one place left for a professional business person from outside the Reservation (Canadian Imperial Bank of Commerce (CIBC) 1998). Thus the organisational structure of the Lakota Fund allows representatives of the Ogola Lakota people to determine the allocation of Fund resources.

The peer lending structure employed by the Lakota Fund consists of individuals forming into 'circles' of between four to six people. After five training sessions a group becomes a certified circle. Circle members then decide who will receive the first loan. Initial loans are available for a maximum amount of A\$550, with additional loans ranging from A\$140 to A\$7,000. All additional loans are conditional on the successful repayment of the first loan by all group members, and on regular attendance at circle meetings. Loan payments are made to a staff member at bi-weekly circle meetings (The Grameen Dialogue 1998: 4).

In 1987, The Calmeadow Foundation started a Native Self-Employment Loan Program to examine the viability of the use of micro-enterprise programs in Canadian Inuit and Indian communities. From this initiative came the First People's Fund, which uses the peer lending structure developed by the Grameen Bank to provide loans to indigenous borrowers (Campbell 1995). Under this structure borrowers form lending groups of four to seven people who approve and collectively guarantee loans. No collateral or equity is required in order to borrow. Loans are

offered at commercial interest rates and range from A\$300 to A\$3,000. All loan funds are administered by the indigenous communities themselves, with administrative support from the First People's Fund (CIBC 1998).

Unlike the FBF project a major problem facing micro-credit funds in Indigenous communities in developed countries has been their failure to achieve financial viability. Since its inception in 1985 the Lakota Fund has made over 300 micro-enterprise loans, totalling over \$1.5 million dollars. The average size of a loan is A\$5,000 (The Grameen Dialogue 1998: 4). Many of the activities invested in by Lakota Fund borrowers are home-based activities and over 75 per cent of borrowers are arts and crafts producers.<sup>8</sup> In 1994 the Lakota Fund's budget was A\$460,000. The organisation generated A\$51,000 in interest income from loans and investments, with the rest of the money generated from subsidised borrowing from foundations, corporations, individuals and religious organisations willing to invest in the Fund for a 0-4 per cent rate of return. In 1994 the Fund's delinquency rate was approximately 10 per cent, with delinquencies in earlier years ranging from 15-25 per cent, to an all time high of 35 per cent (Environmental Protection Authority 1996). At face value this delinquency rate looks high, however, little is known about the gender composition of borrower circles or whether peer group lending is strictly enforced. Without this analysis it is unclear why the initial delinquency rate recorded by the Fund was so high.

The inability to assess the reasons behind the high initial default rate of the Lakota Fund is symptomatic of the lack of information available on micro-credit programs in indigenous communities in developed countries. However, while projects in rural communities in developed countries have, in recent years, achieved high repayment rates, the results of the Lakota Fund suggest that projects in indigenous communities have not been as successful. It is ironic that while the poverty in indigenous communities more closely replicates poverty conditions in Bangladesh than other communities in developed countries, it is in these communities that the model has been the least successful. Despite these problems, replications of the model in developed countries show not only that elements of the model, such as the peer group lending system and the emphasis on micro-credit, are transferable but that this transfer can have social benefits for the communities involved.

## **Implications for Australian public policy**

In a recent submission to the HORSCATSIA Inquiry into Indigenous Business the ATSIC argued that current business programs available to Aboriginal people need improvement and that they 'are open to suggestions of alternative models to improve access of indigenous business entrepreneurs to business finance' (ATSIC 1998: 24). One such model is the micro-credit model devised by the Grameen Bank.

Analysis of current data on business funding suggests that micro-credit is not being provided to indigenous communities by either government or commercial sources. Moreover problems with access to credit for indigenous micro-businesses are compounded when entrepreneurs are women. It is possible that a Grameen Bank model if replicated successfully within Aboriginal communities could provide such credit. The key elements of the Grameen Bank model are its peer lending structure and its emphasis on micro-credit loans. Importantly, these elements appear to be transferable to developed countries. However if such a replication is ever to be successful it must overcome a series of problems.

Case studies of replications of micro-credit programs suggest that in adapting the Grameen Bank model to Australia policy makers would face problems associated with low population density, welfare disincentives, investment opportunities and the interdependence that may be present within Aboriginal communities. The relatively low population density of most areas of Australia when compared to areas such as Bangladesh mean that the costs of delivering and accessing credit services may be prohibitive. The effect of low population density is evident in the problems that many American micro-credit programs face in delivering a sufficient number of

loans to attain economies of scale and thus financial viability. These problems have prompted the director of American based Grameen replications to suggest that no program in America that is loosely based on the Grameen micro-credit model has been able to grow beyond several hundred borrowers (Bacon 1993). Financial viability also appears to be a problem for many micro-enterprise programs in developed countries because they face the dual constraints of high training requirements for borrowers and small loan portfolio size (Novogratz 1992). In addition, the low income levels of the target groups of these programs mean that they cannot afford to pay market rates for training. At least in the short-term, few micro-enterprise programs in place within developed countries appear to be viable (Novogratz 1992).

Another problem faced by replications of the Grameen Bank micro-credit model in developed countries is the disincentive caused by welfare payments to either borrow or repay loans. Disincentives to repay loans are caused because, unlike borrowers in Bangladesh where defaulting borrowers are plunged back into poverty, borrowers who operate in a welfare state have a social security net to fall back on. Disincentives to borrow loans are caused when welfare payments are structured so that investing in businesses results in a loss of benefits. Welfare laws within Australia ensure that once an individual earns above a certain amount of income, the benefits received from welfare payments decrease.

