



**OPPORTUNITY INTERNATIONAL**  
A U S T R A L I A

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***Submission***  
**to the**  
***Human Rights Sub-Committee***  
**of the**  
***Joint Standing Committee***  
**On**  
***Foreign Affairs, Defence and Trade***

**from**

**Opportunity International Australia**  
**Limited**

**for the inquiry into**

***THE LINK BETWEEN AID AND HUMAN***  
***RIGHTS***

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## Preamble

Opportunity International is a non-profit global Network which has been specialising in the provision of microfinance and training for almost than 30 years and operates in more nations than any other microfinance provider. 85% of Opportunity International's clients are women. Given our organisation's focus, this submission will concentrate on the second clause of Point 2 of the Terms of Reference:

**“2. the utility of differing aid instruments  
and channels for advancing human rights, such as –  
... microcredit ... as a means  
of advancing the human rights of women.”**

## Introduction

In the world of microfinance, the most publicised organisation, that which comes immediately to mind, is Grameen Bank, an NGO that has had enormous success in reducing poverty in Bangladesh. In Australia, however, Opportunity International (OI) was established prior to the Grameen Bank, and now operates in 26 developing countries, the most recent being East Timor. For over 30 years Opportunity International (OI) has been lending in developing countries around the world to the poorest of the poor, to those who are excluded from the traditional banking system because of a lack of collateral, lack of an economic track record and because they are poor. Often those people, the poorest of the poor, are often women.

*Opportunity's microcredit loans are supported by training, including online training, to help Opportunity's clients start or expand their own small businesses.*

In order to take further steps to break generational poverty, Opportunity Australia has, on behalf of the OI Network, started to take the 'training' component of its work in Asia one step further by establishing **GLOW Centres** (Global Learning Opportunities on the Web). These computer centres provide free accredited training courses to selected OI clients or their children to help them find jobs especially in the computer industry or office administration.

Opportunity International operates through a network of local partner agencies, each with local governance and staff, established by Opportunity and assisted to grow to self-sufficiency. Although decentralised, these partner agencies participate in a rigorous accreditation process that is handled by the Network. Administration, fundraising, expansion and overall monitoring are managed in the



regional offices, while the implementation of the MED projects and their ongoing management is carried out by the local partners.

This institutional approach is certainly the most efficient method of distributing microcredit and promoting job creation, because it is one which allows sensitivity to local cultural issues to be taken into account. This focus on partnerships with developing countries is one that also underpins the Australian Government's aid program (p.14 of this Inquiry's Information Booklet). By providing a way out, not a hand out, Opportunity empowers its clients to boost their economy at the grass roots, building a self-reliant, secure future for families, communities and nations.

The Opportunity International Network has helped more than 1 million chronically poor people reach their potential through starting or expanding their own small businesses. Opportunity's partner agencies distributed more than A\$66.2 million in small business loans in 1999. It managed multi-million dollar grants from government organisations including US-Aid, DFID (UK) and AusAID (Australia). The repayment rate was on average 96 per cent of loans averaging A\$340 globally.

In 1999, Opportunity equipped more than 750 poor people per day to establish their own small businesses or to strengthen floundering ones. On average, a job was created every two minutes.

***This submission comprises three sections:***

- 1. the general effectiveness of microenterprise development,*
- 2. women and microenterprise development, and*
- 3. the role of aid in advancing the human rights of the poor through microenterprise development.*

Before addressing these points, we will first describe a methodology of lending which OI has developed with one of its partner agencies in the Philippines, and which is now being used by the OI network internationally. It is this methodology in particular, as well as microcredit in general, which has had such a huge impact on the advancement of our clients' human rights. We bring this methodology to the attention of the Sub-Committee, because it enables microfinance aid to address not only economic rights, but also human rights associated with health, community and cultural issues.

