Hemispheres

The International Area Studies Outreach Consortium at the University of Texas at Austin

Latin America, the Middle East, Russia, East Europe & Eurasia, and South Asia

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In this issue:

The International Year of Microcredit.

"Microcredit is a critical anti-poverty tool—a wise investment in human capital. When the poorest, especially women, receive credit, they become economic actors with power. Power to improve not only their own lives but, in a widening circle of impact, the lives of their families, their communities, and their nations." - Kofi Annan, Secretary General of the UN.

On November 18, 2004, the United Nations launched the International Year of Microcredit. The official definition of microcredit, adopted at the 1997 Microcredit Summit, is "the extension of small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families." Microcredit loans are extended to borrowers too poor to qualify for loans from the traditional banking system and do not require collateral. These loans are tiny in the amounts lent and saved, target very low-income households, and have flexible repayment plans. The borrowers can be individuals, but often are small cooperative groups that are mutually responsible for repayment of the loan. The World Bank estimates that there are more than 7,000 microfinance institutions worldwide, serving approximately 16 million poor people in developing countries. Other studies estimate that microcredit borrowers worldwide have repayment rates of 97 percent. Studies have shown that during an eight-year period, only 4% of the poorest in Bangladesh, with no credit service of any type, pulled themselves above the poverty line. But among individuals and families who received microloans from Grameen Bank, more than 48% rose above the poverty line.

Statistical Information Source: http://www.gdrc.org/icm/index.html

To learn more about microcredit::
FINCA International: http://www.villagebanking.org
Global Development Research Center: http://www.gdrc.org
Grameen Bank: http://www.grameen-info.org
Imp-Act: http://www.imp-act.org
One World People For Peace: http://www.oneworldonepeople.org,
Women's World Banking: http://www.swwb.org

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Microfinance In Latin America

Microcredit is alive and well in Latin America, with over US$3 billion currently loaned to over 3,000,000 borrowers throughout the region. In Latin America, where 44% of the population lives in poverty and another 20% in extreme poverty, the availability of small loans to the poor is extremely important (2002 data).

Borrowers who need small loans, in amounts as low as $95, generally do not have access to commercial banks. Essentially, the cost of processing and servicing small loans is not in the interest of a large bank. While commercial banks in Latin America do offer small loans, the average microloan from a bank is $1,400. In Nicaragua, for example, where the GDP per capita is $710, a household below the poverty line would never qualify for that level of credit. However, a network of microfinance institutions and non-governmental organizations (NGOs) are able to offer such loans, even when providing these loans costs them money. These are the organizations that loan $100 to buy supplies for a market stand, $150 to build an electric kiln for a ceramic workshop, or $800 to buy pigs and feed to expand a farm.

ACCIÓN International, the largest microfinance organization serving Latin America, has 1.36 million active clients. Their $600 loan allowed a family in the rural town of Pesillo, Ecuador to buy inventory in bulk for their small grocery store. The owner comments, "By buying in quantity, I saved and could then sell to my customers at a good price." The family repaid the initial loan, took out additional loans (they are now on their sixth), and have expanded the tiny store to ten times its original size. "Without the loans, we wouldn't have had any improvement. We would have been lost."

A handicraft stall in Otavalo, Ecuador. Microloans have helped some vendors at this large, traditional market to buy supplies and expand their businesses. Photo by Zsuzsa Nemeth.

But microcredit does not reach all segments of the population. The majority of the poor live in urban environments, but the poorest segments of the population live in rural areas. Because 76% of the population of Latin America lives in urban areas, cities have been the main focus of microfinance institutions (unlike in Africa and Asia where rural populations dominate). Recent surveys have found that rural areas and small agricultural operations are not adequately served by the current system. Microcredit has been accessible to large numbers of the poor, but not the poorest of the poor.

Some institutions focus their energies on providing microloans to specific underserved groups. Pro Mujer is a women's development organization whose mission is "to provide Latin America's poorest women with the means to build livelihoods for themselves and futures for their families through micro-lending, business training, and healthcare support." Pro Mujer works with poor women of all ages, but focuses on single mothers who have 4-6 children. These women are often excluded from educational opportunities, and thus excluded from both the formal labor sector and commercial credit lines. In Mexico, where Pro Mujer's average loan is $123, success stories include a woman whose first $100 loan bought her two sheep and fertilizer for her crops. This allowed her to support her 3 grandchildren, whose parents had migrated to the US for work, and keep them in school. Now on her third loan, she hopes to buy land for her grandchildren so that they will stay in Mexico. An important aspect of microfinance is that, after the repayment of the initial loan, many borrowers are able to secure additional credit to expand their enterprises and improve their financial situation.

