Comparing Microfinance Models

MC2 Model versus other Microfinance Models

Leonard Ajonakoh Fotabong
Tel : 00237 77412798 Email :fotabright@yahoo.com

20/12/2011

The MC2 microfinance model earns supremacy over other microfinance models due to its strong community identity feature. It is a bank created by the people, owned by the people, controlled by the people, managed by the people in keeping with their local values, traditions, customs and reality. Its practical interest rates and four pillar approach remain unique.
1.0 Introduction

The poor need financial products and services to build assets stabilise consumption and shield themselves against risk. Originating from the founder of formal microfinance, many writers and policy makers have often look at microfinance as the last-mile bridge to the low-income population excluded from traditional banking system, but yet no single study have so far proven beyond doubt how microfinance alleviate poverty (Fotabong & Akanga 2005). Microfinance and microfinance institutions remain an appropriate policy interventions tools and rural banking channels to extend financial services to other areas that otherwise would be more expensive and unprofitable to open branches of a traditional banking institution. Yet, microfinance continue to gain credence as an effective poverty alleviation tool from both practitioners donors and policy makers as supporters give indicators as to the funds recovery performance, usually with rates between 90-100% (SOS FAIM No. 6, 2001). However, this thesis is totally opposed to the economic theories that teach us that in order to favour economic growth the price of money should be reduced. Against this backdrop, why should the poor pay excessive rates?

Recent crises in Bangladesh and India should pushed policy makers and practitioners to take a break and reflect on the previously sing-song 90-100% recovery rate purportedly registered by most MFIs. As far as the recovery performance rate is concerned, people rarely pay attention to the origin of resources used for reimbursement. In a field experience in Cameroon, most customers end up shifting debts and obligations from MFIs to money lenders or relatives as they strife to maintain status within their groups.

In developing countries, rural people have often not been able to obtain credit from commercial banks, leading many researchers to see credit and microfinance as panacea, the missing ingredients for rural development and poverty reduction. Microfinance is the supply of microloans, savings, micro insurance and other basic financial services to the poor or particularly those who have been left out by conventional banking institutions. People living in poverty, like everyone else, need a diverse range of financial instruments to run their businesses, build assets, stabilize consumption, and shield themselves against risks. The founders of formal microfinance had good intentions, but as the number of stakeholders involve in the chain increased so to be the number of objectives as a socially driven business became the next haven for investors.

The ongoing debate on the ultimate shift and drift in mission calls for a closer examination of different models. This study is an attempt to appreciate and draw a demarcation between various microfinance models in the wake of the current crises in Bangladesh and India. The study is divided into four parts. The introductory part sets the groundwork; section two presents a critical analysis of different models such as the Grameen Bank Model, the MC2 Model, the village banking Model, and the SKS-microfinance model. Section three presents comparative analyses of those models listed in section two. The last part of the study provides the author’s opinion pool as to which of these models remain better adapted for wealth creation for the poor in the wake of the crises in Bangladesh, and India.
1.1 Methods
This study is completed through an extensive literature review of peer review articles, and methodologies employed by different microfinance models, trade press and magazines. In completing this study, company’s websites, company’s review were quite useful. Thus, the project used a wide range of academic literature that incorporates the institutional design, operations, successes and failures of different microfinance models in the world.

Drawing from existing comprehensive literature, the author was able to form the core of the research methodology that yielded relevant data. In addition the methodological design of this research project tapped into the wealth of practical experience that exists in the MC2 micro-bank model, the Credit Union and followers of the Grameen bank philosophy in Cameroon.

1.2 Current Models of Microcredit and Microfinance
In principle, Micro Finance Institutions (MFIs)-are organizations that provide financial services to the poor. This includes a wide range of providers that vary in their legal structure, mission, methodology, and sustainability but yet share the common characteristic of providing financial services to a clientele poorer and more vulnerable than bank clients. In other words, it can be broadly defined as any organization-credit union, downscaled commercial bank, financial cooperatives that provide financial services to the poor. This section examines popular models of microfinance.

