

Two Approaches to Microfinance in Siberia:

A Case Study

Teaching Note

“Two Approaches to Microfinance in Siberia” is intended to serve as a tool for discussing the implications of poverty alleviation versus small business development approaches to designing and implementing microfinance programs. The case can be used in a microfinance specific class, or as an introduction to the debate in a general international development class.

The primary source of information for the case is a series of interviews conducted with the directors, staff and borrowers of the two organizations profiled during the summer of 2002. The names of the organization and the people presented have been changed at the request of the directors of the organizations.

Teachers can reference the following questions for either in-class discussion or for short paper assignments.

- 1) Though MicroCred and Bridge are operating in similar environments, they have taken very different approaches in their lending methodologies. With limited resources, where can an organization make the largest impact in a community in a transitional economy-

by 1) supporting the economic development of entrepreneurs who are already active on a limited scale or 2) by helping the truly poor get a start in forming micro-businesses?

- Are the two organizations simply catering to different parts of the population, or are they truly approaching Microfinance from a different philosophical position?
- What are the trade-offs each approach makes to pursue its goals?

2) MicroCred's lawyer states that the true value of MicroCred's work is social, not financial.

What kind of social benefits can microfinance organizations provide to their communities? Can they provide them more effectively than other kinds of organizations?

- "We are providing financial support to small businesses, but also we provide a mentality. Our real value is social rather than financial. Civil society is more powerful than legislation; people have to understand that their possibilities will expand if they conduct business honestly. We are creating a culture of integrity." (pg. 5)

3) How do the differing sources of funding affect the operations of the two organizations? What are the advantages and disadvantages of the MicroCred and Bridge's funding sources?

MicroCred

- Risk aversion of people lending their own investment
- Shows initiative to potential outside funders
- Base capital can be removed by members of the cooperative

Bridge

- Limited and unpredictable nature of donated funds
- In time capital will be built up within in the organization that can't be removed by investors.

4) If you were a potential funder for these organizations, what else would you want to know?

What aspects of each organization that you do know about do you find worrisome, if any?

5) What are the different possibilities and problems each organization will face in trying to achieve a sustainable business model? Are these concerns that should affect their operations?

MicroCred

- Will the experimental nature of the program be of interest to the coop members in the long term?
- If coop members begin to withdraw their money from the coop, other sources of funding loan capital will need to be found.

Bridge

- Is there any institutional capacity in Bridge, or is it just the activities of one woman?

6) What are some of the ways that the following factors might impact a microfinance organization operating in Siberia?

- The changing economy
- Mafia activities involving small business
- Russian attitudes toward borrowing

What strategies might be used to compensate for these factors?