

**BANKING ON THE POOR**  
**Microfinance, Economic Justice**  
**and Building a**  
**a Civil Society**

**An Outline for a Proposed Book**

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**Jeffrey Ashe**  
**Senior Fellow**  
**Institute for Sustainable Development**  
**Brandeis University**

**Phone: (617) 547-9109 E-mail [JAAshe@aol.com](mailto:JAAshe@aol.com)**

## **INTRODUCTION:**

***Bankers for the Poor: Microfinance Economic Justice and Building a Civil Society*** focuses on microenterprise development largely from an international perspective. It tells how business loans from a few dollars to a few hundred dollars, provided within the supportive structure of a loan group, have transformed the lives of millions of vendors, traders and subsistence farmers living in villages and urban shantytowns in some of the poorest countries of the world. These “microentrepreneurs,” rejected out of hand as too poor, too isolated, too unworthy, and too difficult to serve by traditional financial institutions have turned out to be very good customers. The best programs cover their operational and financial costs after a few years, something that cannot be said for any other type of project serving this population.

The “bankers” who invented this new industry are an unlikely group of social activists leavened over the last decade or so with those with managerial and financial expertise. Two decades after the first small projects demonstrated what was possible, these pioneering ideas have been picked up by regulated financial institutions – banks and credit unions – as the PVO/NGO projects are themselves evolving into banks. Much has been accomplished in only two decades and the process of learning is accelerating.

Although all these programs taken together serve twenty million clients, there may be as many as a billion microentrepreneurs and subsistence small farmers in the world. They and their families represent the majority of the world’s poor, and the goods and services they produce and trade make up most of what the poor consume on a daily basis. Not surprisingly, the productivity of their enterprises is often exceedingly low. Simple inputs – a little money, a little knowledge and a group structure that helps the powerless stand up to the moneylenders, merchants and big landholders - can have a transformative effect. Nutrition and housing improve; children go to school and health care improves. At the same time, relations between the poor and the rich (and even between wives and husbands) evolve in a more egalitarian direction. To provide just one example, four thousand Grameen Bank members, most all of them women, were elected to political office in Bangladesh last year.

## **ANALYTICAL FRAMEWORK:**

What is so intriguing about microfinance institutions, I believe, is that they have replicated at the level of poor communities the same positive dynamics that have led to the development of prosperous cities. Jane Jacob’s thesis in ***Cities and the Wealth of Nations*** states that when a cluster of local businesses in a city use each other to help produce and sell their products, their collective capacity to provide locally what was previously imported increases. At the same time, their capacity to export increasingly sophisticated goods and services also increases, generating more wealth and capacity.

Microfinance operates through a similar dynamic, but at the village level:

- Business credit, along with intensified linkages and support between businesses, within a group structure, enables the poor to overcome the inefficiencies and costs of exploitation;
- Which leads to:
  - joint ventures, joint marketing and a developing capacity to produce and sell more.
  - increased local sales and selling more outside of the village.
  - more income more sales and more capacity as the spiral of prosperity and development in these communities moves slowly outward.

These changes are fueled by the group structure and the access to credit and support that are inherent to group based microlending.

### **CASE STUDIES:**

When these programs operate well, a productive civil society is being created from the bottom up. This book explores what “operating well” means and how it can be achieved. It features programs I have found especially interesting and significant over the years, and that have had a hand in developing, managing or evaluating. Moving beyond the best documented cases – the Grameen Bank in Bangladesh, BancoSol in Bolivia and Cupedes in Indonesia – each of the profiled programs break new ground, showing that is more than one way to carry out an effective and even profitable project. These are the case studies proposed for inclusion in the book:

- **The Government of Eritrea’s Savings and Credit Program.** Savings and Credit has grown to 5,500 borrowers in three years and is slated to expand to 20,000 borrowers in three to five more years more. Borrowers are organized into a uniquely hybridized version of village banking, where each bank spans several villages, the local government official is the chairperson, loan sizes and loan terms vary greatly and men and women are members of the same solidarity groups. These are heresies in the standard village bank model, but it all works very well. I designed the initial program and recently returned from Eritrea as part of the World Bank team that designed the expansion phase.
- **Freedom from Hunger’s Credit with Education (CwE) initiative.** Freedom from Hunger has developed a program for poor and often illiterate village women that adds health and nutrition education and business literacy to village banking that is no more expensive than providing credit alone. What is even more significant is that Credit with Education has been effectively “grafted” onto the Rural Bank network in Ghana and onto hundreds of credit unions in Burkina Faso, Mali, Togo, Madagascar and the Philippines. By using the existing financial infrastructure of banks and credit unions the major obstacle to extending credit, creating an entirely new financial intermediary, is avoided. From the perspective of the banks and credit unions, Credit with Education gives them the tools they need to profitably serve a vast new market

of poor women and remote villages. For the first time serving the poor makes more financial sense than serving the rich. I am slated to travel to the Philippines in October to study the FfH, Credit with Education/Credit Union project. Last year I completed a monograph on the Freedom from Hunger/Credit Union partnership in Burkina Faso.