1.2.1 Grameen Bank Model of Bangladesh
The Grameen Bank (GB) is based on the voluntary formation of small groups of five people to provide mutual, morally binding group guarantees in lieu of the collateral required by conventional banks. Women were initially given equal access to the schemes, and proved to be not only reliable borrowers but also astute entrepreneurs as well. GB has successfully reversed conventional banking practices by removing collateral requirements and has developed a banking system based on mutual trust, accountability, participation and creativity.

According to Professor Yunus the founder of the Grameen Bank, credit is seen as a cutting edge tool for affecting those inequalities that confine the poor to a poverty cycle and for releasing the inherent capacities in people. Thus, it restores some sort of social power which has been denied to the poor because they lack collateral. Professor Muhammad Yunus argued that the conventional banking system is anti-poor, anti-women and anti-illiterate and thus, has contributed to maintaining the status quo between the rich and poor. Thus microcredit issued to small groups, is purported to enable them the opportunity to purchase equipment and other inputs and engage in micro enterprises of their choice.

1.2.1.1 Methodologies of the Grameen Bank Model
As mentioned earlier, the GB is based on the voluntary formation of small groups of five people to provide mutual, morally binding group guarantees in lieu of the collateral required by conventional banks. Women were initially given equal access to the schemes and contrary to what was thought of, they proved to be not only reliable borrowers but also astute entrepreneurs. Intensive discipline, supervision and servicing, characterize the
operations of the GB, which are carried out by bicycle bankers in branch units with considerable delegated authority.

Group based lending is one of the most novel approaches of lending small amounts of money to a large number of clients who cannot offer collateral. The size of the group can vary, but most groups have between four to eight members. The group self-selects its Members before acquiring a loan. Loans are granted to selected member(s) of the group first and then to the rest of the members. A percentage of the loan is required to be saved in advance, which points out the ability to make regular payments and serve as collateral. Group members are jointly accountable for the repayment of each other’s loans and usually meet weekly to collect repayments. To ensure repayment, peer pressure and joint liability works very well. The entire group will be disqualified and will not be eligible for further loans, even if one member of the group becomes a defaulter.

1.2.1.2 Weaknesses of the Grameen Bank Model

One of the most successful models replicated and discussed around the world is the Grameen model. The bank has successfully served the rural poor in Bangladesh with no physical collateral relying on group responsibility to replace the collateral requirements. However, I think the model has the following limitations

- Setting up a Grameen bank requires putting up a huge mega structure that involves huge costs. Most of the funds obtained from external sources to finance micro projects end up being used to pay operational costs and salaries of personnel working in the mega structure.

- The Grameen Bank Model has degenerated into a level where, the poor are being pushed into a cycle of multiple borrowings through the rolling of cash. That is, the poor keep on borrowing to pay previous engagement that is robbing Peter to pay Paul. This in addition to its usurious lending rates and high-handed collection mechanisms pushes the poor further below the poverty line. What ought to be a bank-aided socially purposive activity is now a private equity driven business with profits and valuations as the goal.

- It involves too much of external subsidy which is not replicable as the bank has not oriented itself towards mobilizing peoples’ resources. Thus, in the absence of donors funded programs and mezzanine assets financial self sufficiency becomes questionable.

- The repayment system of 50 weekly equal installments is not practical because the poor do not have a stable job. In addition, in a typical agrarian community, during lean seasons it will become practically impossible for them to repay the loan.

- Pressure for high repayment drives members to money lenders. Credit alone cannot alleviate poverty and the Grameen model is based only on credit. Consequently, haste can lead to wrong selection of activities and beneficiaries.

- The interest rate charged by the Grameen bank is by far higher than those charged by conventional banks. They charge more than 7% monthly, with the credit terms remaining inflexible and ill adapted
to the activities of the poor clients. Grameen Bank defends it high interest rates in relation to money lenders rather than low cost bank finance providers.