## **The Trust Bank Methodology**

A trust bank is a group of 20 to 30 poor entrepreneurs (predominantly women) who come together to receive business loans that are co-guaranteed by the other members of their group. Savings are collected within the group, insurance is offered, and business training, peer consulting and networking also take place, all of which contribute to develop leadership and transformation in the poorest communities.



Loans distributed through the Trust Bank system are mutually guaranteed, and Trust Banks therefore self-select their members. Mutually guaranteed loans have a higher repayment rate in general than those loans distributed singly, a significant benefit of the Trust Bank system. Members democratically elect leaders which are trained to assume all management functions of the bank and which oversee sub-groups of 5 to 7 members each. The leaders constitute a credit committee to assess and approve loans to members. Every week the Trust Bank members attend a meeting to make a repayment on their loans and a savings deposit in the collective savings fund. At this meeting they also have access to training, education on important life matters, and provide each other with moral support, encouraging a sense of community.

Trust Bank loans do not require collateral, are usually charged commercial interest rates to ensure sustainability and are for terms of from 4 to 6 months. The Trust Bank leaders report weekly financial activities to the Loan Officer. Loan Officers are trained by OI's local partner agency and are responsible for overseeing 8 to 10 Trust Banks each.

The average on-time repayment rate of Trust Banks in the OI network is 98%.

## ***1. General Effectiveness of Microenterprise Development***

### *Microenterprise Development (MED) vs. Microfinance and Microcredit*

We use the term 'microenterprise development' rather than 'microfinance' or 'microcredit' repeatedly in this document because the human rights of our borrowers are better advanced through providing them with ancillary services in addition to microcredit, especially business training services. Opportunity in most cases does not lend for items other than helping to create or expand small businesses, unlike many microcredit providers.

Human rights are particularly advanced by microenterprise development where Trust Banks are the vehicles for lending. The very poor do not have access to credit, but neither do they have sufficient opportunity to save, to insure themselves against medical emergencies, natural disasters, and other life events or to access training and technical assistance to help with their business endeavours.

### **◆ Benefits**

#### **a. Creating Employment**

Microenterprise clients use their loans to build small businesses, some of which provide simple self-employment, while others grow to create employment for others in the family and the community. In countries where population growth is high, unemployment is a significant contributor to poverty. It is estimated that in Egypt, 500,000 new jobs a year are required just to maintain the current employment rate. (Nabil Elshami in 'Microfinance: Conversations with the Experts. Ed. Charles Oberdorf..date)

In 1999, OI globally assisted 176,147 clients creating 276,886 jobs – this translates to one job every two minutes.



**b. Social Benefits**

The weekly meetings held for Trust Bank members have proved to be excellent forums for the dissemination of information on health issues such as HIV/AIDS awareness, contraception, breast feeding and domestic violence. They are also performing a role as conduits for the building of a community spirit.

An example of how social concerns are addressed through MED may be found in the story of one of our African clients, Kayanja Prossy, who is raising her own three children plus four AIDS orphans. Her dressmaking business, established through a \$300 Trust Bank loan, provides basic income for the family. Increasing the income of families like this through microfinance assistance increases the likelihood that these children will go to school and receive nutritious food. Ten million children in Africa have been orphaned by AIDS, a figure projected to grow to 40 million by 2010. The strong extended family system in Africa inevitably bears the burden of bringing up these orphaned children.

Another example can be seen in Bogota, where four Trust Banks sponsored a Health Fair for their squatter settlement. Over 100 neighbours received free child immunisations and dental hygiene instruction.

The benefits to women of MED are described in more detail in the next section.

**c. Dignity**

Providing poor women with the means to lift themselves out of poverty also provides them with self-esteem, with the dignity not to have to accept a handout, but rather a hand up. This aspect of MED should not be underestimated; breaking the cycle of poverty themselves has an enormous impact on each borrower's spirit and on their view of the future. It meets their needs without creating a culture of dependency.

