BANKING IMPLICATIONS OF THE ECONOMIC DEVELOPMENT OF INDIGENOUS PEOPLE

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INTRODUCTION

I want to thank The Banking Law Association of Australia and New Zealand for inviting me to participate as a commentator in this panel session on the Banking Implications of the Economic Development of Indigenous Peoples.

My remarks will attempt to place the subject in an international framework broader than the situation currently being addressed in Australia and New Zealand. I will briefly describe the Asian Development Bank's policies regarding indigenous peoples and then will speak at somewhat greater length on micro-credit and micro-enterprise projects in the developing countries of the Asia-Pacific Region. There is a compelling story to be told of how a Bangladeshi academic has given birth to a very successful worldwide movement in the developing world which profitably provides loans of US$10, US$20 and US$100 to some of the world's poorest people to enable them to start small businesses.

INDIGENOUS PEOPLES

On 15 February 1994 the Asian Development Bank's President Mitsuo Sato issued *Staff Instructions concerning Indigenous Peoples*, which provides that:

> "... for [any] Bank-assisted investment project that affects indigenous peoples, the borrower should be asked to prepare (with assistance from the Bank, if necessary) an indigenous peoples development plan that is consistent with the Bank's policy."

The Staff Instructions define "indigenous peoples" to include "indigenous and ethnic minorities, tribal groups, and scheduled tribes who have a social and cultural identity distinct from the dominant society which makes them vulnerable to being disadvantaged in the development process".

The broad objective of the bank's policy is to ensure that the development process facilitates the informed participation of indigenous peoples who may be affected by a bank-finance project and that such projects foster full respect for the dignity, human rights and cultural uniqueness of such people. The specific objective of the policy are to ensure that indigenous peoples do not suffer adverse effects during the development process, particularly from bank-financed projects, and that they receive culturally-compatible social and economic benefits for such projects.

The central elements of an indigenous peoples development plan in respect of a proposed bank project are to include the following:

(a) preparation, during project design, of a development plan which takes into account the options preferred by the indigenous peoples affected by the project;

(b) the use of studies to anticipate adverse effects likely to be induced by the project and to develop measures to avoid or mitigate them;

(c) the strengthening of social, legal and technical skills of government institutions responsible for dealing with indigenous peoples;

(d) the improvement of appropriate existing institutions, local organisations and non-governmental organisations (NGOs) with expertise in matters relating to indigenous peoples;

(e) taking into account local patterns of social organisation, cultural beliefs and resource use in project design;

(f) supporting production systems that are well-adapted to the needs and environments of indigenous peoples;

(g) avoidance of the creation or aggravation of the dependency of indigenous peoples on project entities; and

(h) the allowance of adequate lead time and arrangements for extended follow-up, especially in dealing with indigenous peoples in remote or neglected areas where little previous experience is available.

Professionals in the bank's Office of the Environment and Social Dimensions review each proposed bank project to ensure that the policies inherent in the Staff Instructions are being observed by the bank and by the host government in respect of the proposed project.

Comparable policies focusing on the situation of indigenous peoples also exist at other development assistance organisations such as the World Bank.

Let me now turn, to what is the central theme of this session: the question of whether it is possible to extend credit to indigenous peoples, whether - put bluntly - it is safe and, possibly, profitable for commercial financial institutions to lend money to poor people. As a banking and finance lawyer I am often reminded of the old line that, in order to get a bank loan, you have to convince the bank that you do not need the money. What happens when you are poor, without collateral assets, and really need the money?

THE GRAMEEN BANK APPROACH TO MICRO-CREDIT

In 1974, when Bangladesh suffered a terrible famine, Mohammad Yunus was an economics professor at Chittagong University in southern Bangladesh. Observing that "people suffered everyday of the year because they could not come up with financial resources as small as five to ten dollars," Professor Yunus began offering loans from his own pocket. The first loans ... amounted to a total amount of $30 given to 42 people.

Later, he tried to persuade bank officers in the branch of a commercial bank located on the university campus to offer loans to poor people in the neighbouring village. The bank manager thought Professor Yunus was joking. After many more visits over several months, Professor Yunus obtained loans for villagers only when he offered himself as guarantor. This was his first encounter with local bank rules prohibiting the giving of loans without collateral, a requirement which effectively excluded the landless poor from accessing any credit whatsoever. Professor Yunus came to learn that because of the rules, regulations and practices of Bangladeshi banks, not only the landless but also the illiterate are effectively excluded from credit. He also learned that such banks kept a considerable distance from women, as a woman from any social class who applied for a loan is always asked whether or not her husband approves of her application even though, as Professor Yunus noted "it does not, of course, work the other way around".