- Again, agriculture which in most developing countries is the principal activity of the poor is neglected. The Grameen model calls for the dynamics of joint liability. This means that groups screen and self select their members to form a relatively homogeneous groups and consequently members typically share similar probability of defaulting on a loan. Again, the poor are again left out due to negative perception of poor people in a community, with no social groups willing to accept the poor.

1.2.2 The MC2 Model
MC2 are rural development micro-banks created and managed by a community in keeping to their local values and customs. The principal promoter of this concept, Dr. Paul K. Fokam drew inspiration from the Einstein’s famous formula: Victory over Poverty (VP) is possible if the Means (M) and the Competences (C) of the Community (C) are combined.

Hence the formula VP= M x C x C =MC\(^2\). In other words, MC\(^2\) is a community based micro banking approach whereby people and mostly the underprivileged endeavor to be self-reliant, create wealth with a view to improving their living conditions in a sustainable manner. The model has two versions: a rural version, MC2 and an urban version dubbed MUFFA. The second version of the model is exclusively for women because studies and personal research of the founder show that women in urban areas are those most hit by poverty. Through MUFFA, these women have easy access to financial services which help them to start job creation and wealth generating small business activities.

Consequently, the model is built and supported by four main pillars. These are the local populations, the non-governmental organization (NGO) Appropriate Development for Africa (ADAF), AfrilandFirst bank Group and some national and foreign partners.

The objectives of the MC2 Micro bank are simple.

- The first objective of the MC\(^2\) micro bank is economic and financial sustainability from the perspective of the micro bank, the individuals and group members.
- The second objective of MC\(^2\) is the social dimension. This involves targeting the poor, micro and small scale activities and consequently restoring dignity to target beneficiaries to see the importance of being masters of their destiny.

1.2.2.1 Methodologies of the MC2 Model
The micro-bank is more developed and corrects the imperfections of micro-credit and micro finance. It rest on the premise that, savings is the engine of progress and awareness is fuel to keep the engine rolling, while loans serve as a lubricants and finally appended and related service solution to the problem of poverty. MC\(^2\) model is not a packaged readymade one size fit all, although the core principles remain the same from one community to the other. Setting up a MC\(^2\) micro-bank involves five stages.

**Stage One-Sensitising the Poor and Raising their Awareness**
In the first stage of the MC2 micro-bank development, the target community population particularly the poor are sensitized and their awareness raised on:

- The importance of savings in their struggle for self-reliance. This is done through community gatherings, association gatherings and empowerment forums.
- The need to firstly rely on oneself before expecting any external assistance.
- The pride in remaining the sole masters of their own destiny.

Thus, in the first stage awareness is created. This is the fuel to keep the engine (savings) is rolling in the second stage.

**Stage Two: Mobilising Resources**
At the second stage of the micro-bank development the engine (savings and resources) is mobilized. This involves getting stakeholders committed, raising the startup capital, paying individual shares subscription and fees, registering the micro-bank, and opening of individual accounts. These resources mobilized in stage two will enable the micro-bank commence the lending functions in the third stage of the micro-bank development.

**Stage Three: Three-Financing Individual Income Generating Activities**
In stage three, the micro-bank start granting credits to individual’s income generating activities using the resources mobilized in stage two. At this level the micro-bank now completes it intermediary function of facilitating resources from areas of excesses to areas of deficits.

**Stage Four: Financing Common Interest Economic Projects**
In the fourth stage of micro-bank development, the micro-bank institution becomes involved in community development economic activities such as the construction of hospitals, health centres, community halls, schools, and public taps etc. However, communities are caution that the best moment to engage in the fourth stage of MC2 development is some two to three years after it has achieved administrative and financial autonomy. That is when the MC2 can meet its various expenses (salaries, electricity, telephone bills and other consumables).

At this level, any MC2 should be able of raising enough money from loans and other facilities offered to pay off fixed charges and even show a surplus that can be considered a profit. These surpluses should be built for a minimum of two years. It is at this stage that the impact of the MC2 micro-banking approach is deeply felt. For example, imagine a community capable of raising its own financial resources for the construction of a small hydro project.