**d. Recycling Aid Money**

One of the big attractions of microfinance for governments and other donors is the recycling of their donated funds. As loans are repaid, they are redistributed to other borrowers. Unlike other humanitarian aid, aid distributed to competent microfinance organisations benefits the poor, and particularly women and children, over and over again, the only non-recurring funds being those lost to bad loans – only about 2% for the Trust Bank system described above.

◆ ***Limitations of Microcredit***

Despite its many benefits, microfinance is not the single solution to poverty. Those at the very bottom of the economic ladder will always require assistance with health, education, supply of food and housing, just as Western societies provide a safety net in the form of social security for their own needy. It is largely those individuals who are not poor from one chronic crises, but are trapped in the poverty cycle, that are able to use microcredit to its best advantage.



## ***2. Women and Microfinance***

OI specifically targets women because women are disproportionately represented among the world's poor, comprising 70% of this group (UNDP 1995). Women may be the victims of cultural and economic prejudice because of their gender and they also constitute the majority of those engaged in the informal sector of the economy.

Lacking credit histories and having no collateral, poor women are seldom eligible to receive conventional bank loans. Many of OI's clients are widows or have been abandoned by their husbands. Those who are married often have husbands who are disabled or unemployed. Other husbands are farmers or day labourers who rely on their wives' help to provide the basic needs of the family.

Opportunity's experience shows that women are a good credit risk, and on average, women have a higher loan repayment rate than men. Women also spend a greater proportion of their income on family needs – on feeding, housing, clothing and educating their children – improving the life of a woman generally improves the life of an entire family. OI lends 85% of its funds to women.

### ***Trust Bank Methodology of MED and the Advancement of Women's Human Rights***

Trust Banks provide a forum where the poorest of the poor congregate on a weekly basis, an ideal medium for upholding human rights in other ways. They have become an essential model for reaching poor women. The weekly meetings of trust Bank members give access to other organisations to convey information on health issues, training in business practises, financial advice and to provide educational opportunities, all issues integral to their attainment of basic human rights.

AIDS disproportionately affects poor women – the same population targeted by OI's microenterprise development program. In Sub-Saharan Africa, Freedom from Hunger and Opportunity International have both introduced AIDS education into their microfinance programs. OI has started an African Microfinance AIDS Initiative in Zimbabwe and Uganda through which AIDS educators attend weekly Trust Bank meetings to teach women about the prevention of AIDS and treatment options. OI plans to go one step further by piloting a "peer education" model of AIDS education. Through this model, one Trust Bank member will be trained to do the AIDS education work herself. This type of peer group education has been found to be most effective at changing risk-taking behaviour.

The system of mutual guarantees employed by Trust Banks mean that the success of loan repayments is borne by every woman in the group – they become much more than an economic unit, essentially solidifying the community. At weekly meetings they talk through problems relating not only to their businesses, but to their families and communities as well. Women who are members of Trust Banks no longer passively accept their fate; they actively seek solutions. A Filipino group held a health day for their community; a group in Bogota, Columbia initiated a





senior citizen's centre dedicated to caring for the abandoned elderly in their community; another group of Columbians brought electricity to their barrio.

## ***The Next Step: Online education providing a secure future for women's children***

**GLOW Centres** further advance the human rights of poor women because they provide a basic need: an avenue for the women's children, including other young women, to begin to build a secure and prosperous future in a secure and growing employment area.

On behalf of the OI Network, Opportunity International Australia has taken the 'training' component of its work in Asia one step further by establishing these **GLOW Centres** (Global Learning Opportunities on the Web). This program is being undertaken in association with OI's local partner agencies, and Australian online education provider **Hyperstudy.com**. The objective of the GLOW Centre program is to effectively harness the powerful learning opportunities presented by the Internet to help educate poor students in the 21<sup>st</sup> century, by providing world class on-line or CD ROM accredited learning courses from accredited universities and other educational institutions. Already Opportunity International has access to \$AUD1.7 million of learning scholarships through Hyperstudy.com.

