PASCAS Micro Finance and Micro Enterprise Initiatives

Mission and Aim:

PASCAS aims to serve the microfinance industry through investment intermediation services. The company provides innovative business services to investors and practitioners of micro- and small enterprise development. It would ensure a balance between for profit and social motives since it believes in its poor and removal of poverty from the face of the earth.

Target market:

Micro- and small enterprise development aims at bringing opportunities to people lacking access to the tools, skills and capital necessary for them to enhance their dreams and talents, as well as help them integrate their community and contribute to its development

Corporate values:

Our corporate values are focused on the principles of independence/decentralisation, integrity and innovation; independence towards our clients, partners and branches within PASCAS, integrity of our work and staff, innovation all around including our products and services.

In creating a better world for humanity PASCAS actively pursues sustainable development and poverty reduction work among people in need both at home and abroad. PASCAS has established a number of Micro Finance Institutions, Micro Enterprise inititatives and other development inititiatives to help wipe poverty from the face of the earth.

Advocating and practising Micro Finance through a profitable social model – We feel positive and fair by practising a MFI model that would give credit to entrepreneurs, help develop their small enterprise through monitoring , mentoring and nurturing.

Disaster management and microfinance institutions - Developing, collating and disseminating training materials to ensure stronger responses and better risk management by microfinance institutions in the event of natural calamities.

Rural development – The need is urgent due to the global food shortage and green awareness. Undertaking an assessment of rural development policies in a few countries for the International Fund for Agricultural Development.

Worker remittances - Analysing the flows and stocks of worker remittances into various developing countries and devising improved policy responses to lower the costs faced by senders and recipients.

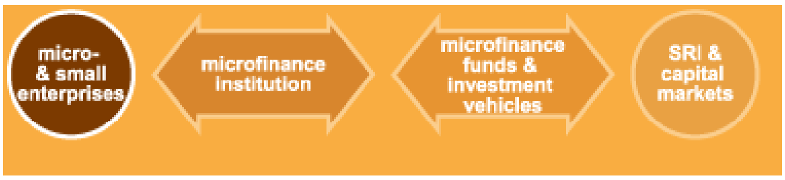
Partnerships for microfinance products - Promoting new approaches to partnerships which help microfinance institutions provide more products to their clients such as insurance, leases and pensions.

Microfinance networking - Establishing and maintaining two major networks of microfinance institutions to enable sharing of know-how (Banking with the Poor in Asia, and Microfinance Pasifika in the Pacific).

Technology for development - Creating and sharing partnership initiatives which help transfer new technological approaches in developing countries, for example, mobile phone banking and personal computers etc. .

Local Economic Development - The PASCAS initiative on *Local Economic Development* (LED) focuses on community economies and livelihoods in developing countries. Through the introduction and application of innovative tools and techniques, and collabotrative partnerships with specific actors, PASCAS aim to enhance the economy and livelihood prospects for those needy communities that fall under our umbrella.

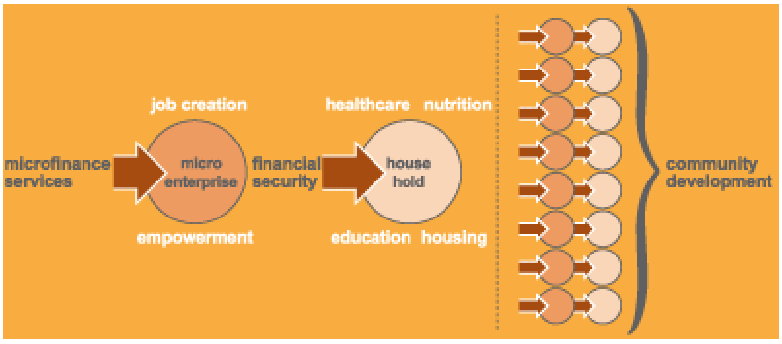
micro & small enterprises



A “micro-entrepreneur” refers to an economically active poor running a micro or small business. Whether registered or informal, his self-sustained professional activities are the sole income generation for himself and his peers, family and dependants. Whether destitute, extremely poor or non-poor but highly vulnerable, his exclusion from mainstream financial services puts him into economics of emergency and survival, incapable of generating savings, accessing credit lines or investing in his future.