Professor Yunus also discovered that the record of the banks in recovering loans from individual clients was not at all a happy one with default rates of 20%, 30% or more being common. Professor Yunus made strenuous efforts from the beginning to ensure that the landless people who obtained loans through his program had a flawless repayment record.

Even though the landless people in Professor Yunus' program repaid their loans very regularly, the local bankers still did not believe that the system could work. These bankers said "a Professor can work any miracle in one village, but the minute you go to scale up it will fall apart". So Professor Yunus tried his concept in two villages, and then in five villages, and then over an entire district, and then in five districts - but still the bankers were not convinced that lending to the poor was a sensible business.

Confronted with these difficulties, Professor Yunus petitioned the Bangladesh government to establish "an independent bank for the poor that would also be owned by the poor." Over the objections of commercial bankers, the Grameen Bank was established in October 1983. For those who do not know the Bengali language, "Grameen" means "rural".

The Grameen Bank operates without requiring normal bank collateral to obtain. Its unique operation procedures include organising the bank's customers, who are restricted to the very poor, into five-person groups, and requiring each group member to establish a regular pattern of weekly savings before seeking a loan. Furthermore, the first two borrowers in a group must make several regular weekly payments on their loans before other group members can borrow. The Grameen Bank's success, particularly its excellent loan recovery ratio, is attributable to several factors:

- close supervision of field operations
- dedicated service by bank staff
- borrowing for purposes that generate regular income
- solidarity within groups
- repayment in weekly instalments, and
- the borrowers' knowledge that the availability of future loans to members of the group depends on the repayment of borrowed funds.

Grameen Bank staff meet weekly with groups to disburse loans, collect savings deposits and loan payments and provide training in financial responsibility. This means high operating costs. In the early years of 1984 to 1986, the ratio of expenses to loans rose from 9 percent to 18 percent. Since then these high costs have been partially offset by low-cost funds made available to the Grameen Bank by international development assistance organisations.

Today the Grameen Bank is at work in more than half of Bangladesh's 68,000 villages. The Grameen Bank has 1,045 branches with about 12,000 staff who disburse between US$30 million and US$40 million each month and collect, as repayment, an almost identical amount each month. The Grameen Bank's lending has been extended to over 2 million borrowers, 94% of whom are women, and the Grameen Bank has a repayment rate of about 98%.

What I have described is not an institution responding to unique circumstances in a single country or a single culture. Since 1988, the Asian Development Bank has approved almost US$1 billion equivalent in loans for 27 micro-credit and micro-enterprise projects in Bangladesh, Indonesia, Mongolia, Nepal, Pakistan, the Philippines and Sri Lanka. Typical of these is the recently approved Rural Micro-enterprise Finance Project in the Philippines which will support

Grameen Bank-type programs. Presently a proposal for this project is up for approval to the Asian Development Bank's Board of Directors, the proposal made a number of observations about micro-credit and micro-enterprise projects which I would like to share with you.

The proposal noted that "client build-up takes time; costs associated with group formation, social preparation, and frequent direct contact with clients are high; and loans are small ... Therefore, lending margins of intermediaries must be high, particularly in the first few years before economies of scale are achieved" and that "removal of regulatory impediments to the mobilisation and use of client deposits" must be achieved.

Professor Yunus and others are convening a Micro-Credit Summit in Washington, DC, from 11 to 13 September 1996, which will involve micro-credit practitioners, leaders of non-governmental organisations, leaders of businesses and financial institutions, government officials, international development bank officials and many others. The purpose of the summit is to launch a global movement and adopt a plan of action to reach 100 million of the poorest families of the world, especially the women of those families, with micro-credit for self-employment by the year 2005.

In conclusion, let me summarise the findings of a study of micro-credit entitled Banking with the Poor,[1] published in 1992 by Australia's Foundation for Development Cooperation, which is located in Brisbane. Its findings included the following:

- The poor are good credit risks; they have a high propensity to save if opportunity and motivation are given to them, and they are fully "bankable".
- In this connection, the main problem the poor experience is to achieve access to credit, rather than reduce its cost.
- Given better access to credit, the poor are willing and able to help themselves.
- Women borrowers have proved to be the most reliable and successful borrowers.
- Non-governmental organisations, and self-help groups of the poor, are playing a key role in giving the poor better access to credit. They are able to mobilise group savings to provide group guarantees as a substitute for collateral, to reduce transaction costs through group action and voluntary labour, and to achieve high repayment rates on loans.
- Banks can meet the credit needs of the poor by adopting well-conceived delivery systems, using NGOs and self-help groups as financial intermediaries. Commercially-sound linkages have been established between commercial banks, and NGOs and self-help groups active in providing credit for the poor.

I welcome your questions.

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1 *Banking with the Poor*, (The Foundation for Development Corporation, 1992), page x.