**Stage Five: Carrying Out Social Development Projects**
At the final stage of MC2, community social projects are being financed and carried out with the resources generated in stage three and four. That is the results are performance registered under stage three and four are primary for this phase to be carried out.
1.2.2.2 Weaknesses of the MC2 Model

- Base on the stages of development outlined, it will take about four years for an MC2 to become financially sustainable and another four to five years to accumulate resources. This means, the second objective of the model which is that of social dimension will have to be put aside for at least ten-15 years. This limits the activities of the model within these periods to the economically viable members.

- Its low interest rate on savings 2.5% might limit resource mobilization only to true supporters of community development, and those intending to benefit credit in the future. This might cause an upward pressure on loan demand.

- Again, the model is increasingly appearing to be more of a distribution channel for the link bank. MC2 is a brand of the link bank with most of the services on offer being products and services of the link bank.

- It is clear and eminent in the model the collapse of MC2 or an MC2 unit wouldn’t affect the link bank but a problem at the level of the link bank might create panic and result to the suspension of some products such as I-Cards, Flash Cash, and Money First. Since these products function on a platform provided by the link bank.

1.2.3 Village Banking Model of FINCA

The village banking institution, Foundation for International Community Assistance (FINCA) implements a village banking model in its effort to create financially-sustainable solidarity groups. FINCA trains small community groups in a 22-module program to form Community Credit Enterprises (CCE). These small enterprises, or companies, permit members to buy shares as shareholders and generate capital to offer sustainable credit and business models. The village banking model was first developed during the 1980s in Bolivia by John Hatch.

1.2.3.1 Methodologies of the Village Banking Model

According to the original model, village banking –FINCA works with groups of 30-60 members, usually all women. As soon as the village bank is inaugurated, it receives its first loan from the implementing agency (the local headquarters of FINCA or its affiliate) for on-lending to the individual members of the village bank. The sponsoring agency spends one to three months in setting up each bank, organizing the election of a management committee and training its members, as well as developing the rules and regulations to govern the village bank. The first individual loan (usually US$ 50) is repaid on a weekly basis in equal installments of principal and interest over a four-month period. The village bank collects these payments at regular meetings and, at the end of the 16th week; it repays the entire loan principal plus interest to the implementing agency. The funds circulating back and forth between the implementing agency and the village bank for loans to members constitute the external account. If the village bank repays in full, it is eligible for a second loan. If the village bank is unable to pay the amount due, the implementing agency stops further credit until reimbursement is made.

1.2.3.3 Weaknesses of the Village banking Model
The village banking model of FINCA is over dependent on external funding. This puts the model at risk in a situation where funds are no longer being channeled into the village bank.

Because funds are being channeled into the village bank at 10% interest rate, the villagers or credit beneficiaries end up paying interest rates of more than 2% on weekly basis. This high interest rate is not sensible considering the meager resources of the poor and the purpose put forth to defend this initiative.

Again, the model requires compulsory 20% savings of the loan amount granted with beneficiaries compelled to repay the loan-principal, interest and savings within 16-24 equal weekly installments. This most often is ill adapted to the cycle of activities of the community particularly with agricultural financing most of which have but seasonal cash flow.

Loans are exclusively granted for trading and micro enterprise activities with a maximum amount granted to an individual being limited to $300 due to the lack of the village bank own resources.

Most village banks are not registered and consequently are not covered by the law and again without an ongoing recruitment and mobilization drive for depositors the village bank can run into problems. Savings are the life-blood of an institution and it enables lending. Therefore concerted attempts to broaden the membership base and ultimately savings volumes are imperative. Most of the village banks have little or no government support.