There are 4 billion people who live with less than $ 4 a day, about 2.7 billion with less than $ 2 and 1.1 billion with less than $ 1 a day. There are at least 500 million economically active poor or micro-entrepreneurs worldwide, the vast majority of which lack access to capital to sustain and grow their professional activities. The average financing need worldwide is of $ 500 per microentrepreneur, suggesting a potential market demand of 250 billion dollar.

Microfinance services bring three essential features to a micro-enterprise and its owners: **security, growth and empowerment**. Economically active poor evolve in cash flows of survival and economics of emergency; they cannot afford to save, and the slightest shock on their revenues, whether due to exogenous factors (hurricanes, earthquakes, strikes, social strife, etc.) or endogenous factors (sickness, weddings, funerals, migration, etc.), might ruin their cash flow and sustainability. If existent, their often only alternative is to finance themselves with local loan sharks, charging up to 10% a day, as is the case in some place in Bolivia or the Philippines. On the contrary, access to adequate financial services works as a security buffer for them, offering liquidity in times of trouble. Similarly, access to capital allows them to invest in the future, buy fixed assets or hire new staff. In the end, contact with their micro-banker works to integrate them back into cycles of opportunities and increase their self-esteem, independence and social networking.



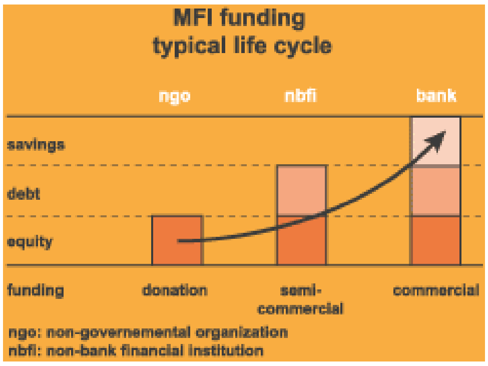
Stabilized and sustainable business cycles in turn increase the microentrepreneurs' household disposable income. This affects their family consumption and life patterns, allowing them an array of choice from more education for their children, to better nutrition or housing facilities, access to health services, etc. Multiplied at the scale of a neighborhood or city, these hundreds of new opportunities stimulate social capital and community development.

A "microfinance institution" (MFI) means an organization that provides financial services targeting a clientele that is poorer and more vulnerable than traditional bank clients and is attempting to impact its clientele through improvements in their financial situation and more generally through improvements in their living standards, welfare and social capital.

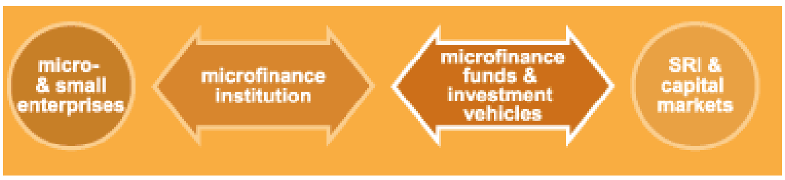
Microfinance institutions vary in size and scope. They often start as small NGOs with credit activities being only a part of their focus, and eventually mature into full-fledged regulated banks. This typical life cycle gradually pushes them into full commercialisation.

Today, there are a few dozen banks and financial institutions with balance sheets over 100 millions U.S. dollars, profitable and regulated; a few hundred microfinance organization with balance sheets over 5 million dollars, commercially sustainable and with higher growth rates (>30% per annum on average); and a few thousand micro-credit programs with balance sheets of less than 5 million dollars, largely donor driven.

