

# Perspectives

Federal Reserve Bank of Dallas

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## MICROCREDIT MEANS MACRO OPPORTUNITY

In 1976, Bangladeshi economics professor Muhammad Yunus loaned \$26 to a group of 42 workers. With their 62 cents apiece, the workers purchased materials for a day's work making clay pots and weaving chairs. At the end of their first day as independent owners, they sold their merchandise and within days repaid the loan. Thus began the microcredit movement.

The Grameen Bank originated in Bangladesh to extend small loans to very poor people to start microbusinesses. (Grameen means "village" in Bengali.) By 2002, Grameen Bank had 2.4 million borrowers, 95 percent of them women. The bank had loaned more than \$3.7 billion in amounts averaging less than \$200.

Grameen Foundation USA, headquartered in Washington, D.C., was established in 1997 to provide financial and technical assistance and technological support to grassroots institutions that are replicating Grameen Bank's success in countries from Tanzania and India to Mexico and the Philippines. As of April 2003, there were 114 such programs in 34 countries. These programs have served more than a million clients worldwide and disbursed more than \$472 million in loans.

Microcredit, or microfinance, is an antipoverty strategy that provides the very poor with tiny loans—often under \$100—to allow them to earn income by establishing or expanding microbusinesses such as cosmetology, janitorial services, child care, tailoring and hundreds of other ventures. The goal is economic self-sufficiency for those who might not otherwise attain it.

## Microcredit and Dallas

Dallas is home to one of Grameen Foundation's two U.S. microlending programs. The Peer Lending Action Network (PLAN) Fund is a microcredit program that began as a pilot program of Dallas City Homes in 1997. Dallas City Homes, a non-profit community development corporation (CDC) founded in 1989, helps bring

tion as a pilot, the fund has served more than 1,000 clients and disbursed more than \$480,000 in 351 loans that traditional financial institutions would likely never have made. Lives have been changed in the process.

According to Project Director Alberto Muñoz, Dallas was a perfect fit for the PLAN Fund and Grameen Foundation

## Empowerment Is the Key

The PLAN Fund gives low-income individuals the opportunity to create a peer network for personal support and the economic seed money to build wealth through small business proprietorship.

Individuals seeking a loan through the PLAN Fund participate with other low-income entrepreneurs to form peer groups of normally five to seven people. The peer groups work together and support their members through collaboration. This helps to ensure mutual accountability.

After several weeks of initial training and technical assistance by PLAN Fund staff or designees, a group joins one of 12 PLAN Fund Centers, located in such places as community centers, churches, chambers of commerce and even apartment units. PLAN Fund Centers are usually made up of no more than eight peer lending groups. Members meet to review each other's loan proposals, make loan payments, participate in training, and share business experiences and other information.

According to Muñoz, no formal restrictions exist regarding participation in the program. However, in keeping with its mission and that of the Grameen Foundation, the fund is committed to serving the community's poorest people and those most in need of economic opportunity. As a result, the PLAN Fund targets certain demographics, including women (70 percent of participants are women), single mothers and grandmothers, minorities, heads of households, and recent or current welfare recipients. Participants must be at least 18 years old.

Grameen Foundation's other U.S. microlending program is in New York City. Project Enterprise was founded in 1996 and certified by the Treasury Department as a community development financial



COURTESY OF PLAN FUND

affordable housing options to low-income communities in North Texas. The success of the pilot, and the continued lack of services for low-income individuals in Dallas County, inspired the CDC to expand its microenterprise program.

In 1998, Dallas City Homes invited Alex Counts, Grameen Foundation president, to visit the pilot. Counts was immediately impressed with the program's accomplishments and the progress of the initial 30 borrowers. He also noted that "the program seemed to grasp the counterintuitive aspects of microlending and injected the spirit and vigor needed to help make the PLAN Fund successful." Counts then proposed a partnership between the CDC and the Grameen Foundation.

As a result, the PLAN Fund was launched in April 1999 as a project of Grameen Foundation USA. Since its incep-

USA. Dallas/Fort Worth is one of the wealthiest metropolitan areas in the world but also has a high poverty rate.

"At 14.45 percent, Dallas County's poverty rate is the second highest among Texas' most populous counties," Muñoz wrote in a recent issue of the Grameen Foundation newsletter. "The Hispanic and African-American communities are disproportionately affected, with roughly 25 percent of each living in poverty. This diverse group, which includes the working poor, the underemployed, and the destitute, is the PLAN Fund's clientele."

Fund participation and the resulting small business growth has had a multiplier effect in the community. According to Muñoz, 32 full-time jobs for low-income people were directly or indirectly created last year as a result of PLAN Fund small businesses.

institution two years later. The program operates much like the PLAN Fund. As of May 2003, Project Enterprise had made 188 loans to 862 clients and disbursed more than \$342,000. The repayment rate is approximately 94 percent.