1.2.4 The SKS and Non Banking Finance Company (NBFC) Model in India
In India, NBFCs has emerged as a nearest substitute for those MFIs who want to go the for-profit route. The NBFC route is increasingly being chosen by profit driven MFIs. These institutions get their capital most often from the capital market and believe that, since the poor are bankable and lending to them can be commercially viable it is not necessary to depend on low cost funds to lend to them. Secondly, pioneers of this model believe that, since the amounts required are huge, the financial markets are the only way to mobilize resources. This would mean mobilizing debt at market rates of interest. These institutions make use of debts and mezzanine assets. They accept investment from the capital markets, complimented by borrowings from commercial banks and in turn the money is used for the financing of micro projects and activities of the poor that ends up pushing the poor further below the poverty line.

1.2.4.1 Methodologies of SKS and NBFC Model
The model uses equity investors and lenders for resources mobilization. The coordinating microfinance set up a mega structure coordinating units where factory style recruitment and training are made for loan officers. Field offices are then set up through which credits are disbursed to beneficiaries through the loan officers at exorbitant interest rates. The objective of this model since it is investor driven is maximization of profit. The SKS microfinance model finances groups and individuals with contract requiring beneficiaries to do weekly repayments.

1.2.4.2 Weaknesses of the SKS Model
The objective of the SKS microfinance model is profit maximization, thus all efforts are made to put the interest rate above 35%.

The model is heavily dependent on investors’ and lender’s funds as the SKS model do not accept deposit of any kind on their own.

Over pressure on loans beneficiaries push customers to commit suicides as the loans are inflexible and ill adapted to the cycle of activities of the beneficiaries. In addition because of huge mega structure being set up by this model operational cost turn to be very high and this is transferred to the poor in the form of higher interest rate.

The SKS starts its activities in urban areas before venturing into rural areas.
<table>
<thead>
<tr>
<th><strong>Summary</strong></th>
<th><strong>MC²-Model</strong></th>
<th><strong>Grameen-Model</strong></th>
<th><strong>FINCA-Model</strong></th>
<th><strong>SKS- Microcredit Model</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Is a micro-bank owned and managed by the members incorporating socio cultural, traditions, and religious habits of the Community. It functions on the principle of one man, one vote. In other words, building from the bottom.</td>
<td>Centrally managed, dedicated microfinance institution, groups of five, highly disciplined organizational structure. The focus is primarily on lending, but every group member must save a certain amount.</td>
<td>FINCA works with groups of 30-60 members, usually all women. As soon as the village bank is inaugurated, it receives its first loan from the implementing agency (the local headquarters of FINCA or its affiliate) for on-lending to the individual members of the village bank.</td>
<td>These are investors driven centrally managed credit company, with resources from lenders and investors, a mega structure is set up, that recruits and train loan officers in charge of disbursing loans to villages. Scheduled banks and investors provide the loans to SKS model institutions. Instead, the beneficiary microfinance institution gives out the money through loan officers to beneficiaries at a very high interest rate. The focus is primarily on credit and investors profit maximization objective.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Objectives</strong></th>
<th><strong>MC²-Model</strong></th>
<th><strong>Grameen-Model</strong></th>
<th><strong>FINCA-Model</strong></th>
<th><strong>SKS- Microcredit Model</strong></th>
</tr>
</thead>
</table>
| \- The first objective of the MC² micro bank is economic and financial sustainability from the perspective of the micro bank, the individuals and group members.  
\- The second objective of MC² is the social dimension. This involves targeting the poor, micro and small scale activities and consequently restoring dignity to target beneficiaries to see the importance of being masters of their destiny. Emphasis is on savings and credits. | The Grameen bank assists the economically active poor who in most situations are excluded from official lending sources.  
\- Emphasis is on credits | FINCA objective is to grant credits to rural communities for them to improve their welfare through entrepreneurship. | The objective of the SKS-Microfinance model is to make maximum profit for the investors within the shortest time possible through increased outreach. |