Currently, the microfinance system is working to extend its reach in Latin America. Commercial banks are "downscaling" to provide more financial services to the poor, and microfinance institutions and NGOs are expanding services into training, advising, healthcare and other areas of concern to small businesses. For small entrepreneurs, the outlook is good—more financial institutions offering more services will improve lives throughout the region.

Sources and further information:
ACCIÓN International: http://www.accion.org
Pro Mujer: http://www.promujer.org

Egypt: Microcredit is Helping Women Help Themselves

Umm Ashraf is a 61-year old woman who lives in a one-room house in the Manshiet Nasr section of Cairo, tucked away in the foothills of the Moqattam cliffs that rise dramatically on the city's east side. Her house shares a sandy courtyard with the two-room home of her daughter and grandchildren, located in an alley just off of one of the neighborhood's main streets.

Manshiet Nasr originated as a squatter settlement in the 1960s that seemed to pop up almost overnight, with immigrants from the countryside erecting temporary structures in vacant land just beyond the historic Southern Cemetery.

Like Manshiet Nasr's half million other residents, Umm Ashraf is among the poorest people in the Egyptian capital, a city that transcends every imaginable spectrum on the socio-economic scale. Her situation is somewhat typical among residents of this area. She was married at 16 and had two children: a son and daughter. She now supports herself and her grandchildren while her daughter is enrolled in adult education classes.

About two years ago, Umm Ashraf received a microcredit loan from the Cairo-based Association for the Development and Enhancement of Women (ADEW), a non-governmental organization that has been working in Manshiet Nasr for nearly two decades. Since the program began, ADEW has provided loans totaling 1,546,000 Egyptian pounds (about $275,000) that have benefited about 5,000 women. The majority of the loans have been for relatively small amounts–around $100, enough to provide seed money for a small-scale project.

Umm Ashraf used her loan to start up a small snack bar. She sets out every evening to purchase unsold cakes and pastries from bakeries in nearby neighborhoods that are closing down for the night. She brings them home, wraps them in cellophane, and sells them the next morning to workers on their way to their jobs and children en route to school. She has become a local institution, and has earned the nickname "Groppi" after the name of a famous bakery downtown that was once a popular gathering place for Cairo's rich and famous.

She has also inspired many other women in the neighborhood to participate in ADEW's microcredit program, providing the organization with its' most valuable publicity: word-of-mouth praise from a popular local resident. Outsiders are often distrusted in marginalized neighborhoods like Manshiet Nasr, and a solid reference from a reliable local source like Umm Ashraf goes a long way toward earning credibility for organizations like ADEW as a trustworthy resource.

Umm Ashraf with ADEW sponsors in front of her home. Photo by Christopher Rose.

The microcredit program run by ADEW in Manshiet Nasr is similar in many ways to other programs throughout the Middle East. The programs generally aim to help underprivileged women earn money for themselves. In the strongly patriarchal society of the Middle East, men have traditionally been expected to provide wages for their families. However, in the Middle East as elsewhere, the economic reality is changing quickly. In Egypt, current estimates are that one in five families is dependant on a female head of household for financial support.

Microcredit programs allow women to obtain the funds to start a business, often in small groups with other women. Loans require no collateral, relying instead on "peer lending" in which small groups of women screen their own applicants and decide who will be allowed to join with them in obtaining a loan. The method has proven highly successful; ADEW reports a 96% loan repayment rate.

The main benefit to these programs, however, is empowering women to feel that they are neither alone nor helpless. It has worked for Umm Ashraf, who beams at visitors to her home and happily exclaims, "I am a strong person. I don't need anyone to tell me what to do! And I plan to keep going as long as I can!" Thanks to microcredit programs, she and women like her now have the resources to make that happen.