A pilot program has been established in Manila, Philippines with OI's partner agency, The Centre for Community Transformation (CCT). It is run from their offices located in The Joshua Centre, Taft Avenue, Ermita, Manila. Assistance in finding employment after the completion of the course is also being provided. The pilot centre aims to deliver 56 fully trained, workforce ready GLOW scholars within one year.

The Manila Centre is the pilot for a series of GLOW Centres, initially to be based in Asia. The plan is to establish the first 7-10 centres over two years, ideally of 50-100 computers per centre to help meet anticipated demand. As Centres are to be established in conjunction with existing OI implementing partner agencies, the women and children who could benefit are in nations including India, Indonesia, East Timor, Ghana, Zambia and Zimbabwe. There is also potential for central Europe and Latin America.

### ***Human Rights through a GLOW opportunity - Case Study:***

Emma runs a small business sewing garments in Manila. She has achieved modest success making rugs, shirts, and recently, uniforms for a nearby daycare centre. The additional income has allowed her to meet her basic needs, provide a high school education for her two boys and improve their living situation. She is learning to save through her local Trust Bank, Opportunity International's group lending scheme. Emma has never missed a repayment; she is now on her fourth loan and was recently contracted to make t-shirts for the 20 other women in her Trust Bank. Emma's is a typical Opportunity success story. However, she dreams of much more for her twin boys, Cris and Carlo.



One dream is on its way to coming true as Cris has been selected as a GLOW scholarship student in Manila. At 18, Cris and Carlo have just finished high school. All of the scholarship candidates are aware that the best office jobs in Manila require computer literacy. They see the GLOW course as the ideal way to equip themselves for a secure future. As a result, some are willing to make great sacrifices.



*Carlo, Emma and Cris.*

Both have great aspirations. Cris would like to design web pages; Carlo wants to be an engineer. But while their mother earned enough money to enable them to access a public high school education, advanced education is a different story. The agreement with her was that one would find work while the other looked for further study options.

The decision about who would study first was made when Cris learned about the GLOW program where he can prepare for a career in web page design. Though Carlo will have to work while Cris studies, he is excited for his brother and the potential job opportunities. He doesn't mind waiting and thinks he too, may apply for the next intake of GLOW applicants. He could start in a basic job with computers which would help him pay for further courses to learn to be a computer engineer. Their mother is proud to see her hard work has helped to open the door for a secure future for her family.

### ***3. Role of Aid in Microfinance***

There exists a current debate on whether the institutional/sustainable approach to microfinance is better than that of the income supplement/rate subsidy approach. Sustainability has several benefits, one of which is as a means of achieving outreach; it is through sustainability that more funds are able to be utilised to provide more loans. Another benefit is that in the long term, sustainable microfinance institutions will be able to raise capital from the private sector, increasing their funding base.

OI's position is that the alleviation of poverty needs to reflect an enduring, sustainable agenda. OI develops institutions, builds their capacity and does not subsidise interest rates. This priority also reflects AusAID's stated position.

There will always be a role for aid in the provision of microfinance. The private sector is unlikely to invest the significant time and funds necessary to reach the very poor; it is unlikely to seek clients from the slums and does not have the skills base to deal with their special needs. The involvement of aid organisations will contribute to alleviating the suffering of the poorest of the poor, not just the moderately poor. There are those that fear that "*unless they focus exclusively on the poorest and on women, the benefits of microfinance will be hijacked by the slightly better off, particularly men*" (Elisabeth Rhyne, 'The Yin and Yang of Microfinance: Reaching the poor and Sustainability').





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## ***Private Sector Involvement***

There is a need for vastly bigger amounts of credit and it is here that the private sector can be encouraged to participate, both as a donor, and as an investor in paper issued by microfinance organisations. Some microfinance organisations have already sought funds from the capital markets with varying degrees of success.

Banco Sol in Bolivia began in 1986 and now, with assets of over \$100 million, has been able to raise funds through issuing paper on the international market (Briefing Statement to the Human Rights Caucus in the U.S. House of Representatives, by Henry Jackelen, Head of Special Unit for Microfinance, UNDP, July 1999).

