



Before dawn Liliana Matias rises to prepare the corn. She washes it and mashes it into dough. Then she carries plastic bowls of the pale yellow mounds to the huge, black griddle—a stovetop the size of a door. There, by 7 a.m., she and her three business partners—María Consuelo Gómez, Letty Mazariegos, and Eva Ortiz—mold the dough into small, firm cakes. Within minutes on the griddle, the cakes become their sales product: corn tortillas, two for twenty-five centavos, sold from the kitchen door every morning, from 9 a.m. until they disappear.

On this morning, the four women pause after their cooking to attend a meeting. Upstairs in Gómez's cement-block house in the Villalobos neighborhood of Guatemala City, more than a dozen other women join them in a weekly gathering of their "village bank." They are all entrepreneurs managing their own businesses—from making tortillas and sewing bedspreads to selling chickens and conducting exercise classes.

In a narrow room furnished only with a bed for sitting and a table for counting money and recording figures, Ingrid Hernández orchestrates the meeting. An organizer, trainer, accountant, and cheerleader combined, she introduces the bank officers, women elected president, treasurer, and secretary of Mujeres

The Real Profits

by Patricia B. Kelly

Unidas (Women United), the name members have chosen for their bank. The president welcomes her colleagues, makes announcements, and reviews the weekly routine: They will pay the percentage of the loan each one owes this week, with interest. They will pay the percentage each is required to save. Numbers will be updated in bank ledgers and personal account passbooks. But first, they will pause and reflect together about a group issue or problem or breakthrough, gathering support and motivation from one another. The entire meeting lasts about an hour.

The members of Women United are a small link in a global chain of village banks sponsored by FINCA International, a microlending organization based in Washington, D.C. During its ten years of operation, FINCA International has introduced its methodology in fourteen countries, benefiting more than sixty-five thousand low-income families in some of the poorest areas of Latin America, Africa, and Asia, as well as the United

Low-income women in Guatemala are gaining financial and personal freedoms with the assistance of an international microlending organization

States. Its special approach has been replicated in whole or in part by more than sixty other programs or organizations in thirty-two countries.

The process is simple: First, each banker starts out with a \$50 loan, which must be paid back, with interest, by the end of a four-month loan cycle. So, at each weekly meeting, the banker owes 1/16 of her loan and interest. Second, each banker is required to save at least 20 percent of her loan amount during each four-month cycle. For a \$50 loan, this is a total of \$10. The savings also are paid in weekly installments. Finally, if a



of Village Banking



Rural and urban women alike, such as participants at the village bank Mercedes, in the highland town of Sololá, above, and these at Women United, in Guatemala City, left, have found a common purpose and supportive network through their banks. The village bank of Santa Ana, below, in Chimaltenango, is typical of rural, home-centered banks

banker pays back her entire loan with interest, and meets her savings goal, she may borrow the combined amount of the loan and savings at the beginning of the next cycle. For example, a \$50 loan plus \$10 in savings will enable a member to borrow \$60. And the cycle may continue until a banker reaches a loan of \$300. This \$300, says FINCA, is enough to create the equivalent of one to three full-time jobs in the developing countries where the program is at work.

"The four-month cycle is designed to change the mold of business thinking, to

give quick rewards," says FINCA's founder, John Hatch. "In four months you can spur new activities, get fast turnover. There is a rapid rotation of working capital."

The combination of this low-cost, working capital, the promotion of family savings, and individual and group empowerment makes up the winning formula. FINCA records an overall repayment rate of 95 percent, and its programs have mobilized \$3.2 million in borrower savings worldwide. The average banker has accumulated \$49 in savings, but many borrowers with two or three years' membership have saved more than \$300.

The members' collective savings are deposited in local, commercial banks in accounts controlled only by the village bank officers. Early on in the life of FINCA, village bankers in Mexico decided that these savings could be put to continuous use. The concept of an "internal account," with the village bank loaning additional funds to its members for special requests, was born. This relending process now distinguishes FINCA's program, says Hatch. One of the first banks to utilize the internal account made a collective loan to several members who purchased a second-hand washing machine, put it on wheels, and rolled it around their neighborhood doing laundry for hire. The business, known as Lavando la



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Ropa Sucia a la Calle (Washing Our Dirty Clothes in the Street) was a big success.

"The internal account makes authentic bankers out of the village bank members," Hatch says. "They loan their own money, assume all risks, make a good profit, and distribute it among themselves. It is a first step toward the village banks becoming real banks themselves."