<table>
<thead>
<tr>
<th><strong>Program type</strong></th>
<th><strong>MC²-Model</strong></th>
<th><strong>Grameen-Model</strong></th>
<th><strong>FINCA-Model</strong></th>
<th><strong>SKS- Microcredit Model</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural Micro development bank</td>
<td>Microcredit Institution</td>
<td>Village Bank</td>
<td>Credit institution</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Staff size</strong></th>
<th><strong>MC²-Model</strong></th>
<th><strong>Grameen-Model</strong></th>
<th><strong>FINCA-Model</strong></th>
<th><strong>SKS- Microcredit Model</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>3-5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Target Clients

The entire community, the under privileged and the poor

- Poor rural women involved in an economic activity
- Villagers of both sexes with preference to women
- Economic active poor with tangible collateral to support the loan request

### Financial services

- Savings accounts
  - Flash cash accounts
- Term Deposits
- Moneygram
- Others
- Micro insurance

- Savings
  - Credits
  - Micro insurance

- Credits
  - Little emphasis on savings
  - Micro insurance

- Door to door loan collection services,

### Non financial services

- Financial training and workshops
- Social mobilization seminars group meetings
- Social mobilization seminars and group meetings

- Group meeting and social mobilization possible only when there is an MFI involved.

### Savings Method

Savings is key to wealth creation. Flexible but must be able to save at least FCFA1500 quarterly. Depends on the community potentials

- Compulsory weekly savings, door to door loan reimbursement collection Peer pressure
- Peer pressure and compulsory weekly savings

- Are not deposits taking institutions.

### Eligibility Criteria

- Registration FCFA 2500
  - Shares >=10 @1000 =10000
  - Savings >= FCFA1500 quarterly

- Must be member in a group
- Must have undergo group training
- Compulsory weekly savings

- 20% cash guarantee of loan amount.
- Peer pressure

- Be a member of an SHG,
- Be able and willing to pay the fees

### Funding type

- Equity shares subscribed by members
- Savings from local population
- Savings from other men and women from the area living in other places
- Loans from refinancing Programs from the link bank
- Grants for capacity building from the local NGO ADAF
- Grants from international donors’ agencies

- External funds from donor agencies.
  - Savings and internally generated funds

- Funds and credits obtained from donor agencies

- Members contribution
  - Credit from MFIs

### Av. Loan Size

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$150</td>
<td>Less than $100</td>
<td>$75</td>
<td>$160</td>
</tr>
<tr>
<td>Cost of Loans interest rates</td>
<td>10-15%</td>
<td>Above 30%</td>
<td>Above 46%</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>--------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
</tbody>
</table>
| **Loan terms**              | Negotiable, depends on members cycle of activity and business in question. Some situations it runs up to 18months. Local and cultural securities | • Compulsory weekly reimbursement and savings.  
|                            |        | • Maximum periods 1year.  
|                            |        | o 5% of any amount granted is set aside as savings. | 16-24 compulsory weekly reimbursement | Maximum of equal 50weekly |
| **Loan repayment schedule** | Monthly, with possibility of period of grace | Weekly period of payment with compulsory weekly savings | Weekly period of loan repayment | Weekly |
| **Ownership**               | The community | Investors of Grameen bank | Community members | Investors/shareholders |
| **Loan Guarantee**          | Depends on culture and tradition, in some villages in Cameroon valuable items such as Panther skin serve as security. | Peer pressure and social collaterals. Credits often given to groups. | Peer Pressure and accumulated group savings | Peer pressure, personal properties and assets |
| **Training**                | Research on developmental issues and entrepreneurship is carried out by an NGO-ADAF | Customers are train on basic book keeping, development and empowerment techniques by the project officer from the bank | No training but sensitization | No training, loan officers carry out just community sensitization and group formation |
2.0 Author’s Opinion and Conclusion

There is a very big difference between microfinance and microcredit and that most micro credit programs are ill adapted to the realities of the communities which they serve.

- For example, in the most sing song Grameen model, funds are gotten from investors who charged interest usually at a level higher than those charged in their countries. The poor are forced into an inflexible contracts were they are made to do repayment on a weekly basis with an interest rate usually more than four times of what is charged by conventional banks.

