

Building Sustainable Economic Capacity: Microfinance in the local community

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Local Economic Development: the key to sustainable community benefits

- Mines are often the most significant economic investment in otherwise poor and remote locations
 - But in many cases, economic benefits largely by-pass the local population
- Improvement of the local economy the key to lasting change in livelihoods
 - Investments in social infrastructure alone are unlikely to be sustained in the face of ongoing poverty

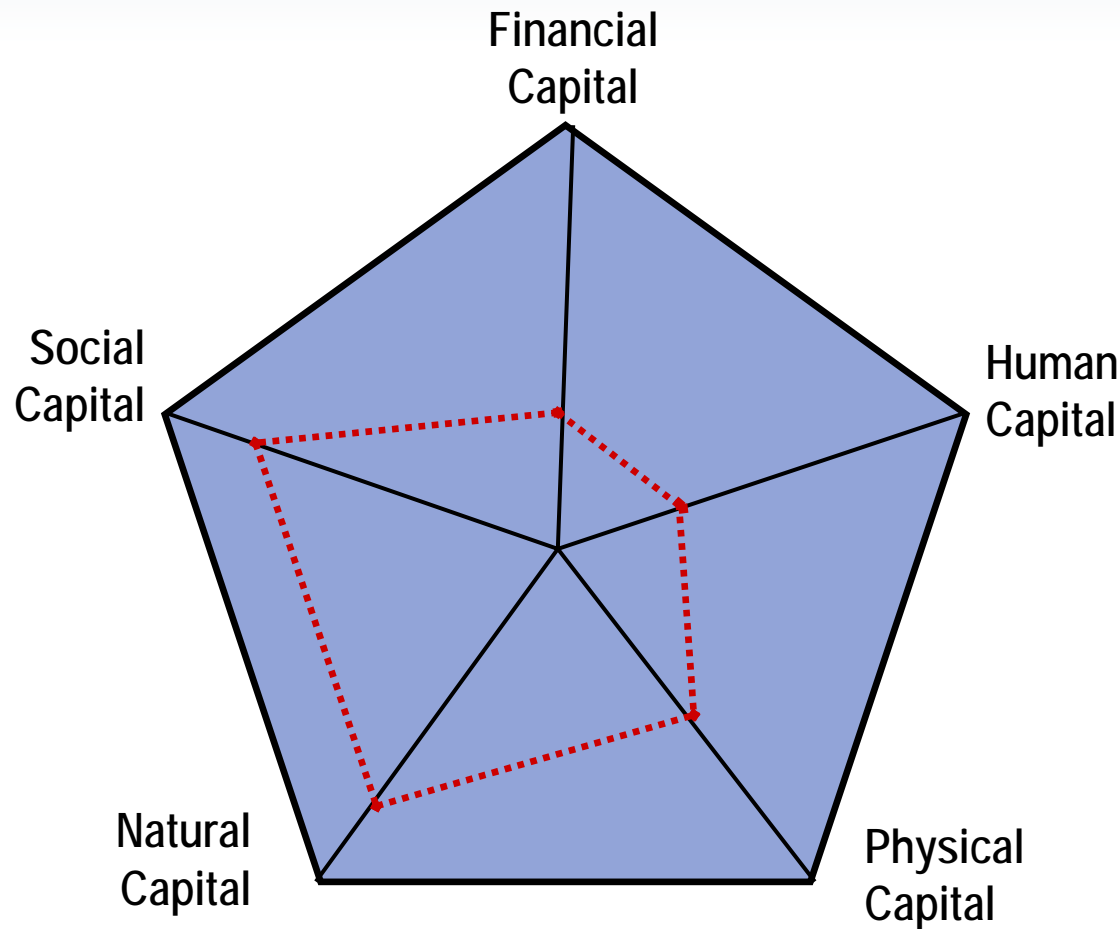
*“Local Economic Development is the process by which **public, business and non-government partners** work collectively to create better conditions for economic growth and employment generation. The aim is to improve the quality of life for all”*

World Bank

Advantages to the business in contributing to local economic development (LED)