There have also been some failures, such as Finansol, a Columbian microfinance organisation which experienced a severe deterioration in its portfolio and was subject to a recovery plan aided by both the public and the private sector. This experience demonstrates the importance of good governance, and the need for government aid to be selectively distributed to those microfinance organisations which are appropriately managed and audited.

## ***Regulation and its Impact on the Effectiveness of Aid***

In many countries where microcredit is provided, the provision of ancillary financial services such as savings facilities or insurance by microcredit organisations is prohibited by the national financial regulatory legislation. Given that these ancillary services have proved to be essential to the improvement of the standard of living of female clients, this presents a significant hurdle to be overcome.

In the Philippines, Opportunity International has recently surmounted this issue by working within the existing regulatory framework and forming a bank. It is grouping a number of its nine partner organisations together as a bank and is now able to commit fully to the provision of various financial services to its poor clients. This route is not always a feasible option, and indeed is an extreme position to have to take. A better solution would be the recognition by regulatory authorities of the unique and essential nature of microfinance organisations in the national economy.

This recognition has occurred in Peru where the regulatory environment has adapted to the need for microfinance by forming a new category for non-bank financial institutions. With a minimum capital requirement of US\$265,000 and a loan loss reserve of 25% of capital, a microfinance institution in Peru is able to access capital markets, additional bank funding and special rediscount credit facilities.

## ***Aid from Government***

Government aid can be given in the form of dollars to help aid organisations reach the very poor, those who would not be targeted by the private sector, and also in the form of lobbying. Government aid offices could lobby the governments of developing countries, encouraging them to create a regulatory and macroeconomic environment conducive to the flourishing of



microenterprise development, and they could lobby the private sector, encouraging it to provide capital for MED ventures. Once the private sector analyses the risks inherent in microfinance, they will realise that the poor are a good credit risk. The 98% repayment rate enjoyed by Trust Banks is better than that received by most banks on their credit card debt.

There is a need in the microfinance industry for a tripartite approach to relieving poverty and advancing human rights.

1. Aid organisations experienced in microfinance are needed for implementation, outreach and the promotion of social and cultural human rights issues;
2. government is needed for the provision of funds to assist aid organisations fulfil their role; and
3. the private sector can be utilised in the provision of credit and encouraged to also make donations as good corporate citizens.

The private sector alone would be unlikely to enhance non-economic human rights issues which are so effectively addressed in the Trust Bank model of microcredit provision.

The Government could encourage greater corporate involvement in Aid by creating awards and giving a high public profile to companies which have formed effective partnerships with international aid organisations.

## Conclusion

There is a clear benefit for the advancement of the human rights of women and their families through the provision of microcredit, ancillary financial services and the educational components integrated in microenterprise development initiatives, including online education. The focus on women in microfinance programs has proved to be the most direct way of improving the fortunes of the family unit. Women are more likely to reinvest their funds in their families, and are, in addition, more reliable borrowers. By supporting microenterprise development clients with the provision of GLOW Centres for their children, Opportunity is working to enable generational poverty to be broken, promoting human rights, by helping to breach the digital divide. This enables young women and men to develop the skills they need for jobs which will enable them to earn the funds they need to fulfil their own basic needs, including the need for a useful role in a stable economy.

The provision of aid will always play an important role in microfinance initiatives in order that the poorest of the poor are helped out of their abject poverty. In order to increase the outreach of microfinance institutions, it will, however, be necessary in the long term to encourage the involvement of the private sector for the provision of capital, both as donations and credit, especially for Trust Banks and GLOW Centres. Given the huge appetite for microcredit, it is unlikely that aid alone can satisfy the demonstrated need for this service by the world's poor. Opportunity International has been appealing for support to the Government, corporate and individual donor sectors to help expand to meet the demand for their services.

Microfinance and training services, particularly when provided on an institutional basis as described in this submission, clearly conform to the Australian government's goals of sustainable poverty alleviation.