

**NENARACA's Chairman Mr. Bashir Al-Basir introductory note on:
 "Grassroots Financial Empowerment"
 Session II on 1/11/2007**

To ensure the success of rural development, special attention must be given to rural finance in order to integrate rural residents at grassroots level into rural financial markets. This market would include providing them with the opportunities of borrowing, savings, deposits, and other essential finance services. Any developmental programs must give this matter due consideration, and must make it easy for rural residents to obtain loans from sustainable rural sources that appreciate these residents' circumstances, recognize the fact that they possess no tangible collateral while at the same time, they need large number of micro-loans and, therefore, must regard the borrower's production capacity as loan collateral.

Thus, it is imperative that guidance, regulatory and training services be made available to this category of people in order to qualify them to obtain loans. They must receive training to acquire the skills that would enable them to set up small productive enterprises, and they must be organized in homogeneous groups to reduce transaction costs and facilitate linkage to the concerned finance institution, such as microfinance institutions (MFIs), banks, and other financial organizations.

Since the number of small producers at grassroots level in rural areas is large and they need a large number of micro-loans, the cost of loan transactions and follow-up will be high. This demands that the lending institutions reinforce their financial sustainability by setting service charges that are commensurate with the actual costs of their programs and that permit them to grow and expand their outreach so that they may serve the largest number of rural residents at grassroots level.

It is highly important to provide savings products for this category of residents, enabling them to deposit their savings with trustworthy institutions located close to their residencies and receive suitable returns (interest rates). In addition, education and guidance programs must be made available that would familiarize these residents with saving opportunities and saving products offered by the financial institutions, as well as familiarize them with the returns expected from these programs. Such savings must not be exposed to the risk of loss or decrease in value.

A system for cooperation must be established between public and private institutions that are concerned with rural development and finance, so that the operation of MFIs in the rural areas may be facilitated and the largest possible number of rural residents may be reached. This requires suitable infrastructure, including water, roads, health, education, training, guidance, etc., as well as rules and regulations that give this category of people access to effective financial services.

In certain cases, some sort of partnership must be established between the commercial banking sector and the MFIs to provide the broad base of small producers' access to the financial services, through organizing them in groups and linking them to the financial institutions so that they may deposit their savings and receive payments.

Rural women must receive special attention that would give them access to financial services, such as credit and savings, along with training opportunities, and guidance so that they may acquire certain skills that would enable them to set up and manage small enterprises, and help them market their products to get enough return to live a decent life.

Last but not least, a favorable economic and policy environment must be made available that is conducive to the success of small enterprises and to MFIs' success in serving the broad base of rural residents, so that these small producers may get financial services that suit their needs and circumstances and enable them to market their production at favorable prices. Such an environment would also allow the MFIs to operate in accordance with clear and supportive policies, rules, and regulations to achieve success and realize the objective of the sustainable financial development.