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THE FAITHFUL

Big Ideas and Small Loans

In a small community outside of Mexico City, Lucia Reyes and her family follow their dream with the help of a hot trend in financing.

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Micro.

The word means small—very small in fact. But there's nothing small about microfinance loans. In fact, they're huge. Collectively referred to as microcredit, these loans are generally offered to people that regular banks wouldn't even allow in their door. Microcredit loans, which range anywhere from US\$5 to \$3000, make up a fast growing percentage of all loans globally. Over 200 million micro-

credit loans have been given thus far in some 43 countries, with US\$25 billion in loans out right now.

Even though borrowers usually have no recognized credit history or collateral, payback rates generally run around 98%—substantially higher than the return rates traditional banks currently see. With interest rates some 45% and higher annually, microcredit loans can be highly lucrative when looked at collectively. More importantly, microfi-

nance can help low-income families and communities. That's what they were designed to do in the first place: provide small loans to people completely off the financial grid.

Lucia Reyes of Valle de Chalco, Mexico, is a good example. She participates in a microfinance program being run by CAME, an microcredit institution that has been working in Mexico for over a decade. Mrs. Reyes lives in San Miguel Las Tablas, which is a new municipality that is still forming

on land previously farmed and sold to her through a common manipulation of the century old government policy of land reparations known as ejido..

The streets are no more than dirt and gravel paths that have simply been cleared of plant life and the largest chunks of rubble. There is no chance of pavement being laid down in the foreseeable future. Most of the land appears as if it were abandoned by some large construc-



THE FIRST BUILDING BUILT BY THE RESIDENTS OF THE NEW COMMUNITY WAS THE CHURCH (ABOVE AT LEFT). IT WAS SOON FOLLOWED BY COURTYARD COURTYARD TO EAT, DRINK AND LIVE LIFE.

tion company, where strewn piles of concrete slabs and scrap steel torn from some building or other, lay here and there.

As you walk down any of the roads, you notice a number of houses that appear to be in mid construction. But you don't actually see people doing any building, because it happens in short spurts over the course of years. In fact, the more you walk around, the more you realize this is the state of almost all the homes in the area. That's how much of Mexico grows: a family earns enough to buy a load of bricks and maybe some reinforcing bar. They start to build a wall, but run out of cement before it's finished. So the partial wall sits as-is until the family saves enough to buy more cement and maybe a few cinderblocks.

Mrs. Reyes' house is much further along than most and in fact seems almost complete. She is one of this new community's first residents. She

took a chance nine years ago when she was 21 and not a single other building existed here. She had no guarantee of legal ownership of her plot of land, either. But she had a dream and the confidence to act on it when she saw the chance. Previously, Lucy and her family lived in Netzahualcoyotl, a part of Mexico City that is much better known for its crime than its schools. She and her husband had two very young daughters at the time and they were determined to see a better future for them.

HOPE DESPITE THE RISK

In time, other families also saw an opportunity to buy a small piece of land and build a home and a community. And they did so in increasing numbers. All the while holding on to a combination of hope and naivety that the government would legalize their development, rather than bulldoze it. Lucy's family generally understands this risk, but avoids admitting it.

That's what hope often is: ignoring what some call "reality" to reach a place of change.

Throughout Mexico, the poor have come to expect certain accommodations by the government—and they often get them. In San Miguel Las Tablas, that expectation seems to have finally paid off. The Mexican government has capitulated, agreeing to grant property papers and officially recognize the municipality. Electricity has already been run to the area and the government has promised to supply teachers. The residents had already built the schools on their own, but getting experienced teachers had proved difficult.

The elementary school has 115 students, including Lucy's younger daughter, Jocelyn Ruby, who is 10. But many families send their teenagers to a distant secondary school because the classrooms in their school "need attention". Lucy's 12-year-old daughter, Areli Rodriguez,

THE SCHOOLS. BELOW: ALL THE STORES IN THE MARKET CLOSE BY 4PM, THEN PROPRIETORS AND SOME OF THEIR FAMILIES GATHER IN THE MARKET'S

travels outside the community for her classes. If experienced teachers do arrive, it will help the community tremendously.

Until fairly recently, if residents wanted to buy groceries they needed to travel to Valle de Chalco proper. So in addition to schools, a church and their homes, a number of residents have gotten together, cleared an area, and built a sort of outdoor mall. In only two days the men of the community built out rows of small storefronts that encircle a courtyard inner area using only found or repurposed wood and materials. In total, the market has 60 small stalls, and Lucy says 50 are currently in use. (Although when I last visited near closing time, I could make out only about 10 working shops.)

In Mexico, food stands and grocery stores make up much of the "community" in a neighborhood. Shop owners and customers don't just exchange money for products or food and leave. They pull up chairs, share food and stories, discuss life, and make plans. In much of Mexico, the market is the community. So someone who has their own store not only has a way to sustain themselves, they also have an



important connection in to their community.

When Lucy first opened Aborrotos y Cremeria Lucy, Lucy's Groceries and Creamery, she had very few items for sale and was barely earning enough to buy new groceries. A number of stores that originally opened in the market along with Lucy have already closed down because they were not able to build cash flow momentum. This is a major problem with small communities everywhere: people have ideas, drive and potential customers, they just don't have access to even small amounts of capital to put their ideas into motion.



LUCY'S IMMEDIATE FAMILY ON THE FRONT STEPS OF THE HOUSE HER HUSBAND BUILT. HER SISTER AND HER FAMILY LIVE UPSTAIRS.

Then CAME came along. A representative went door-to-door to tell people about available loan options. The residents were understandably skeptical. But eventually residents warmed up to the idea after attending an informational meeting where they learned more about how it worked and how much control they maintained. The first group of women soon took out a small loan.