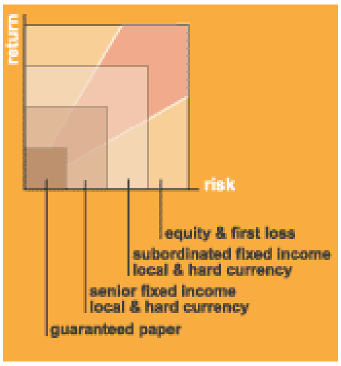
In recent surveys, the number one growth impediment to microfinance institutions remained access to capital. Today their supply is generally sought to cover 10 to 15% of the potential demand.



microfinance fund and investment vehicle



Over fifty global and regional microfinance investment vehicles exist today, and at least as much local ones have been identified. All are expected to grown significantly in the coming few years.



Foreign investment in microfinance totals over a billion dollars, and is growing rapidly (supply is expected to double in 2006 and double again by 2008). These funds are today mostly set for average foreign investments of less than a million U.S. dollars in short term hard currency debt. They have also in the past five years targeted largely the same few dozen institutions, monopolizing much of the attention in the industry. Current policy makers are thus increasingly pressuring investment intermediaries to broaden the scope and geographical outreach of investment products and match adequately the large inflow of funds with the large market demand.

New investment vehicles are offering different asset classes to the investor, from high reward first loss investments to fully guaranteed notes.

Microfinance Investors

The socially responsible investment (SRI) market is estimated at about 3 trillion dollars worldwide. The share of SRI funds allocated to emerging markets is estimated at about 1%. Ethical funds, sustainable investments and socially responsible ventures are growing rapidly into the agenda of investors and fund managers alike.

Globalization and geopolitical events also are increasingly driving capital towards the periphery, opening up new opportunities from previously unattended populations. Emerging markets funds, often theme oriented (sustainable development, environment, water, renewable energy, housing, small enterprise, etc.) are becoming every day more apparent. Whether socially responsible or not, today investors are increasingly looking into low volatility opportunities and/ or segments of the market uncorrelated with mainstream global benchmarks.

Absolute returns, capital guarantees and value for the money are becoming just as important as relative performance. Microfinance fits all three of these new global trends in the financial arena. As a sequence, the past few years have witnessed the emergence of new microfinance investment vehicles attracting SRI and capital market money. In return, they are bringing yet more professional skills into the industry, increasingly commercializing and rationalizing the value chain, pressuring investment intermediaries into further transparency, risk management tools and competitive market pricing.

The definition of microfinance

"Microcredit, or microfinance, is banking the unbankables, bringing credit, savings and other essential financial services within the reach of.millions of people who are too poor to be served by regular banks (the unbanked and underserved), in most cases because they are unable to offer sufficient collateral. In general, banks are for people with money, not for people without." (Gert van Maanen, Microcredit: Sound Business or Development Instrument, Oikocredit , 2004)

"(Microcredit) is based on the premise that the poor have skills which remain unutilized or underutilized. It is definitely not the lack of skills which make poor people poor….charity is not the answer to poverty. It only helps poverty to continue. It creates dependency and takes away the individual's initiative to break through the wall of poverty. Unleashing of energy and creativity in each human being is the answer to poverty." (Muhammad Yunus, Expanding Microcredit Outreach to Reach the Millennium Development Goals, International Seminar on Attacking Poverty with Microcredit, Dhaka, Bangladesh, January, 2003)

Microcredit belongs to the group of financial service innovations under the term of microfinance, other services according to microfinance is microsavings, money transfer vehicles and microinsurance. Microcredit is a innovation for the developing countries. Microcredit is a service for poor people that are unemployed, entrepreneurs or farmes who are not bankable. The reason why they are not bankable is the lack of collateral, steady employment, income and a verifiable credithistory, because of this reasons they can´t even meet the minimal qualifications for a ordinary credit. By helping people with microcredits it gives them more available choiches and opportunities with a reduced risk. It has successfully enabled poor people to start their own business generating or sustain an income and often begin to build up wealth and exit poverty. The amount of money that´s lended out seldom exceeds 100USD.