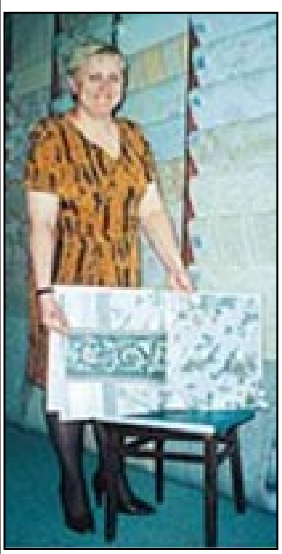
For further information:
Association for the Development & Enhancement of Women Cairo, Egypt : http://www.adew.org/

Microfinance in Russia

Although the concept of microcredit has been around since the 1970s, it was not until the 1990s that it became a reality in the countries of the former Soviet Union. As the infrastructure of the Soviet Union crumbled, salaries could not keep pace with inflation and were often delayed, prompting many Russians to begin their own businesses. The change in the political climate allowed for new opportunities but the business infrastructure was lacking. Since banks required large collateral and the infamous black market charged high interest rates and had frightening "penalties" for default, most small businesses that began during the 90s started with "sweat equity." Unable to obtain credit, most people used their hard-earned savings or borrowed from relatives. Getting started was a risky proposition and a slowdown in sales or a delay in inventory could destroy a business that relied on daily turnover for its operating capital.

Furthermore, getting started is often only the first hurdle. Traditional ways of expansion, such as buying inventory in bulk or hiring new staff to meet an increasing demand for services, often require an influx of cash that is out of reach for most small businesses. Without supporting lines of credit, these businesses can fail. Because most banks do not consider microloans profitable, even established businesses can fall into trouble.

To fill this crucial gap in business financing, many international agencies have stepped in to provide essential support to entrepreneurs with limited resources. Equally important, these organizations provide a range of training and expertise that help businesses compete in the new economic climate. Training of local staff in international practices is an essential part of their contribution to the economy.



Anna Alexandrovna Dokukina has been an entrepreneur since 1998. Anna joined the Kostroma Fund in September,1999 as one of its first clients; since that time she has also been one of its most successful. She has used her loans to create a small business selling household items such as appliances and wallpaper. She describes the support of the Kostroma Fund as convenient, flexible and fast, making it possible to improve her family's standard of living. Anna now has five employees and her sales have increased sevenfold since she became a client of the Fund. http://www.rwmn.ru/index-engl.html

Microfinance organizations charge a modest interest and offer small loans that do not allow a client to get in over their head. In addition, many are run on the "Trust Bank" model, a "group guarantee" loan where several members get together to form a cooperative unit. The group selects its own members. Each member is mutually responsible for repayment and they act as a support system for each other. The loans are small, with short terms and frequent repayment schedules. Successfully repaid loans lead to repeat loans with increasing credit lines. Trust Banks often have repayment rates as high as 95%.

In Russia, as in other countries around the world, a majority of microfinance clients are women. One very successful organization is the Russian Women's Microfinance Network. This organization supports a network of several small local microfinance organizations in western Russia with more than 5,000 clients. In seven years, the Women's Microfinance Network has coordinated over 37,000 loans. The loans can be as small as $100 for a start-up business, or a few thousand dollars to help an established business expand. Each loan and repayment schedule is tailored to the individual business.

While discussion of microloans often focuses on the "micro" aspect and the value of these loans to start-up companies, small loans can be put to diverse use and offer practical help to established and expanding businesses. In one case, a small independent bakery found themselves in inexplicable financial trouble. They used a microloan to install a security system and discovered that an employee was baking extra bread at night and selling the loaves on the side. In another case, a small taxi company on Sakhalin Island became the first online 24-hour taxi service in Yuzhno-Sakhalinsk. Using a series of modest loans of between $10,000-$18,000, they increased their taxi fleet from 6 to 46 and became one of the most competitive transportation companies on the island.

Sources and further information:
Sakhalin Regional Microcredit Program:
http://www.sakhalincredit.ru/index1.htm
Russian Microfinance Sector Support Program:
http://www.rmssp.ru/en/Main/MainPage/Main.html

Bangladesh: Local Microcredit Making a Worldwide Difference

In 1976, Muhammad Yunus started the Grameen Bank in Bangladesh to make microloans to poor entrepreneurs in Bangladesh. How Dr. Yunus began Grameen Bank has acheived near mythic status.

