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Microcredit and Water.
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The words finance, credit, savings and investments call to mind the world of big business and banking activities on a very large scale. That these financial circuits could somehow be miniaturised gave rise to the term of microfinance, which was coined to describe the way for people to have access to facilities for credit savings and investment on a very small scale.

Nowadays, the populations living in rural and peri-urban areas of developing countries participate with their own financial contributions in the development of projects related to water resources supply and sanitation. Local communities also have to contribute to the management of the necessary equipment. But because this kind of equipment is often of small size and cannot be covered by big external financing programmes, these people have had to find ways to create microcredit systems based on solidarity networks.

The microcredit programmes that have been developed have contributed to the implementation of many water supply and sanitation projects in the villages and peri-urban areas of developing countries. Indeed, the United Nations General Assembly, in its resolution 50/107 of 20 December 1995, noted that in many countries microcredit programmes have proved to be an effective tool to improve people’s socio-economic conditions. The declaration of the First Decade for the Eradication of Poverty (1997-2006) called upon the relevant organizations and bodies of the United Nations system, financial institutions and donor agencies to explore the possibility of including the microcredit approach in their programmes.

No one pretends that microcredits programmes are the solution to overcome the lack of adequate water services in developing countries, or to eradicate poverty, but they are now recognized as being viable, alternative ways to mobilise financial resources in a variety of marginalized socio-economic environments.

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WATER SUPPLY AND SANITATION

The WHO/UNICEF joint Water Supply and Sanitation Monitoring Programme began in 1990 with the aim of supporting developing countries in strengthening their water supply and sanitation capability. The “Water Supply and Sanitation Sector Monitoring Report”, published in 1996, indicates that in developing countries, two major causes of mortality and morbidity are unsafe water supplies and inadequate sanitation services.

The global assessment of regional freshwater resources confirms that a quarter of the world’s population has no safe water supply and half lacks adequate sanitation. In spite of all efforts made by the UN agencies and donors institutions, there are still regions of the world where the improvement of water and sanitation services is very undeveloped. The available data indicate that while water supply coverage is increasing in Asia and the Pacific, in other regions the coverage is still far too underdeveloped.

As a matter of fact, in Latin America and the Caribbean, the information on water supply coverage indicates that in 1994 the rural population with access to safe drinking water numbered close to 70 million (56% of the rural population), compared with 64 million (51%) in 1990. The percentage of African population having access to water services also rose, but by a too modest 1% during the 1990-1994 period. Asia, on the other hand, saw its overall urban/rural water supply service coverage increased considerably during this same time period. Overall, the major achievements were accomplished in rural areas, where the level of water supply service coverage rose from an estimated 53% to 78%. In urban settings, however, the coverage of water supply rose by 1% only.

An alarming trend shows that by the year 2000, some 755 million people will remain without access to a safe drinking water supply. Of these people, 51% will live in urban areas and nearly 86% of the “un-served” rural population will be in Africa, where 59% of the total population without safe drinking water will be living. Some 3.3 billion people will be without access to appropriate sanitation by the year 2000, 74% of these in the rural areas.

Under such conditions, a large proportion of the population in these countries has little if any chance for social and/or economic development, and so a poverty spiral is set in spin for which the lack of access to water combined with poor basic sanitation conditions are its main support.

Certainly, in many developing countries it is necessary to accelerate the level of investment to address this basic problem. Considering that water services, water supply, sanitation, irrigation, water works, construction and operation, maintenance of equipment require investments of different magnitude, microfinance programmes can provide valuable support. For poor people living in rural and peri-urban areas, microfinancing programmes can therefore ensure access to loans not only for building facilities, but also for sustaining the buildings through adequate provision for operation, proper utilisation, and the maintenance of the systems.
MICROCREDIT FOR WATER SUPPLY
AND SANITATION PROJECTS

In developing countries, the water supply and sanitation programmes have, in the past, received financial contributions at different levels. Nevertheless, today we have to take into account that both Nordic and Southern countries have suffered from an economic crisis that is now modifying both the nature and the use of their respective financial sources available.

The Nordic countries are reconsidering the magnitude of their aid to the developing countries. Upon reviewing the development models implemented to the present, they would now like to see more financial responsibility for development assumed by the national institutions. At the same time, though, the Southern countries are involved in the difficult restructuring of their national budgets to put in practice their respective market economies and to increase their economic growth.

As such, in the Southern countries, all the “non-productive costs” have to be reduced. This means cutting back on social programs, as well as drastically reducing the expenditures for the managing and functioning of the water supply. In essence, the North is helping the Southern countries to transfer financial responsibility for development from the national authorities to the local communities.