Microcredit fits best to those with entrepreneurial capability and possibility. This translates to those poor who work in growing economies, and who can undertake activities that generate weekly stable incomes. For those who don´t qualify because they are extreme poor like destitute and homeless almost every microcredit institution have special safety programs that offer basic subsistence and later endeavours to graduate this members in their microfinance program making ordinary microcredits available.

Microcredit plays an important role in fighting the multi-dimensional aspects of poverty. Microfinance increases household income, which leads to attendant benefits such as increased food security, the building of assets, and an increased likelihood of educating one’s children. Microfinance is also a means for self-empowerment. It enables the poor to make changes when they increase income, become businessowners and reduce their vulnerability to external shocks like illness, weather and more.

Microcredit has widely been directed by the non-profit sector while commercial lenders require more conventional forms of collateral before making loans to microfinance institutions. But now it´s successfully growing bigger and getting more credibility in the traditional financeworld. Due to that the traditional banking industry have begun to realize that this borrowers fits more correctly in a category called prebankable. T he industry has realized that those who lack access to traditional formal financial institutions actually require and desire a variety of financial products. Nowadays the mainstream finance industry is counting the microcreditprojects as a source of growth. Before almost everyone where neglecting the success of microcredit in the beginning of the 1970s when pilot projects such as ACCION where released until the United Nations declared 2005 the International Year of Microcredit.

The most of the microcredit institutions and agencies allover the world focuses on women in developing countries. Observations and experience shows that women are a small credit risk, repaying their loans and tend more often to benefit the hole family. In another aspect it´s also seeing as a method giving the women more status in a socialeconomic way and changing the current conservative relationship between gender and class when women are able to provide income to the household. Women are in most cases responsible for children, and in poor conditions it results in physical and social underdevelopment of their children. 1.2 billion people are living on less than a dollar a day. There are many reasons why women have become the primary target of microfinance services. A recent World Bank report confirms that societies that discriminate on the basis of gender pay the cost of greater poverty, slower economic growth, weaker governance, and a lower living standard for all people. At a macro level, it is because 70 percent of the world’s poor are women. Women have a higher unemployment rate than men in virtually every country and make up the majority of the informal sector of most economies. They constitute the bulk of those who need microfinance services.

Giving women access to microcredit loans therefore generates a multiplier effect that increases the impact of a microfinance institution's activities, benefiting multiple generations.

A type of banking service that is provided to unemployed or low-income individuals or groups who would otherwise have no other means of gaining financial services. Ultimately, the goal of microfinance is to give low income people an opportunity to become self-sufficient by providing a means of saving money, borrowing money and insurance.

Investopedia Says:

Microfinancing is not a new concept. Small microcredit operations have existed since the mid 1700s. Although most modern microfinance institutions operate in developing countries, the rate of payment default for loans is surprisingly low - more than 90% of loans are repaid.

Like conventional banking operations, microfinance institutions must charge their lenders interests on loans. While these interest rates are generally lower than those offered by normal banks, some opponents of this concept condemn microfinance operations for making profits off of the poor.

The World Bank estimates that there are more than 500 million people who have directly or indirectly benefited from microfinance-related operations.

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Questions & Concerns

Many questions have been raised about micro-finance and its importance as a means for poverty alleviation. As donors and practitioners become increasingly concerned about the quality of their interventions, interest has grown in developing clear and precise measurement methods. Who should be considered as a poor client? Why is it necessary to target poverty? How can a micro-finance institution (MFI) target the poor? What should be the best approach for targeting the poor? How can a MFI simultaneous focus on the very poor and face the challenge of sustainability and outreach? To what extent can financial and non-financial services help improve the living conditions of the poor?

Practitioners and donors have been developing impact measurement tools and promoting discussion groups to tackle this matter and come up with clear answers. Organisations like the CGAP (Consultative Group to Assist the Poorest) and the Micro-Credit Summit have a particular interest in this issue.

Why do we have to measure poverty targeting?