And real banks are what most women in poverty cannot access. They do not have the collateral required for commercial loans and, just as crippling, they often do not have the confidence that they can create and sustain their own businesses. During the past decade, poverty microlending has begun to fill this void, and the results are impressive, both socially and economically. So much so that more than two thousand representatives of microcredit organizations will meet at a World Microcredit Summit in February to ratify an ambitious, global action plan.

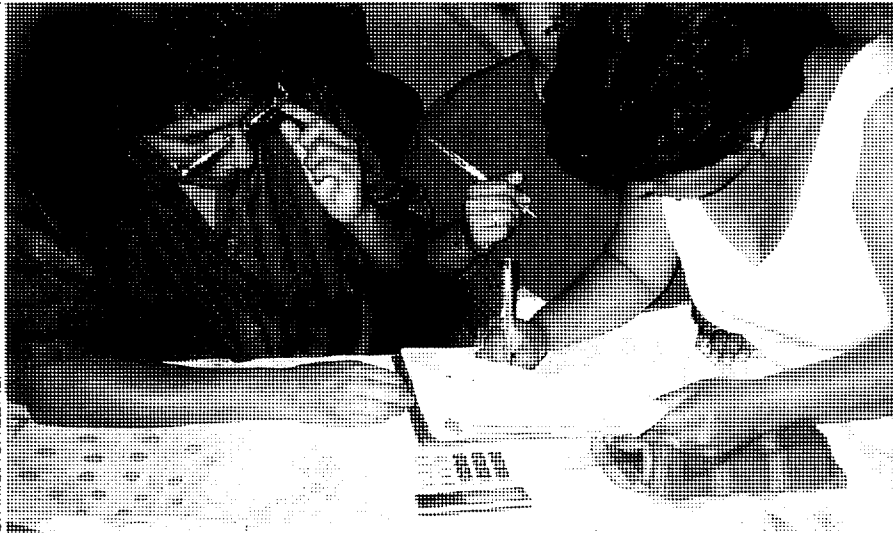
There is a clear and emerging pattern

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The combination of this low-cost working capital, the promotion of family savings, and individual and group empowerment makes up FINCA's winning formula

Members of Mercedes bank, above left, read their parts in a sociodrama intended to promote fellowship. The bankers, above, meeting at Tzutuhiles, in San Juan La Laguna, near Lake Atitlán, are dealing with a downturn in weaving sales, their primary source of income; while Santa Ana village bank, opposite, is open for business

to the benefits members say they receive from village banking. The constantly increasing capital allows them to build their businesses slowly but surely. The required savings, money most of the women would have found impossible to set aside otherwise (77 percent of FINCA's members say they had never saved before), builds confidence that they can succeed. What they take for profit goes first to their children: more and better quality food and clothing, then books for school. The results are seen in improved nutrition, health, and education among the village bank families. And some of the women talk about the possibility of limiting the size of their families; for their daughters, they say, that possibility will be a probability. "They are better educated," explains one mother.



In war-torn countries like Haiti and El Salvador, poverty microlending has been the first step toward restoration for many families. In Mexico, where the recent economic crisis left the poor even poorer, village banks used their internal accounts to keep struggling members on course with their businesses. And in the face of recent social unrest and human rights concerns in Guatemala, the village-banking program has grown to 132 banks in six years, mainly located in the capital and the central highlands.

Urban women have taken quickly to the village banking methodology, and to the short loan cycle that encourages quick turnover of capital. Their businesses are both traditional and innovative, ranging

from selling basic foods from home stores to even beginning an aerobics class. Their repayment rate is 96.5 percent.

Twenty-five-year-old Elvia Jiménez, mother of four, makes tortillas and sells them, along with plantains, from her home. After only six weeks in the village-banking program, she was able to begin saving to buy a new stove.

Rosa Alvarado is one of the founders and a former president of Women United. The village bank version of an "Avon Lady," Alvarado sells both underwear and cosmetics and is using some of her savings to take a technical course in cake baking. She recently took maternity leave from the bank and her work to look after her newborn, fourth daughter. But she

missed the camaraderie, and she is back with her infant in tow.

"There won't be a fifth child," she says, laughing but meaning it.

What has village banking done for her? Alvarado is thoughtful. "I learned how to save," she says. "I increased the money I had to spend on my business, my working capital. And now I can buy more food, and clothes and books for my children."