- Reduce dependence on mine for local economic wellbeing
- Leave something sustainable behind after mine closure
- Improve community and employee relations
- Develop local supplier linkages and human resources
- Improve reputation and “social licence to operate”

Building Capacity for LED: Multiple capital model (a.k.a. sustainable livelihoods model)



Improving access to finance - the microfinance revolution

- Lack of access to credit and savings options a key constraint to wealth creation by poor households
- Formal financial system typically unable to serve these clients
 - Cost of transactions too high
 - Poor don't have collateral in the traditional sense
 - Typically a “culture gap” between bank staff and poor.
- To plug this gap, microfinance institutions evolved in the 1990s
 - Now serve hundreds of millions of poor clients

Improving access to finance - the microfinance revolution ctd.

- Early innovation took place in non profit organisations. Current trend to greater commercialisation.
 - Largest agencies today are financially sustainable
- Wide diversity of institutions and approaches – adapted to local conditions
 - Include NGOs, community orgs., credit unions, commercial and state bank subsidiaries
- *Now a maturing industry.* Substantial expertise available e.g.
 - Banking with the Poor Network, Asia Pacific
 - Bank Rakyat Indonesia (BRI) 20 million + clients
 - Consultative Group to Assist the Poorest – World Bank

Microfinance Best Practices

- Offer financial services that *meet the needs of poor households*
 - Small, short-term and repeat loans with few restrictions on use
 - Small-scale savings services
 - Know your customer and be customer friendly
 - Minimise formal collateral requirements
- *Adapt methods to local conditions* (social and economic)
- Streamline operations to *minimise costs per loan*

Microfinance Best Practices ctd

- Specialised techniques that *motivate clients to repay*
 - use existing “social capital” e.g. group lending, character references, peer guarantees
 - know your clients and their lives
 - use incentives for prompt payment
 - have a public image that signals seriousness about loan collection
- Charge *full-cost interest rates* or fees
 - Long-term sustainability of services will depend on full cost recovery

Building human and social capital: non-financial business development services.

- Training and capacity building for local enterprises e.g.:
 - general *management skills* (e.g. entrepreneurship, accounting, business planning, marketing, HRM, procurement, IT)
 - *technical skills* (e.g. machine or vehicle maintenance, craft skills, agriculture, processing etc...)
 - *facilitate business networks*, business associations or grass-roots associations
- Look for opportunities for *subcontracting or outsourcing* to local businesses
 - and include training as part contract agreements

...and more examples....

- Facilitate *market access and input supply* for small businesses leverage economies of scale, e.g.
 - aggregation of product or input needs, facilitate links to intermediaries, assist with quality control...
- Assist in access to *economic infrastructure*
 - e.g. common storage facilities, transport services, communications, physical market space
- Use influence to *advocate with government* to improve economic or political barriers to small enterprises
 - e.g. tax regimes, customs clearance, input duties

Some conclusions for mining companies in supporting community economic development

- Fully *understand and adapt to the local environment*:
 - Invest in professional assessment of the local economy, customer needs and program design
 - ensure *participation* of the local community from the outset
- Match what the company contributes with what it is best at doing (i.e. to its *core competencies*)
 - money is only one type of contribution. Think laterally.
- Look to form *strategic alliances with partner organisations* with complementary competencies for matching inputs
 - eg. NGOs, local government, training organisations, donors, community organisations etc.

Some conclusions for mining companies in supporting community economic development

- Combine *financial and non-financial services* in a program to support local enterprises
- *Avoid making loans directly*
 - Use an existing intermediary microfinance institution if available
 - Or set up an independent institution
- Include consideration of *long-term sustainability* from the very beginning.
 - Where possible, aim for support activities to be *self-funding* in the long term

FDC capability in microfinance and micro-enterprise development

- *Consulting and advisory services:*
 - project design,
 - evaluation and impact assessment
 - institutional development of microfinance institutions
 - micro and small enterprise development
- *Brokering innovative partnerships* across government, business, donors, NGOs and communities
- *Action research, policy analysis* - sharing international and local experience