Micro-finance, by providing small loans and savings facilities to those who are excluded from commercial financial services has been developed as a key strategy for reducing poverty. Access to these facilities is seen as a way of providing the poor with opportunities to take an active role in their economy through entrepreneurship, providing them with income and bargaining power and building up social empowerment for poor women and men in their communities.

Over the years we have gained a better understanding of micro-finance. We are more aware of its limitations, its positive and negative effects on poverty. Therefore more attention is focussed on questions such as: "Under what conditions and with what mechanism can micro-finance programmes have a maximum effect on poverty "?

We now understand that micro-finance is not a magic potion leading automatically to better living conditions for poor people. As a matter of fact, in some cases micro finance has led to deteriorated situations and debt equity ratio of the very poor.

The extent to which micro-finance programmes are able to reach the poorest of the poor with their services is still an open debate .

Therefore careful targeting measurements are necessary.

Difficulties: constraints of targeting poverty

Due to the difficulties in defining poverty, different methods of poverty measurement have been used. The most common approach is based on income or consumption levels. A person is considered poor if his or her income or consumption is below a certain minimum level. This level is usually called: the poverty line, which can vary in time, according to the geographical context, social norms and values.

There is currently a world-wide debate on poverty yardsticks to identify the poor. A committee of CGAP consultants has been studying the issue for two years without producing any concrete result. Some have argued that it is

impossible to design any reliable indicators to identify in a tangible way who are the really poor .

According to the Micro Credit Summit, the poorest are those people belonging to the bottom fifty per cent of the group of people living below a country's nationally defined poverty-line. According to the World Bank, the poor are those who have a level of consumption of at least $2 per day and, the poorest are those who have a level of consumption of at least $1.

Nevertheless, poverty has other dimensions besides income or consumption. It is necessary to include non-income poverty dimensions like education, health, and access to infrastructure, vulnerability, social exclusion, and access to social capital.

Measuring poverty is not easy. Aspects such as quality of life, health, leadership, women's roles, empowerment, etc., are elements difficult to quantify. Besides, arriving at precise poverty measurement methods is expensive and rather disappointing in terms of tangible results. In some cases precise and comprehensive identification tools have been replaced by tools that are less costly and less demanding on staff time and qualifications.

There is no general agreement on the fact that, in order to have a real impact on poverty, micro-finance should expressly target the poor.

Some argue that it is more important to have a wider geographical impact on a permanent basis through quality financial products delivered by competitive, effective micro-finance institutions (outreach approach).

This approach is based on a long term view and the belief that in many cases there is a limit to the "in depth targeting" of the poorest : the credit-worthiness of the client. According to this approach most MFIs do not reach the very poor and there is a trade-off between sustainability and reaching the poorest of the poor .

Some micro-credit advocates argue that micro-finance services should reach the poorest of the poor as access to credit is a human right in the fight against economic exclusion. Narrow targeting of the poorest is necessary (in depth targeting).

In a study of eleven MFIs world-wide, it was found that financially sustainable institutions can reach the poor and that there is no trade-off between reaching the poor with credit and financial sustainability.

However, one should note that no matter which approach is adopted, quality and permanent services to the poor can only be delivered through competitive and sustainable financial systems.

Approaches for targeting the poor

MFIs have developed a range of strategies to identify the poor. These poverty targeting strategies include several complementary components:

- ways of identifying the poor;
- ways of attracting the poor;
- ways of excluding the non poor;
- ways of discouraging the non poor.

For effective targeting all these components have to be included in a complementary way.

To accomplish this one needs:

- Agent-related factors (Type of MFIs, client needs, constraints)
- Contextual factors (regulatory framework, infrastructure, etc.)
- Outreach of micro-finance, (how many people are reached, how poor are the clients, in which sectors are they engaged, where do they live, quality of services offered)
- Impact (measuring methods for impact will be discussed in the following article)

Some experiences on targeting measurement

Extensive research has been conducted by numerous organisations such as CGAP, Micro-credit Summit to establish reliable efficient cost-conscious methods to measure to what extent micro-finance programmes are reaching the poor. The results are rather disappointing compared to the high cost involved, as no tangible precise conclusions can be drawn from those measurements.