It all started with an encounter with an impoverished mother of three, working as a bamboo stool maker. He lent her and forty-one other entrepreneurs on the lowest rung of the economic ladder the 27 dollars they needed to purchase the raw materials for their businesses. Dr. Yunus realized that his loan of $27 was a quick fix. He believed the next step had to be an institutional change in the way poor people could borrow and repay loans to help pull themselves out of poverty. And he succeeded. Today Grameen Bank has just over 1,500 branches and 4.8 million borrowers. The loan repayment rate is close to 99% and recent statistics show that Grameen Bank has lent almost US$5 million.

The Grameen Bank of Bangladesh found that male borrowers spent most of their loans in ways that did not improve the quality of life for their families or communities, so 96% of the loans Grameen Bank makes are to women. According to Grameen Bank, 55% of their borrower families have crossed the poverty line. Their indicators of a successful crossing of the poverty line include having: a rainproof house, a sanitary toilet, access to clean drinking water, the abilitiy to repay 300 Taka (approximately US$8) a week, all school age children attend school regularly, three meals a day, and routine medical checkups.

Grameen Bank is founded on several lending practices that are entirely different from traditional banking practices. Having collateral (an item equal in worth to the loan to be given to the bank if the borrower cannot repay the loan) is not necessary. If borrowers cannot repay the loan as originally set up, Grameen Bank works with them to reschedule the repayments. Repayments are kept to small weekly amounts in order to not undermine the borrower's ability to make repayments. Grameen Bank goes to the people; it sends out over 13,000 staff to over 54,000 villages instead of asking the borrowers to take many days off from work to come to Dhaka, the capital city of Bangladesh. There is no formal contract between the bank and the borrower. Written contracts put the power in the hands of the person who can read it. Grameen Bank often works with very poor people who have not had the opportunity to go to school long enough to learn how to read. Breaking the cycle of impoverishment is the fundamental reason they encourage borrowers to keep their children in school and to maintain sanitary living conditions. All of this is in an effort to give borrowers the capacity to rise out of poverty and not to keep them in life-long repayment.

If you wonder how such small loans can make a difference, look at the case of Ammajan Amina, one of the first borrowers at Grameen Bank. In 1976, she had lost all but one of her children to illness and natural disasters. After her husband died of an illness, she survived for a time making cakes and selling them door-to-door. One afternoon she came home and found the tin roof to her mud-walled house, where she had lived for 20 years, gone. Her brother-in-law had sold the roof without asking her permission. During the next monsoon her house collapsed leaving her and her one child with no home. By borrowing from Grameen Bank, Ammajan was able to begin a successful small-scale business making and selling bamboo baskets. Today her daughter has followed in her mother's footsteps and is a Grameen Bank member.

A Bengali woman weaving a bamboo basket. Photo Source: www.grameen-info.org/bank/gallery/photob2.html

The Grameen Bank model has spun off into other programs in India and worldwide. There are over 64 countries that have already written national plans for developing microcredit within their countries. And this all started with one loan of $27. This is truly an example of *Think Globally, Act Locally* in action.

Sources and further information:
Grameen Bank: http://www.grameem-info.org
International Year of Microcredit 2005:
http://www.yearofmicrocredit.org

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Hemispheres has developed two new TEKS-aligned curriculum units,

People and Place: Curriculum Resources on Human-Environmental Interactions

and

Who's the Boss?: Comparative Governance around the World

The *People and Place* unit was designed to address human adaptation to and modification of the environment. Each case study includes myriad activities that build social studies skills by incorporating primary and secondary sources, presenting information in a variety of formats (including graphs, charts, and maps), including varied points of view, and using mathematical skills to interpret social studies information.

Who's the Boss? is a short curriculum unit designed to help educators and their students understand different forms of government. In its pages, we examine limited and unlimited forms of government, different forms of monarchies, and examples of rule-by-one, rule-by-few, and rule-by-many.

Each unit has been designed for middle school classrooms, but with a touch of the ingenuity K-12 educators are known for, these units can be modified to fit high school or elementary classrooms. To read more about these and other units, just follow the *Online Resources and Curriculum Units* link on the Hemispheres Web site.

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