"I used to spend 50 quetzales [about \$8] each day for food. My husband would give me the money. Now I can spend 60 quetzales [about \$9.70] a day only from the money I've earned myself. I am using this increase to buy food in bulk, to stock food."

Alvarado reflects on her beginning days as a village banker. "I was afraid," she says, "but things went well for me, and I have always been able to meet or go beyond my savings target. If one learns how to manage money, the bank is great. When I left to have my baby, I missed it. So I am back."

Her husband also is happy with the bank. An auto mechanic, he supports her work. "Sometimes I even loan him money," she says, "with interest."

Hernández, who is employed by FINCA as a "promoter" for ten banks in her area, has moved on to her second appointment of the day, at Fuente de Vida (Source of Life), down the main street of Villalobos. Here, thirty women gather in the kitchen area of a member's house.

Marta Julia Ducal goes house to house in the afternoons, selling undergarments sewn by her daughter. Corina Galdes trades on her husband's job as a construction worker. She runs a hardware store in her home, selling cement, bricks, and other construction materials. And Concepción Piñero Ortiz sells meat, milk, bread, and other staples in a home-based convenience store, where her older children work.

Mabel Calderón saw a good idea and ran with it. She began selling ponchos and mantas, then added artificial flowers and

MICROCREDIT SUMMIT

About thirty-five-hundred delegates from private, government, and multilateral organizations in developing and industrialized countries are expected to convene at a first-of-its-kind World Microcredit Summit, scheduled for February 2-4, 1997, in Washington, D.C.

Most of the delegates will be representatives from more than six hundred microcredit practitioner agencies in 140 countries. Their goal: to launch a worldwide movement enabling 100 million of the world's poorest families access to self-employment loans by the year 2005. To reach this goal, microcredit leaders say they need to mobilize about \$20 billion in grants, loans, and borrower savings. Delegates are expected to ratify a formal plan of action and commit to the actual steps and resource commitments required to carry out that plan.

The summit is being organized by RESULTS, a citizens lobby on poverty and hunger worldwide. Honorary co-chairs include Hillary Clinton, Queen Sofia of Spain, and former prime minister Tsutomu Hata of Japan. Initial funders include American Express, Bankers Trust Company, Mott Foundation, Chase Manhattan Foundation, Citicorp Foundation, and Johnson & Johnson Foundation. For more information, contact: RESULTS, 236 Massachusetts Ave., NE, Suite 300, Washington, DC 20002; 202-543-9340; or FINCA International, 1101 14th St., NW, 11th Floor, Washington, DC 20005; 202-682-1510.

cards for special holidays. The success of the cards and flowers led her to develop a seasonal business built around holidays and other special times. For example, in February, when school starts, she offers school supplies. And she has created special products for Mother's Day, Holy Week, and other occasions. While her sales are mainly local, she also sells to markets, some of them "fairly far away." Over time, Calderón's savings have helped her construct an additional room on her house.

In addition to her accumulated savings, Calderón also appreciates the support she receives from the other women in the group. "The meetings are good because what comes out is being responsible for oneself," she says. "The new Guatemalan women all have to work. We need to know how to do for ourselves."