Access to capital for low-income entrepreneurs is a hurdle that many cannot

overcome. Poor credit and a lack of owner equity and a basic knowledge of finance have kept many from realizing the dream of small business ownership. However, organizations like the PLAN Fund are providing opportunities for these entrepreneurs and a means for them to clear those hurdles. ■

—Jason Sweat

## Other Grameen Projects

**Grameen Foundation USA operates four projects in addition to its two microlending programs. Among them are a technology center and a replication program.**

### Grameen Technology Center

The technology center focuses on encouraging the world's most underprivileged individuals to raise themselves out of poverty through access to financial services and information. The center, headquartered in Seattle, helps support microlenders and enables them to reach more people. The center also leverages funds from Grameen Bank and its various partners to fund technology projects for low-income people. Current projects include microcredit automation and village phone and computing programs.

The automation project offers a software program to help microlenders increase their capacity, improve financial controls and reach out to more clients. The phone program puts cellular phones into the hands of the underprivileged, who, in turn, use them as a microbusiness. These entrepreneurial individuals purchase the phones with a microloan from Grameen Bank, then sell the use of them on a per-call basis.

The computing project, currently being piloted in India, will establish six computer centers equipped with word processing capability and Internet access. The centers will provide Internet access to such things as health care, government services, local market information and e-mail communication.

### Replication Program

Established in 1999, this program assists financial institutions, organizations and entrepreneurs throughout the world who want to reproduce the Grameen Bank approach to microlending. The program's four stated objectives are:

- Mobilize financial and human resources in support of initiating and scaling up programs that replicate the Grameen Bank approach.
- Provide technical assistance through training and advisory services to these replications.
- Promote a favorable policy and regulatory environment for microfinance institutions that target the poor.
- Promote global networking and disseminate information in support of microcredit programs.

## Microloans and Moral Support

### The PLAN Fund at Work

It's Friday morning and like most people, Marsha Graham is settling into her workday routine. Unlike most people, however, Graham didn't commute to work; this exuberant entrepreneur runs her own business out of her Dallas home. With help from a \$500 microloan from the PLAN Fund, in 1999 Graham began MediClaims Consultant Group, a home-based practice-management service that handles all aspects of insurance and patient billing.

Being a business owner wasn't in Graham's original game plan. She was an administrative assistant when she was laid off in 1989. Motivated to enter a new field where she could seek out opportunities

Marsha Graham has expanded her business with three microloans from the PLAN Fund.



and excel, Graham decided to go back to school and enter the health care industry. By 1993 she was working as a medical assistant in the front office of a private practice.

Graham's determination and interest in the field led her to continue her education, and in 1998 she became certified as a medical records coding specialist. A year later she was ready to start her own business.

Graham's entrepreneurial spirit is evident to anyone who talks to her about the life-changing opportunity her small business has granted her. "Without the PLAN Fund's microloans and technical assistance, I would have taken on high credit card debt, I wouldn't be as independent and I would be struggling with the development of my business," Graham says. She credits the PLAN Fund with helping her understand how the business world works.

## Finding the PLAN

Just a year after becoming a coding specialist, Graham landed her first client. The work she did for that first customer led to several word-of-mouth referrals. She was happy her business was growing, but taking all her documents to a copy center was expensive. She clearly needed a copier but didn't have the cash to buy one.

Graham first heard of the PLAN Fund at a networking event.

"Even though I had good credit, I knew that because the loan amount I needed

was small, there weren't many options for me. As soon as I heard about the PLAN Fund and what it does, I called to find out more."

In pursuit of her dream, and confident it would prove profitable, Graham did find out more and within a short time was an active participant in a peer lending group. Her first loan—for \$500—went directly toward the purchase of a copier.

The PLAN Fund's peer lending groups are at the heart of the program. The groups are generally composed of about five to seven people, who serve as each other's support and accountability team. Groups meet every two weeks at one of 12 centers to discuss their progress and offer technical and moral support. The lending group decides who gets the first loan.

"The group pulls together to ask, 'If you get the loan, what would you do with it?'" Graham explains. Since it's a peer lending group, not only does the group decide who gets the first loan, it's also the group's responsibility to encourage timely repayment of the loan. "It's a shared sense of accountability," says Graham. "You want to do well as a group. You sometimes have to call a peer who is a few days behind on their loan."

Energized by her group's encouragement, Graham attended group meetings even after paying off her first loan. She likes the training and peer support that are essential to the PLAN Fund process.

## Looking Ahead

Graham has big plans for MediClaims. She would like to continue building her customer base and expand operations. Her second PLAN Fund loan—for \$2,000—provided financing for a computer and printer, two items that streamline her business operations.

Graham is currently paying off her third PLAN Fund loan, this one for \$6,000—1,100 percent more than the \$500 she received just three years ago. This loan, among other things, is paying for additional medical coding training that allows Graham to keep pace with her rapidly growing industry. Her five- to 10-year plan includes moving into office space outside her home, hiring employees and expanding her business nationwide.

Graham eagerly shares her tips for success with others. She has mentored other PLAN fund borrowers in her field and assisted in their development. Currently, she chairs her peer lending group, which is composed of other seasoned PLAN Fund entrepreneurs who want to expand their businesses. She encourages her peers to "run your business like a business and work hard at it!" ■

—Diana Mendoza

To learn more about microcredit, call the PLAN Fund at 214-942-6698 or visit these web sites: [www.planfund.org](http://www.planfund.org) and [www.gfusa.org](http://www.gfusa.org).