It is evident that these international and national financial pressures are causing supplementary stress on the beneficiaries of the necessary equipment for safe drinking water and sanitation infrastructures.

Three major constraints have been identified:
– Decreasing funds from the North.
– Increasing pressure on the Southern country’s national budgets for social programs.
– Increasing transfer of financial responsibilities from the national authorities to the local users.

These constraints are pushing the population in rural and peri-urban areas to look for alternative financial resources. Most of these expenditures by this population are related to social activities, as well as to those involving water supply, food production, sanitation, health, education, marriage and funerals. For this population, these activities need to be supported by alternatives to credit based on profit.

This is particularly true for water supply projects undertaken at the village level, where the users have to cover the costs of maintaining and replacing the installations. The equipment they need to do this is often of small size and cannot be covered by big external financing programmes. As a result, villagers have had to seek out ways to create a microcredit system based on solidarity networks to get the equipment they need. But obstacles exist.
Because the commercial banks give their support to big projects and to the operators of the “formal sector” who can offer sufficient guarantees, the operators of the “non-formal sector” do not have access to the big banking system. What’s more, the conditions of the big-bank loans are beyond the villagers’ possibilities. These banks are not interested in such small loans because they move such small amounts of money, and because the control and management of the loans would be too expensive, the risk too high, and the possibility of making a profit not compensated by the investment. Furthermore, the administrative procedures of the classical banking system are not adapted to the rural and peri-urban population’s social and cultural behaviour, nor is the bank’s way of working in any way linked to the traditions of these communities, a fact which further pushes these populations to look for alternative financial resources.

Nowadays, local institutions in different parts of the world have developed innovative mechanisms in order to provide credit and savings facilities to those who have been traditionally excluded by the formal financial sector. Recognizing the financial constraints of the poor, these institutions have developed well-conceived financial services delivery systems.

Microfinance institutions (MFIs) operate in Asia, Latin America and Africa within a widely differing social, cultural, and economic context, both in rural and urban areas. These institutions use different methodologies and institutional arrangements. A prime example of a microcredit bank is found in the Grameen Bank system. The Grameen Bank now operates in over half of the villages of Bangladesh. Its institution is subordinate to people’s needs. The system rejects collateral-based banking as a structural impediment to the participation of the poor and has, as such, introduced a system based on group-lending and peer-group monitoring. Instead of making people come to the bank, Grameen goes to the people. All financial transactions take place at weekly centre meetings. At the meetings, it is possible to select the needy clients, control the quality of the maintenance and follow up on the repayments.

Ninety-four per cent of Grameen members are women. This emphasis on women is based on the fact that women are the most oppressed within the ranks of the poor, and also because giving credit to poor women translates into greater welfare within the household. This description becomes even more important when related to the issues of water. Unlike men, the women in rural Bangladesh have to provide safe water for the family. Likewise in many other developing countries, women are almost entirely responsible for the collection of water for domestic use. Several microfinance programmes have therefore made a specific policy decision to target poor women, first, because access to resources and services is even more difficult for them, and second, because women have demonstrated a stronger repayment performance and willingness to form groups.

Most Grameen members have no formal schooling. At Grameen they are taught to sign their names, to count and keep accounts. Bank procedures are simple and transparent. Members discuss among themselves and learn to keep track of their money...
without having to use difficult forms. Simple receipts are issued so that record keeping
is simplified. Numerous studies carried out on this Bank projects have shown that it
has increased the economic well-being of its members.

Fig.1 Microfinance Institutions in Asia, Africa and Latin American

Asia
Microcredit projects have progressed rapidly in the Asian region:
The Grameen Bank is probably the best-known microfinance institution in the world. It started as an action
research programme in 1976 and was transformed into an independent bank by government ordinance
in 1983. Operating throughout rural Bangladesh, the Grameen Bank mainly serves very poor women.
The Bank Rakyat Indonesia (BRI) is a state-owned commercial bank.
The Unit Desa (banking) System of BRI, is an extensive network of unit-banks operating throughout
Indonesia as an independent profit centre. The voluntary savings scheme which it designed mobilizes
considerable amounts of savings and the loans are fully financed by these deposits.
The Association for Social Advancement of Bangladesh,
The Association of Cambodia Local Economic Development Agencies,
The Self-Employed Women’s Association Bank of India,
The Association for Social Advancement of Cambodia,
The People’s Credit Funds of Vietnam, with more than 200,000 members or clients
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Africa
The Kenya Rural Enterprise Programme (K-REP) was established in 1984, and in 1987 became a local
NGO which works in rural as well as urban areas. K-REP is both a support and funding organization
for other Kenyan NGOs doing informal sector lending and an intermediary institution with its own
microfinance programme.
In West Africa microfinance institutions are still in their infancy:
Credit rural and Credit mutuel de Guinee; Credit mutuel du Senegal and Village Banks Nganda of
Senegal; Reseau des caisses populaires and Sabel Action Project de promotion du petit credit rural of Burkina
Faso; and Caisses villageoises du pays dogon and Kaf 2 Jiginew of Mali - concluded that all nine of these
programmes are very much in the mainstream of best practice in the field of microfinance.