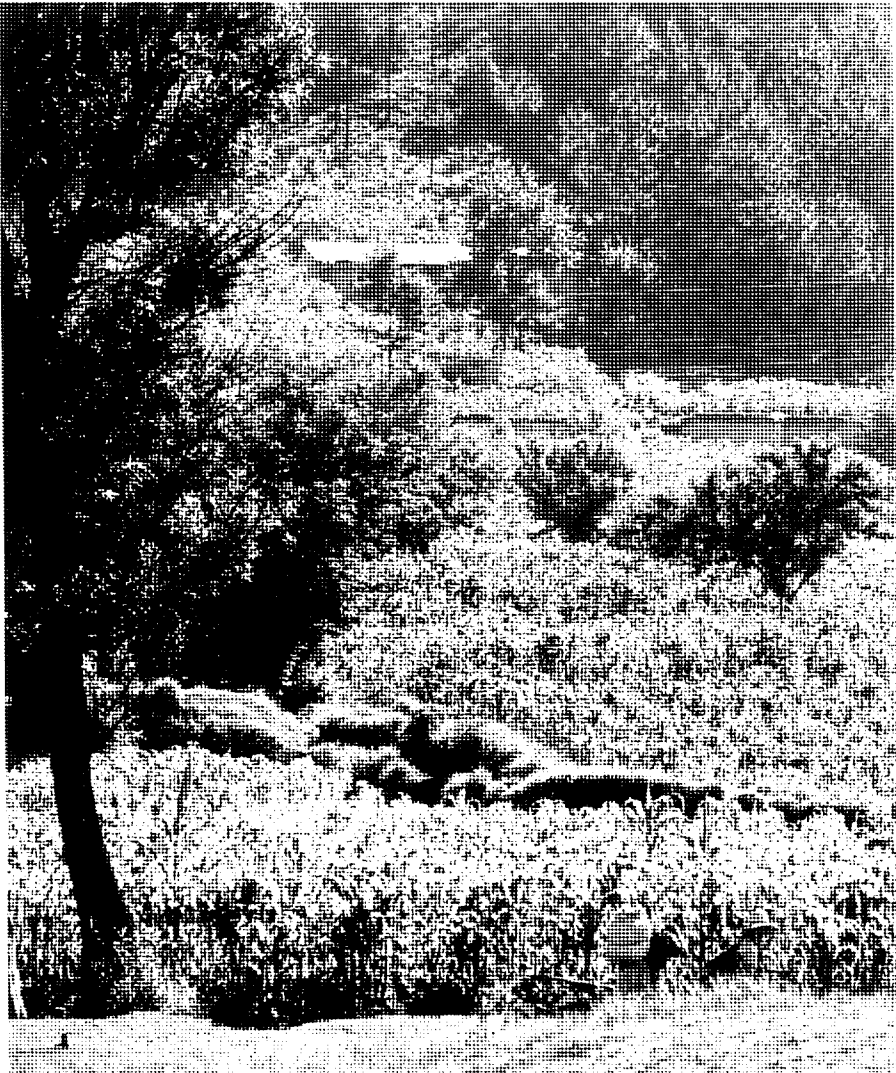
The nurturing element of the village bank meetings is the most common need shared by the urban and the rural bankers of Guatemala. While the urban women, who enjoy a larger customer base, can turn new ideas into profits more quickly, they look forward to frequent, supportive exchanges with their colleagues. So, too, the rural bankers rely on their bank meetings. They face different challenges—diminishing markets for their more labor-intensive, traditional products—and these challenges draw them even more to the scheduled forum of ideas, solutions, and friendship.

The village bank Mercedes in the highland community of Sololá is an example of what rural village bankers are facing, and how they are coping. Promoter Acxa Astañón knows the need for this group of traditional weavers to feel united as they explore fresh approaches to reducing the cost of their materials and locating new markets for their products.

Since they must travel longer distances than their city sisters, the women of Mercedes meet every month in this mud-brick home. They stay longer at the meetings, paying rapt attention during the business portions, and—only after they have banked—they engage in quiet conversation with one another.

This morning promoter Astañón decides to spend a large chunk of time on the importance of friendship and loyalty. She suggests an exercise, a sociodrama, to begin the meeting. The topic: gossip; the players: volunteers from the group.

After some shuffling, demurrals, and giggling from the women, four ultimately gather in the front of the room. They are to play Evelyn, Reina, Corina, and Stella. One-page scripts are passed around to



Village banking is at its core a matter of human rights—the poorer you are, the more right you have to a loan

each player. The first, Evelyn, steps back; she can't play the role, she says. She can't read the script. She is teaching herself to read and write, but she can't read fast enough yet.

Astañón begins: "At our last meeting we talked about rumors going around about our bank, so we are doing this drama today to show how rumors can hurt us."

The women huddle with their scripts, and speak their parts, such as:

"Did you hear Silvia is so lazy she didn't come to pay her loan this week. She's also not a very good mother."

"Let's go tell Evelyn."

"Patricia said Reina told her this, so it must be true."

"All this sounds like pure gossip. Let's go talk to Reina and see what she says."

Reina greets her friends and listens to their story. Then she says: "That's not true. I said to Patty that Silvia is sick. She's worried that she can't work and pay her loan. Here we are raising false issues about our friend when she needs our help. Let's go and give her a hand."

Giving a hand is one of the tenets of the village bank. The bank as an entity is responsible for the debts of its members, so a default must be covered by the inter-

nal account, that is, the group's savings. But when women cannot pay their loans for what the group considers a good reason, others might pitch in and pay from their own money or help their friend raise the money to pay. If lack of cooperation is suspected, however, the hand that is given may be retribution. For example, one group of bankers confiscated the bed of a borrower who skipped her loan payments. They worked out an installment plan the bed-less woman could meet and agreed to return the bed when her loan was satisfied. Another group paid for the burial of a member who died in surgery then bought cosmetics wholesale and sold them collectively in order to recover the funds for their bank.