A Grameen based Australian micro-credit model may face problems in finding investment opportunities for indigenous businesses. In particular, there may be difficulty in finding investments that generate the large immediate returns for small amounts of capital around which the model is structured. These problems will be compounded in rural and remote areas where there are often high transport costs in gaining access to markets and a lack of the requisite business skills.

The interdependence of some indigenous communities may either work to aid the Grameen Bank's peer lending structure or may undermine it. Strong kinship networks have led to interdependence within Aboriginal communities. Within these communities Aboriginal people derive much of their identity from their family and community context. It is possible that if the interdependence that is present within some Aboriginal communities is able to be harnessed it could provide the social penalty mechanism so essential to successful peer group lending. However, it is also possible that the cultural practices which inform the interdependence found within some Aboriginal communities may undermine the peer group lending structure. For example, the cultural practice of reciprocity may result in the wider community placing demands on individuals' loans (Martin 1995; Schwab 1995). Similarly, cultural practices such as reciprocity may affect the ability to operate businesses within some indigenous communities.

The problems detailed above indicate that the successful adoption of a Grameen Bank micro-credit model within Australia is far from assured. While similar models have informed indigenous economic policy in other developed countries a number of questions need to be answered before they should be adopted as policy within Australia. These questions are:

- whether micro-credit programs can be financially viable in areas of low population density;
- to what extent welfare payments work as a disincentive to invest in micro-credit;
- whether micro-credit investment opportunities are available in Australia; and
- what effect specific indigenous cultural practices have on the adoption of a Grameen Bank micro-credit model in Australian indigenous communities.

## Notes

1. For the purposes of this paper, micro-credit in an Australian context is defined as the process of lending amounts of less than A\$10,000.
2. Recent work on economic literacy in Aboriginal communities shows that Aboriginal people in remote areas continue to be confused about a range of contemporary economic issues. Aboriginal people in

Arnhem Land were found to be confused about words like 'trade, economics, economic development, budget, auditor, credit, creditors, value, debt, government revenue etc.' (Buchanan 1998).

3. This criticism was also made repeatedly in the submissions to the HORSCATSIA Inquiry into Indigenous Business (HORSCATSIA 1998).
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5. Helen Todd has analysed the CASHPOR projects of Nirdhan in Nepal and West Bengal, SHARE in Andhra Pradesh and Tau Yew Mai in Vietnam (Todd 1996).
6. The importance of cost minimisation is that it allows projects to move in the direction of financial viability. Todd argues that replication projects should aim to reduce costs to 20 per cent of the outstanding debt. However she concedes that it will take most replication projects at least four years to reach the level of operation where economies of scale make it possible to do this. In relation to the projects studied by Todd (approximately two years after start-up) the cost per loan varied considerably, from a high of 81 per cent for SHARE to 43 per cent for Tau Yew Mai to 40 per cent for Nirdhan West Bengal to a low of 21 per cent for Nirdhan Nepal. Using these figures it is clear that only one project was anywhere near financial self-sufficiency. Moreover, the projects were covering only a small proportion of their costs from interest income earned from borrowers (Todd 1996).
7. Of the borrowers approved by FBF between 1994 and 1996, 20 per cent had been unemployed for more than six months, 32 per cent had been unemployed for less than six months, and the remaining 38 per cent were either self-employed or employed.
8. This fact led to the Fund to develop an art and craft marketing project in which special marketing assistance is given to producers of arts and crafts. Feedback indicates that prior to the operation of the project many producers had not considered themselves actually in business. The marketing program was able to introduce business concepts in a way that was both culturally appropriate and relevant. The program offers training, sells products retail and wholesale for producers, operates a supply bank and sets up lines of communication between local artists and the outside market.

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<sup>4</sup> CASHPOR was formed in 1991 by the founders of the first seven Grameen Bank replication projects within Asia. It receives financial support from the Asia Pacific Development Center and the Grameen Trust. CASHPOR works to both develop replication in countries where the Grameen Bank model has not been tried, such as Vietnam, Nepal and China, as well as help the expansion of successful replication projects already in existence, such as those in India, the Philippines and Indonesia. As of October 1997 CASHPOR had 24 programs in eight countries, which together bring financial services to over 240,000 poor women.

<sup>5</sup> Helen Todd has analysed the CASHPOR projects of Nirdhan in Nepal and West Bengal, SHARE in Andhra Pradesh and Tau Yew Mai in Vietnam (Todd 1996).

<sup>6</sup> The importance of cost minimisation is that it allows projects to move in the direction of financial viability. Todd argues that replication projects should aim to reduce costs to 20 per cent of the outstanding debt. However she concedes that it will take most replication projects at least four years to reach the level of operation where economies of scale make it possible to do this. In relation to the projects studied by Todd (approximately two years after start-up) the cost per loan varied considerably, from a high of 81 per cent for SHARE to 43 per cent for Tau Yew Mai to 40 per cent for Nirdhan West Bengal to a low of 21 per cent for Nirdhan Nepal. Using these figures it is clear that only one project was anywhere near financial self-sufficiency. Moreover, the projects were covering only a small proportion of their costs from interest income earned from borrowers (Todd 1996).

<sup>7</sup> Of the borrowers approved by FBF between 1994 and 1996, 20 per cent had been unemployed for more than six months, 32 per cent had been unemployed for less than six months, and the remaining 38 per cent were either self-employed or employed.

<sup>8</sup> This fact led to the Fund to develop an arts and crafts marketing project in which special marketing assistance is given to producers of arts and crafts. Feedback indicates that prior to the operation of the project many producers had not considered themselves actually in business. The marketing program was able to introduce business concepts in a way which was both culturally appropriate and relevant. The program offers training, sells products retail and wholesale for producers, operates a supply bank and sets up lines of communication between local artists and the outside market.