Latin America
In Latin America, Accion Internacional, is a non-profit development agency. Its network of 19 affiliates
in Latin America and North America provides $300 million a year in loans to poor entrepreneurs
(56 per cent are women). Since 1987, Accion’s network has grown from 13,000 to more than 285,000
active borrower clients. The six largest affiliates now provide $1 million per month in loans. Banco
In view of the growing popularity of microfinance institutions, bank regulators are creating laws or special regulations for this new financial tool in many developing countries such as Bolivia, Ghana, Kenya and Peru.

Microfinance has become so important that a world summit was devoted to it, in Washington D.C in 1997. The purpose of the Microcredit Summit was to adopt a plan of action and launch a global campaign to reach the world’s poorest families.

The Summit adopted the definition of microcredit listed below:

Microcredit programmes which extend small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families.

The second-annual microcredit summit meeting will be held in June 1999, in Abidjan, Côte d’Ivoire. The meeting plans to review the strategy of a global campaign to ensure that 100 million of the world’s poorest families, especially women, have access to credit services by the year 2005.

FUTURE AND MICROFINANCE

It is estimated that microcredit programs now reach something on the order of eight million very poor people in developing countries. In industrialized countries, the microenterprise movement is younger but has already produced some good examples. While France is the only European country that has started a large-scale microcredit program (“Association pour le Droit a l’Initiative Economique”, created in 1989), similar programs are being designed in Belgium, Germany, and the United Kingdom. In the Eastern European countries, microcredit programmes seem to be well-suited to the existing socio-economic environment and are growing fast.

What is really new is that certain banks are starting to take microcredit systems for water supply and sanitation projects and are responding by reviewing their goals and methods and adjusting to the demand of small-scale economics.

Small banks have realized the importance of being involved in the development process of their countries and are making a special effort to support rural and informal economies. These banks are trying to become closer to the real need of the rural communities...
communities, accepting the existence of co-operatives or mutual support groups as mediators between the formal bank system and local communities.

Fig. 2. Examples of microfinance methodologies used by different institutions

**Associations**
This is where the target community forms an ‘association’ through which various microfinance (and other) activities are initiated. Such activities may include savings.

**Bank Guarantees**
As the name suggests, a bank guarantee is used to obtain a loan from a commercial bank. This guarantee may be arranged externally (through a donor/donation, government agency etc.) or internally (using member savings). Loans obtained may be given directly to an individual, or they may be given to a self-formed group.

**Community Banking**
Community Banking model essentially treats the whole community as one unit, and establishes semi-formal or formal institutions through which microfinance is dispensed.

**Cooperatives**
A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. Some cooperatives include member-financing and savings activities in their mandate.

**Credit Unions**
A credit union is a unique member-driven, self-help financial institution. It is organized by and comprised of members of a particular group or organization, who agree to save their money together and to make loans to each other at reasonable rates of interest. The members are people of some common bond: working for the same employer; belonging to the same church, labor union, social fraternity, etc.; or living/working in the same community.

**Grameen**
The Grameen model emerged from the efforts of a grassroots institution that focused on the poor called the Grameen Bank, started by Prof. Mohammed Yunus in Bangladesh. A bank unit is set up with a Field Manager and a number of bank workers, covering an area of about 15 to 22 villages. The success of the model depends on the collective responsibility of the group.

**Intermediaries**
Intermediary model of credit lending positions a ‘go-between’ organization between the lenders and borrowers.

**Non-Governmental Organizations**
NGOs have emerged as key players in the field of microcredit. Playing the role of intermediary in various dimensions, NGOs have been active in starting and participating in microcredit programmes.
Rotating Savings and Credit Associations
Rotating Savings and Credit Associations (ROSCAs) are essentially a group of individuals who come together and make regular cyclical contributions to a common fund, which is then given as a lump sum to one member in each cycle.

Village Banking
Village banks are community-based credit and savings associations. They typically consist of 25 to 50 low-income individuals who are seeking to improve their lives through self-employment activities. Initial loan capital for the village bank may come from an external source, but the members themselves run the bank.