At Mercedes bank, member Silvia Angélica Morales, an experienced businesswoman and more outspoken than most in the group, helps a small gathering to articulate their problems. Skirts are the most popular product they weave, admit the women, but each skirt takes three days to make. It takes one day alone to weave a colorful band around the skirt. Rebozos, long shawls often used to wrap infants, can take anywhere from fifteen to thirty days to weave, depending on how many hours per day a woman works. The weavers do not get enough money back on these products, they say, especially if they have to take them farther to market, which is now the case.

Tourism in Guatemala is on the downturn, reducing the women's opportunities to sell. Local markets are glutted as a result. The popular tourist market at Chichicastenango is an hour away by bus; so far Morales is the only one in this bank who goes there. She sells wholesale to a vendor there.

Making smaller items that require less labor is one solution. One woman weaves a dozen small caps a day, for example. Some make headbands and jewelry. But these products bring less in individual profits, and they are not as popular as the skirts.

Morales explains her own dilemma: materials for weaving—fabrics and decorative items—are expensive. She borrows 1,000 quetzales (about \$162) per month from her village bank. Although her loan is one of the bank's highest, Morales says it is too low to help her turn a profit on her weavings. She cannot buy enough materials, weave fast enough, and sell her product quickly enough to make it work. She would like to get a larger loan.

All the weavers in the Mercedes bank face similar problems with time and profit. But Morales has advanced within the bank

to the point where she may need more than the bank can continue to offer her. Even a loan from the internal account would be limited. This additional money could be the step-up Morales needs, but it will not be a long-term fix for her. If too many bankers borrow too much from the internal account, they could endanger everyone's savings. Morales may have to look outside of the village-banking system to get a larger loan, although she will need collateral to obtain one from commercial sources. This second-tier need—larger loans required by village bank "graduates"—is an issue FINCA International is currently addressing.

Today, the twenty-one women of Mercedes have paid 4,842 quetzales (about \$783) in loan payments, 519 quetzales (about \$84) in interest, and 383 quetzales (\$62) to the internal account. A good pay day. It is time to take the two food baskets assembled by all the bankers and give them out to the two next women in line to receive them. Every meeting, two of the bankers get baskets; it is the group's way of giving to each other.

Astañón is pleased with the meeting. Like most of the twentysome FINCA promoters in Guatemala, she is a former banker who has "graduated" to this paid position. Originally president of La Fe (The Faith) village bank, she currently manages twelve banks, all made up of weavers. Promoters can make 1,000 to 1,500 quetzales (\$167-250) monthly, as much or even somewhat more than a Guatemalan schoolteacher earns. Astañón, Hernández, and others spend their days traveling from town to town, organizing banks, managing meetings, training new members and officers, checking the banks' books, and gathering once a week in Guatemala City to compare notes with other promoters and their supervisors. The distances between the banks require a lot of walking and a lot of bus rides; nevertheless, Astañón would like to add two more banks to her responsibilities.

Even as she increases the number of rural banks for which she is responsible, Astañón also continues to operate her own small business, a restaurant in the town of San Lucas. Out of her restaurant, she feeds

sixty persons a day—some on-site, others, mostly prisoners, to whom the food is taken. A single mother, she relies on her three daughters to help organize the day's work before they go to school in the morning. She sees the restaurant and her work as a promoter as an unexpected career.

"I was the only one in my family who didn't get a chance to study," she says. "They had me in the kitchen all the time. I was twenty-two-years old when I went back to school. Then I kept going; I even did one year of social work. I saw myself as just being a kitchen person," she continues. "But from that beginning has come better things. I realized through FINCA that God had a higher purpose for me."

For all these women, village banking has provided a livelihood—as a banker, a FINCA staff member, and as a small business owner. Too, they have seen their job opportunities grow as they themselves have grown professionally.

FINCA is growing too. It is looking for new and better ways to support bankers, promoters, and other in-country staff, as well as new and better ways to build a financial structure for microlending. But even as its systems grow, village banking is at its core a matter of human rights, says founder Hatch. "Access to capital is a basic human right. The poorer you are, the more right you have to a loan." ■



As Guatemala's village bank system spreads through the countryside, growing too are the needs of bankers and the responsibilities of promoters, who travel long distances to regular meetings as well as to markets to sell products such as traditional weavings

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