
MICROFINANCE AND DEVELOPMENT: MICROCREDIT CONTRIBUTIONS FOR THE ERADICATION OF POVERTY*

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Micro-credits arose when certain people —who believed in the human being and had a willingness to help—, were able to lend small amounts of money to people who did not have property or wages, but had the strength to end their poverty with dignity, providing their own work. Many of us believe that nobody should be condemned to misery and hunger because of their birthplace, and that the fact of being born in the socioeconomic layer of poverty should not determine anyone's future.

It was in places of extreme poverty where microcredits emerged, as a dignified aid towards people with limited income who needed small amounts of money, from 20 to 300 Euros, in order to start self-employment activities, who often had inadequate training or a lack of access to complementary services. Women are the most vulnerable group, possessing a higher degree of socio-economic marginalization.

The experience of microcredits has shown that users have a sense of saving and willingness to pay back. Even though the transaction costs of management and microcredit operations are very high, they cost the same as a credit operation for a larger loan. Microcredits have been specially innovated in order to grant personal loans to solidarity groups and local community banks, which usually range from 5 to 20 people, who will have the solidarity and responsibility to take care of the transactional costs.

The Microfinance Institutions (MFIs) have innovative financing methods, such as local community banks, which create beneficiary target groups who will jointly receive loans, and they take responsibility of their adequate management and payments.

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MFIs's objectives is to grant micro-credits and to guarantee their savings to the poorest, lending money to groups of people and normally giving priority to women. In addition to funding, these institutions have educational and social programs to help its customers to start their own businesses. After a short time, entrepreneurs improve their credit and financial history, facilitating the provision of new and larger loans to ensure the continuity of their micro business activities.

Microcredit and development projects. Contributions towards microcredit funds

FIDE Foundation began its first steps in promoting micro-credits in Peru during the 80's, with the creation of revolving funds in both kind and in money. During this period, FIDE began operating its own resources to help women in extreme poverty in the peripheral districts of Lima during the years 1988 and 1989. In these neighbourhoods, mother clubs started to take place, where women would receive both goods (eg sewing machines, fabrics, amongst others), and technical training, as well as community bankbooks for savings and micro-credits with solidarity guarantees.

Since 1995, the Spanish Agency for International Development (AECID) and the Junta de Castilla La Mancha, supports projects with revolving funds in cash through its Spanish NGO's co-financing sessions for integrated development projects, in cooperation with local NGO's.

Later on, the FIDE Foundation designed and implemented projects for the provision of micro-credits in Peru, Bolivia, Dominican Republic, El Salvador and Honduras. Today, this job is still being continued, with projects for development that include revolving funds for micro-credits.

For 20 years, there have been many projects implemented by the Foundation FIDE which converge with the development of micro-credits. Among them is the creation of local community banks in the Cordillera El Merendon, Honduras, in coordination with local NGO FUNBANHCAFE. This project started its activities with a capital of U.S. \$ 70,000 as a revolving fund for micro credit, and was used for the creation of 36 community banks, which were administered and managed by women working in commerce and agriculture.

Each community local bank consists of 15 women who manage micro-credits in groups of five. Each group member must return the money allocated. If you

cannot meet this requirement, the rest of the group should assume the payment in order to have future access to a new microcredit. This convergence between revolving and development, *from below and from within*, allowed that 3.456 people had access to credit and could get out of subsistence. Moreover, not only were the loans paid back by the local community banks, but they also managed to save \$ 150,000 in 4 years in order to continue this experience in the region.

FIDE Foundation is also currently working on creating a revolving fund of 100,000 Euros for phases I and II of the Integration of Women through Microcredit and Training project, implemented in Honduras with the local NGO COMIXMUL. This is a project to boost investment in microcredits to more than 200 women who live in the Department of Copan, supporting their initiatives and performance. The process is accompanied by training on borrowing costs and basic cash management.

The main activities of this initiative is the creation of a bank of time, which allows women to facilitate access to domestic services, by sharing tasks with other women, thus promoting work-life balance and creating social networks in-between them.

Following up in Honduras, significant progress has been made in the area of social and occupational integration of young people, through vocational training and providing credit support to the 100 small businesses in the rural sector. This initiative used micro-credits as a financial and solidarity instrument to finance both the professional training of 100 young orphans and the creation of their micro-businesses. Currently, these businesses are attached to two cooperatives of artisans and wood producers, who also work with the cooperative COPADE on fair trade issues.

The experience in Bolivia has also been positive. Since 2004, a project is being managed to promote the social and production framework in the municipality of Bolivar, Cochabamba. The aim is to strengthen the councils of popular participation as cohesive entities of the popular will, to sensitize the local population on mechanisms of alternative dispute resolution and promote good citizenship with a community vision. In order to achieve this, the Bolivian NGO INDICEP has organized specific training sessions and meetings with various stakeholders in the area (town hall workers, the supervisory board, traditional authorities, women's federations and community representatives), in order to establish irrigators associations from many other communities, where they will build and rehabilitate 12 irrigation systems, which will favour the cultivation of 60 acres of new crops.