The United Nations Agencies have developed several microcredit programmes. The United Nations Educational Scientific and Cultural Organization (UNESCO) established its own microfinance unit (MFU) in 1995 in order to promote microfinance as a tool in poverty alleviation. The World Bank launched the “Local Initiatives Project” in 1996 to provide microcredit and technical support through NGOs to vulnerable groups. Taken as a whole, these activities have attempted to demonstrate that microfinance should serve as a bridge to deliver not only credit, but also adequate education, health, and social services.

In sum, if it is true that microfinance may help create solidarity groups because of its insistence on the need for personal discipline on repayments and its way of seeing individual activities in greater social terms, this practice can become a powerful tool to improve the quality of lives, especially if it is supported by skills training, complementary literacy, health and educational activities.

Figure 3. Examples of savings and micro-loan systems to support the implementation of water supply and sanitation programmes in developing countries

Project of Kobong in Kenya
Under the auspices of the UNESCO project on “Women and Water”, the women of the village of Kobong in Kenya “joined their forces” to fund the building of a new, larger water impoundment.

Project of Khan Kaen in Thailand
This project was directed to rain water collection in the village of Khan Kaen. The government has supported the creation of a system of loans within the village. People bought a social option on a basis of 4 dollars per family in order to have access to a credit of 150 dollars. Each family obtained the possibility of building their own collector of rainwater, while promising to maintain sufficient savings for its maintenance.

Project Nylon in the city of Douala in Cameroon
This project supported the people of a district of the city of Douala in their efforts to start up a fund to restore the urban drainage system. The district was regularly flooded during the rainy season.
Figure 4. United Nations funds and programmes

United Nations Capital Development Fund
Since its creation in 1966, as a capital funding window under the UNDP umbrella, the United Nations Capital Development Fund (UNCDF) has been the channel for UNDP to fund microfinance interventions. It has so far approved more than US$ 100 million of investment credit activities, the majority being microfinance related, with the balance to small and medium-sized enterprises. At the present time, UNCDF has an active microfinance portfolio of about $40 million, of which 70 per cent is in Africa, 20 per cent in Asia and 10 per cent in Latin America.

United Nations Children’s Fund (UNICEF) integrates microcredit into its programmes in countries where lack of access to small loans is identified as an obstacle to the improvement of the situation of women and children.

Consultative Group to Assist the Poorest (CGAP)
One of the outcomes of recent discussion has indicated that a more coordinated and concerted international effort is required if microcredit is to spread and succeed on the scale that expectations now require. It is with that perspective in mind that the World Bank has led the process of international coordination primarily by establishing the Consultative Group to Assist the Poorest (CGAP), which brings together a number of western donor countries and international agencies. The group has ancillary structures which ensure that government organizations and borrowers in general are consulted. CGAP, which comprises 25 members, including United Nations bodies, is a multi-donor effort to address the problems facing microfinancing.

United Nations Development Fund for Women (UNIFEM) recognizes the need to provide credit to women as a way of strengthening women’s institutions at the grass-roots level.

International Labour Organization (ILO) in microfinance reaches back many years, through its activities related to the development of the informal sector, and in particular its promotion of cooperatives, including savings and credit cooperatives. In response to the needs of its constituency - Governments, trade unions and employer organizations - ILO developed international labour norms that define standards for its constituents on how to support entrepreneurial activities of the working poor, formulated norms in technical cooperation to help constituents finetune policies and improve institutional performance, and developed research modalities to help resolve information deficits, influence policy makers and identify best practice.

World Bank.
One reason the original members of CGAP decided to locate the secretariat within the World Bank was to strengthen the Bank’s growing microfinance-lending portfolio. CGAP expects the Bank to play a pivotal role in working with Governments to create an enabling business environment for microfinance institutions and making linkages between overall macroeconomic framework and microfinance.
International Fund for Agricultural Development.

Over the past two decades of providing financial aid, much of it through microcredit programmes for the poorest of the rural poor in developing countries, the International Fund for Agricultural Development (IFAD) firmly believes that the poor are “bankable”. Its action plan is based on three fundamental propositions. The first stems from the Fund’s mandate to address rural poverty by recognizing the importance of microfinance as a key of empowerment tool in ensuring improvements in incomes and sustainable household food security among the world’s poorest families, especially the women of those families. The second recognizes the fact that, while access to credit and savings facilities is crucial, it is usually not enough by itself to ensure the sustainable development of the rural poor, who also need links to an efficient distribution system for their productions, including viable roads to market places, access to appropriate technology, technical training, fair prices for inputs and a favourable regulatory climatic. Thirdly, rather than providing temporary services for the poor, the main objective of IFAD is to develop viable and financially sustainable rural financial systems, especially for the very poor living in remote areas in many developing countries.

More information about microcredit can be founded in the UNESCO web site: http://www.UNESCO.org/

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