CAME was started here in 1993 and is now one of the largest microfinance institutions in the Mexico. Although CAME lends to women and men, unlike many microcredit institutions, almost all of the borrowers in San Miguel Las Tablas are women because, as Mrs. Reyes jokes, "the men are better at spending than paying back their loans".

The loan group themselves decide how much money individuals need, then requests a lump-sum loan from CAME. Although CAME approves one loan per group, they do consider who the group

members are and what their past payment history is. When groups are made up of new borrowers, CAME limits the loan amounts, from 1,000 to 3,500 pesos per group member, US\$77 to \$270. Individuals build up "credit" by paying back loans successfully. After a number of loan cycles, theoretically an individual could borrow up to 40,000 pesos, US\$3000, although most loans are far smaller.

A BETTER INCENTIVE?

A loan cycle is 16 weeks and is marked by weekly meetings where a CAME representative is on-hand to answer questions, resolve disputes and receive the group's payment. Otherwise, the group of borrowers handle everything amongst themselves. Individuals are elected and given responsibilities.

Mrs. Reyes' group has 27 members taking loans. They meet in the backyard of another member's home, which is shared by a few families. To offer shade, a sheet of fabric is tied to a second story railing, a tilting fence

and a small tree. The sheet bows onto everyone's heads as they gather around a table where the business formally takes place. Dogs lazily walk among the group, and children run in and out of doorways, stopping only momentarily to cling onto their mothers for a second or two. A large chart is taped to a cinderblock wall, tracking everyone's loan amounts, payments and savings.

As part of their loan agreements, borrowers also need to set aside specified savings each week. The updates to the chart get filled in with colored marker as each borrower sits down and makes their weekly payments. Payments are of course made in cash. The chart is for all at the meeting to see, and exemplifies a key reason why microloan return rates are so high: transactions are semi-public. Missed payments can affect one's standing among their neighbors—a big deal when social fabric is tightly knit.

Although microloans are structured many different ways, CAME's are arranged so that a missed payment by any individual requires the loan group to pitch in cover the amount owed. Although infrequent, this does happen from time to time, but so far CAME says that throughout Mexico, all their borrowers who have missed individual payments have always made up the amount to their group before their full loan cycle had ended. And either way, CAME would still get its full loan repayed by the group, even if an individual in the group were to default.

By U.S. standards, Lucy's store isn't lucrative. She earns about 2800 pesos a month after expenses and loan pay-

ments. That's about US\$215. But in a part of the world not so driven by non-stop consumerism, that money can go a long way. Lucy's family also has the unusual benefit of her husband's experience in construction. Alfonso Rodriguez Reyes, who is 40, has been able to get regular work right in San Miguel Las Tablas as new neighbors continue moving in and building homes.

So for now, Mrs. Reyes is moving forward in her plans. She's on her third CAME loan and will continue taking new loans until her cash flow is consistent and she has more money saved.

MICRO CREDIT TODAY

It's generally agreed that the microfinance movement was started by economist Muhammad Yunus. He formed Grameen Bank in 1983 and began providing microcredit loans to poor villagers, mostly women, in Bangladesh. But since then, micro lending has spread to all corners of the world with many different formulas and formats. As the idea spread, the vast majority of new institutions continued to lend largely to woman—around 80% globally—as they represent the most underutilized component of rural communities.

Many operations are just a handful of people who have pooled together a fund to personally distribute to people they organize directly. These "mom and pop" startup lending businesses have varying rates of success. Depending on the teams' knowledge and experience, how much help they end up providing a community can be hit or miss. More than a few have closed shop after realizing profits aren't guar-

Then she wants to open another grocery store in her home, while keeping one in the market.

Of course, whether or not she is successful has as much to do with standard market forces, multiplied by the unique environment she's in, and the many decisions she'll need to make along the way as it does with her new access to bits of capital. Microcredit in and of itself isn't a fix-all to poverty.

There are hundreds, if not thousands, of communities like San Miguel Las Tablas all throughout the developing world. There are even more towns

anted or fast.

On the other hand, there are a number of big players now in the arena whose main goals are bottom line profits and fast growth. As these businesses can be well organized and have staff with real experience in finance, they can be quite profitable. But depending on their real goals, and how they choose to go about reaching them, they can end up ignoring the well being of the very people they claim to have started their business to help in the first place. Unfortunately, as more established banks become involved, this trend will only increase. One of the major criticisms of microcredit is the claim that it simply ties poor people into a spiraling dependency on credit, where borrowers keep paying off their loans and high interest, yet only minimally increase profits or advance their lot.

As with any new industry, early successes can build exaggerated stories of success and draw in others who

and villages that have existed for generations, where people just want an opportunity to sustain themselves, but where the impacts of warlords, politicians and global corporations take precedence in their lives, leaving little opportunity to create their own future. Whether with Mexican pesos, Cambodian riels, or Bangladeshi takas, microloans are one possible way people in developing communities can take a step forward in deciding their own livelihood. *efvp*

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wish to take advantage of a client pool eager to believe the hype of opportunity without risk. The recent housing bubble in the United States is the latest example of this. But the need of financial assistance for the underserved will not be going away any time soon. In best-case scenarios, microcredit institutions provide business mentoring or classes—and in some instances, require participation—thereby teaching the community to fish, so to speak. One could argue that this is the greater value a loan institution can provide. As traditional banks look to exert more control over this "business opportunity", borrowers will need to learn to balance their goals for prosperity, against the push for their reliance on their loans.

For more information microcredit, see Grameen Bank's website at www.grameen-info.org.

For more information about CAME, go to www.came.org.mx