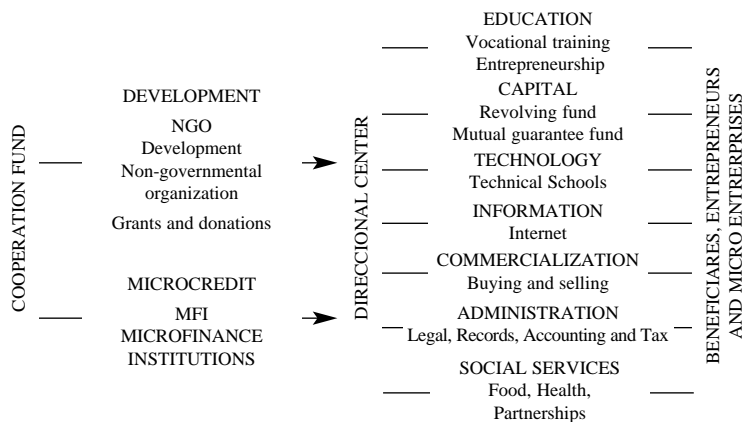
Moreover, one of the other major FIDE Foundation initiatives are the integrated development projects with Directional Centre, which represent a practical way for development from below and from within that makes the choice of the majority. A specific example of this type of intervention is the Directional Centre of Valle de San Andres in El Salvador, where the FUSAI Foundation and the FIDE Foundation converge microcredit and development.

The cost structure of this type of project has two main areas: training and administration of the Directional Centre, which includes managing the revolving fund for microcredit. In the first category, if one takes into consideration that the cost of training is 3.200 Euros, the direct formation of 250 new jobs for urban micro businesses would go up to 800,000 euros, of which about 30% (950 Euros / employment) would go to investment in education, technology, information, administration, social services and access to markets.

The second category, representing 70% of the total project cost, is spent on administration, of which 20% corresponds to the Directional Centre management and the other 50% goes to finance the revolving fund microcredit.

The Directional Center's experience in El Salvador makes it possible to recommend that the implementation of activities relating development shall be conducted by a Development NGO, and the ones relating microcredit and savings can be done by an MFI.

Figure 1. Directional Centre development and microcredit



Source: FIDE Foundation, Madrid 2004.

With the methods of the Directional Centres for Development from below and from within, it is possible to finance projects with a two-pronged financial cooperation, which will provide: 50% of projects will be granted for activities that promote the development, and the other 50% of the budget will be allocated for micro-credits (funds returnable). From this perspective, the Foundation FIDE has identified potential initiatives in countries like Bolivia, focused on the financing of country-plans, with special attention to entrepreneurs, small businesses and microcredit¹.

Finally, as a sign of institutional support from a Spanish NGO for the formation of an IMF, the work of the Salvadoran NGO FUSAI for the creation of the micro-financers INTEGRAL —originated from the microcredit program of this organization—, should be highlighted.

Lessons learnt about microfinance

From the management of projects implemented in Latin America, the FIDE Foundation has reflected on the characteristics of each of these experiences, identifying relevant aspects such as:

- Micro-credits should not be turned into micro-donations, and it is necessary to promote investment in training, which will enable the end of economic models of subsistence.
- A greater emphasis should be given towards monitoring and recording systems of the revolving funds originated from grants, in order to prevent funds misappropriation and maximize their profits in actions related to the optimum performance of MFIs.
- The implementation of rural microfinance projects in Honduras allowed the identification of difficulties in finding funding sources for such projects. One of the main problems of these micro-credits are the long periods of rotation between the granting and reimbursement, slowing down the allocation process in comparison with other models of micro-credit, as the ones granted through community banks.
- The spirit of solidarity and self-management of the solidarity groups and local community banks facilitates access to credit among the beneficiaries, through the reduction of transactional costs and interest

1. We could consider funding a “Country-Plan for job creation and extension of development from below and from within Bolivia for 10 years”. The execution would be done with a network of 150 Centres of Directional Support in order to support the thousands of peasants, natives and informals. This would need the creation of 1.217.630 direct jobs, with a 3.200 Euro investment for each job post. In addition to these positions created in ten past years, 3.044.075 jobs would need to be created.

rates, compared to individual micro-lending. Also, the travel costs to the IMF are reduced.

- In Honduras, it has been shown that micro-credit support for job placements, vocational training and micro-businesses creation has proven very beneficial for the formation of a micro-business productive sector.
- In the rural Andean Bolivia, culture plays an important role in the process of development and granting methods, especially in the support of indigenous women and young women, as well as the extension of rights such as education and equal gender.
- The convergence in between development and micro-credits gave excellent results in the case of the Directional Centre in El Salvador, as the following was made available to beneficiaries, entrepreneurs and micro-businesses: education, micro-credits, technique, information, management, social services and access to markets, so that beneficiaries were involved in their own development.

Conclusions

We have learnt that the essence of micro-credits lay in their financial and supportive character. We have learnt that micro-credit is a tool for poverty eradication and the start of development that takes the choice of the majority. We have learnt that micro-credits must be accompanied by training and extension of equal citizenship rights. We have also learnt that entrepreneurs, micro-businesses and micro-credits have emerged from informal economies, and these are the micro-credits which make possible the eradication of subsistence and open up the possibility of initiating development processes from below and from within.