- Prominent micro credit institutions such as the Grameen Bank of Bangladesh and its followers elsewhere such as FINCA village banking network have to spend huge funds channeled in by investors, creditors and donors to set up mega structures and the subsequent costs must be borne by loan beneficiaries-the poor through higher interest rates and un-flexible contracts.

- Models like SKS, the Grameen bank and the village banking model of FINCA are market based and investors driven. That is, they first of all serve the not so poor, or active poor before venturing into the villages. Finally, the poor or poorest of the poor are again left out. Other models first of all create a mega structure to support subsequent micro structures which most often are expensive.

- The Grameen model calls for the dynamics of joint liability. This means, groups screen and self select their members to form relatively homogeneous groups and consequently members typically share similar probability of defaulting on a loan. Again, through peer pressure and inflexible contracts, in a typical village community, other members of the community are not ready to form a group with the poor but will only want to join a group with people with similar characteristics, objectives or previous ties. This pushes the poor further into a psychological defeat and pronouncement of social exclusion.

- Again, by failing to mobilize their own resources, the Grameen Bank and its followers have neglected a very strong side of the intermediation function. That of letting the poor know savings is the engine of growth and awareness is fuel to keep the engine rolling.

- The poor are prone to income uncertainties, however the Grameen banking mechanism demands regular weekly payments, the overwhelming pressure forces many members who fall back on payments to borrow from unscrupulous money lenders at exorbitant interest rates (>8% per week). Moreover many members end up utilizing their seasonal loans to pay their income generating loans.

However while outreach, replication and scale of the Grameen Bank and its followers elsewhere should be applauded, these models are built within the current structure of capitalism and despite window dressing the objectives remain maximizing values for the investors and debt holders supporting their creation.
On the other hand, the MC2 model gains supremacy features over other models due to its strong community identity. That is a bank created by the people, owned by the people, controlled by the people and managed by the people in keeping with their local values, traditions, customs and reality.

The strongest point of the model is the psychological awareness it creates, letting the poor to know, they have to take their destiny into their hands, try to make maximum use of their resources before expecting any external support as it first of all remove the poor from a position of “We cannot to a position of We can”.

MC2 model remains the best current day answer to address the problem of the poor particularly those in rural communities based on its four pillars approach. The model links the expertise of a commercial bank, an international NGO -ADAF, the local population in particular and national and international partners with each putting in just what is needed to improve on the situation of the poor without reconciling personal interest (See roles and responsibilities for each of the four pillars).

Again, the interest rate charged on loans 10-15% per annum remains practical and conforms to the low purchasing power of its target population. Loan contracts are flexible with period of grace granted to some customers depending on their cycle of activities and in some instances runs up to two years.

The interest rate charged on savings 2.5% though comparably low makes the MC2 model a true channel for village elites and true supporters of community development to channel resources to their villages and support developmental projects or contribute to poverty alleviation.

With its strong community identity, items such as the Panther Skin or the skull of the ancestors are accepted as collateral in some areas such as the Bamilekes’ community while in some other parts jewelries serve as collateral. In addition, members given the loan can negotiate flexible repayment if they are experiencing difficulties.

It five stages development setup is something worth applauded and emulating by other microfinance practitioners who are true supporters of poverty reduction. These five stages development setup enables the community to be able to do just the right thing at the right time. Unlike other models emphasis is on financial self sufficiency-letting the poor to know savings is the beginning of wealth creation, in the words of the founder Dr. PK Fokam for example-“Savings is the engine of growth” and awareness is fuel to keep the engine rolling.

Again, the MC2 model sees the process of wealth creation as a collective responsibility with each stakeholder needed to put in just what is necessary to assist the poor. If poverty must be eradicated particularly in Africa, then the MC2 model is calling on the local population, external and internal elites to champion MC2 in their local communities. For in MC2-Prosperity is all about encouraging savings.
References


Zoom Microfinance Vol. 6 SOS FAIM November 2001