CASHPOR Housing Index

Used by Grameen Bank replication networks in the Asia - Pacific region. It is an observational methodology that produces an indicator, which is highly related to the quality and the status of the house.

Three dimensions of the house are considered:

1. size of the house,

2. physical condition or building materials,
3. material of the roof.

The ranking of the poor and less poor is done within the geographical and social context. People living in houses constructed from mud bricks, with poor quality thatch roofing, small windows and in a general state of disrepair tend to be selected as the poorest. In order to improve this method members of the community participate in ranking themselves according to their own perception of poverty.

Participatory Rural Assessment (PRA) and Participatory Wealth Ranking (PWR)

PRA/PWR allows communities to rank themselves according to their own perceptions of poverty. Detailed discussions are held with a large number of people in each community to define poverty, and to rank the community according to their criteria. These methods have been based on participatory rural mapping and wealth ranking. One of the most attractive aspects of this approach is the opportunity that it gives for the people themselves to define their own concepts of poverty and wealth.

PWR/ PRA does generates information which can be used to relate the results to these standard measures. The main problem is where local definitions of poverty include non-economic variables.

Geographical Distribution of Poverty

A list of the geographical concentration of poor households can help micro-finance practitioners to target the poor. Using locations as a proxy for poverty-level criteria mean taking into account variables such as levels of marginality, quality of public services, geographic dispersion, rates of illiteracy, infant mortality, life expectancies. The main limitation of this method is that it may include non-poor households.

Vocation

The nature of activity serves as a proxy for the income levels. In the same way, levels of poverty can be determined by identifying the location of the enterprise. The Institute of Rural Management, SEWA in India, tries to target its members by working with women who are engaged in activities which are pursued mostly by low-income category households such as street vendors, house-based workers, rag pickers, etc.

Small Size Loans

Some programmes have selected as a targeting method the selection of the poorest area in a region as the operational area; this methodology was designed to offer small loans through group-based lending. Following the theory that small loans and high transaction cost in terms of time spent to enter the programme and participation in lengthy meetings would deter all but the very poorest from joining.

House-to-House Interviews to Potential Clients

This method uses a client or household interviews and surveys to determine the poverty of the family. Evaluators meet the people at their homes, observe the household conditions and ask related questions about family members, sources of income, expenses, food consumption, etc. The limit of this method is the inaccuracy of the income and expenditure surveys.

Other Methods

At Ruhunu UNESCO in Sri Lanka, a card is completed for each beneficiary family with information gathered from a survey of the family's circumstances and their level of poverty. The survey includes aspects as monthly income, quality of housing, health, number of school-going children availability of electricity, among others aspects.

Findings from the different approaches

On Poverty Reduction

- Studies have shown that most poor people have benefited from micro-finance programmes but that narrow targeting is not necessarily a condition for reaching the poorest. Some large-scale non-targeted schemes have proven to reach the poorest.
- More poor people can be reached through building competitive, sustainable financial systems which provide a wide range of small-scale financial transactions than through narrow targeted programmes.
- Increasing numbers of practitioners are stressing the importance of offering a range of quality and flexible financial services in response to the wide variety of the needs of the poor.
- Micro-finance has its limitations. It should not be seen as the only solution to poverty alleviation. In certain circumstances other inter-ventions sometimes could be more effective than micro-finance. For example, in the case of natural disaster

situations, micro-finance needs other complementary interventions, like subsidies for responding to the needs of those clients who have lost their capital and personal belongings and do not have any liquidity to pay their current debts.

- **Micro-finance is not appropriate for all the poor people. In some cases micro-enterprises owned by the poor are not ready for or do not need financial products. In other cases, micro-entrepreneurs are not creditworthy.**

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