- **PACT's Women's Empowerment Program that works with 125,000 women in Nepal.** With operations starting just eighteen months ago, 125,000 women have been organized into 6,500 literacy and savings groups by over 200 Nepalese NGOs, coordinated through PACT. By starting with literacy and savings and using a literacy curriculum completely oriented to forming a village bank and starting a microenterprise, the number of businesses run by the members has increased from 19,000 to 75,000 in just a year and a half. The village banks are freestanding; they loan what the women save, thus avoiding the complex issue of managing a loan fund. This "savings led" approach has reached more poor women in less time than any other program I am aware of. Within a year, the Women's Empowerment Program will be sustainable at the local level through training the best of the leaders as "Group Specialists" who will earn their income through monitoring existing groups and starting new ones. I just completed a trip to Nepal to assess WEP and plan to return later in the year to help design and implement the hand over of responsibility for WEP the Pact staff to the Group Specialists.
- **The rampant dissemination and cross fertilization of microfinance methodologies in Bolivia.** Over the last decade, Bolivia, one of the poorest countries in South America, has become a hotbed of microenterprise activity. Institutions are vying for each other's customers and are appropriating each other's methodologies. One example; the largest Credit Union in Santa Cruz hired away two BancoSol staffers who replicated BancoSol's solidarity group lending methodology at the credit union with great success. A year later solidarity group lending was spread throughout the credit union network in Bolivia, out competing BancoSol. BancoSol for its part, as it struggled to keep its best customers, appropriated the individual lending methodologies developed by Caja los Andes. Commercial banks got into the act, rather clumsily it turns out, sensing that there was good money to be made. What makes this story so interesting is that the solidarity group lending methodology used by BancoSol and appropriated by the credit unions was first developed by credit unions in El Salvador. The PISCES team documented the Salvadorian experience and introduced solidarity group lending to ACCION in 1980 and ACCION spread the model throughout the continent.

In Bolivia, I will also profile CRECER, Freedom from Hunger's extremely successful village banking program that extends credit to women in remote villages on an impressive scale. CRECER not only holding its own but growing fast in this competitive environment and operates in rural areas no other programs are touching. I trained the first CRECER promoters ten years ago.

This case study will also address the question of why Bolivia became such a center for microfinance activity. Does the Bolivia experience reflect a set of “best strategies” for developing a competitive microenterprise industry in any country? Can the Bolivia experience be replicated elsewhere?

- **Working Capital’s efforts to transfer micro-enterprise methodologies that emerged in the developing world to the United States.** This chapter focuses on the challenges that microenterprise programs face in developed countries where there is intense competition from the formal sector and other credit sources. While the difficulties are great and costs are high, impact can be substantial for the immigrant and minority communities that have largely been left behind as the rest of the nation booms. One measure of success is that Working Capital members earn, on average, \$5,000 more from their business compared to when they joined, not a huge amount, but an important income supplement for a poor family. Something else is happening through the process of developing their businesses, however, that is at least as important. Three quarters say that Working Capital and the support of the group has been “very important” for increasing their self confidence; two thirds say that it has increased their involvement in the community, and 40% say that participation in their groups has been “very important for improving relationships within the family. Working Capital’s experience illustrates how support, connections, knowledge and money can be mutually reinforcing in low income communities, and can help tackle the problems that have been endemic in these communities for years. This is a case I know well since as the founder I have lived and breathed every detail of this story for ten years.
- **There are several other candidates for inclusion in the book,** including Catholic Relief Service’s extremely successful village bank program in Cambodia where I carried out a major evaluation three years ago. Other initiatives that have intrigued me include Banco do Nordeste’s incorporation of microlending into their branch banking system in the impoverished Northeast of Brazil; a highly successful village based lending program in Albania, funded through the World Bank; and Fundez Mikro in Poland that expanded nationwide in record time. Each initiative has an important story to tell.

The book will conclude with a discussion of the limitations of this grass roots approach to economic development and how it fits into and needs to be combined with the other major economic forces in the world.