



Alm Trang left and Cindy Lee, owner of Lovely Nails

Microcredit: An Economic Solution to Poverty

By Dr. Donna M. Heivlin for The Portland Observer

Microcredit is a commercial development model that reduces poverty and develops communities. Yet, it does not eject the current residents from their homes or require a government program. It is the loaning of small amounts, some as low as \$20 in a developing country or \$500 in the U.S., to borrowers who do not have traditional credit or collateral, the way so many "economic development" programs do. It is not charity. Organizations called microfinance institutions offer microcredit throughout the world. Typically, non-profits charge interest rates approximating commercial interest rates. These rates allow the institution to meet a large portion of its expenses.

Worldwide, over 90% of all microcredit borrowers are women. The loans are typically made to groups of women (usually five) called solidarity circles. Each group member is jointly responsible for the repayment of each member's loan. No one in the group can take out another loan until each group member repays his or her loan. Borrowers are usually required to save 5 percent of their loans. This peer-lending processes encourage borrowers to work together in planning their businesses. They also often find ways to network their businesses

so they can offer a more expanded product or service than they could alone. Repayment rates have consistently exceeded 95 percent worldwide.

The vast majority of the microlending programs are in the developing world. But, the same model works well in countries like the U.S. The difference is that in this country, the loans need to be larger starting at about \$500. The delivery of more technical assistance also is required because business is more complex, given the laws, rules, and regulations of the industrialized countries. Often the borrowers use the loan to start a small business on the side to supplement their low-paying jobs. However, as in the developing countries, the process of receiving loans, making business plans, managing cash flow, repaying loans, and saving money helps to develop management and leadership skills and self-esteem.

Numerous studies on the results of microcredit show improvements in the status of the family and improvements in the community in numerous ways. Typically, microcredit borrowers support each other in order to expand business opportunities for everyone. The availability of products and services in the community is

increased. Usually, borrowers establish credit within 3 years, and then can qualify for traditional loans. Jobs are created: the borrowers employ themselves and grow to employ others. Business networking takes place, individual and family domestic wealth grows, and the savings required by the program generate pools of funds that are used to create more microloans. So the cycle expands.

After the businesses are solvent, loans are often taken out to improve the family's housing, and the borrowers work together towards the development of their community. In the solidarity circle, they have learned leadership skills, to plan, follow through and work together. They translate these skills to improving their community.

Dr. Muhammad Yunus began giving small loans to the poor in Bangladesh in 1976. In 1983 he established the Grameen Bank, a microfinance institution. The successes of this process have been well documented and have shown overwhelming results as an economic solution to poverty. Studies show that microcredit borrowers are more likely to have larger enterprises compared to non-borrowers; have an increase in their personal income,

sense of empowerment and higher self-esteem. Studies of the Grameen Bank show that during an 8-year period, only 4 percent of the poor in Bangladesh pulled themselves above the poverty line. Conversely, among the poor with credit from the Grameen Bank, more than 48 percent rose above the poverty line.

The World Bank uses four criteria in evaluating urban upgrading programs. Microcredit receives high marks in all four areas. They are:

- Improving health, environmental, social, and economic conditions in the community;

- Ensuring that the original residents are benefiting and are not ejected after the area is improved;

- Encouraging residents to improve their houses and promote the expansion of small businesses; and

- Affordable to both government and the community.

Microcredit does not require a government program. The delivery of microcredit has traditionally been done through non-profit organizations, funded by donations. Socially responsible loans are used to increase the institution's loan capital. These are loans at interest rates of 2 and 3 percent. In the United States, some banks are providing the loan capital in response to the Community Reinvestment Act. The Act (P.L. 95-128) requires financial institutions to demonstrate their deposit facilities serve the convenience and need for credit services of the community in which they are chartered to do business, including low- and moderate-income neighborhoods. In response to this Act, some banks are providing loan capital to microcredit institutions at a zero interest rate for a number of years. For example, Colorado Microcredit has received a total of \$200,000 in loan capital from several banks at zero interest for five years.

The community benefits in all ways. The borrowers become self-sufficient, gain self-esteem, and expand the community's products and marketplace. They invest in improving the health of their families, improving their homes, and expanding their businesses. They also actively participate in their community's governance, making sure that their priorities are heard.

Making Loans to "Unbankable" Businesses

Cascadia Revolving Fund is a private, non-profit community development financial institution that provides loans and technical assistance to unbankable small businesses in Oregon and Washington.

They primarily lend to businesses owned by low-income individuals, minorities, or women that have been unable to access credit from traditional sources, such as banks.

Businesses located in economically distressed urban and rural communities, or that have significant potential for job creation, or act to preserve or restore the environment also qualify to apply for loans from Cascadia, as do community-based non-profit organizations.

The goal of Cascadia is to help entrepreneurs grow successful businesses, which in turn leads to job creation and economic prosperity in our communities. In 1999, 60% of Cascadia's loans benefited low-income people. In its fifteen-year history, Cascadia has lent nearly \$12 million to more than 210 businesses, helping to create or preserve 950 jobs. About 80% of Cascadia's borrowers are still in business and over 99% of money loaned has been repaid. Cascadia's investors have never lost money through a Cascadia investment.

Cascadia is funded by both donations and investments from the philanthropic community. Cascadia provides a unique opportunity for individuals to make high-impact, socially responsible investments. 80% of the more than 200 investors in Cascadia are individuals, while the remainder includes banks, non-profit organizations, charitable foundations, religious organizations and one government agency.

Cascadia's successful track record has been built on offering a continuum of credit and ongoing support. The technical assistance Cascadia provides to its borrowers is an integral part of their service.

Cascadia's loan officers and business consultants provide hands-on mentoring and counseling for the life of a borrower's loan. Much of this assistance is focused on improving a borrower's financial accounting and reporting.

The combination of capital and assistance is the key to helping high-risk, unbankable businesses succeed. Founded in 1985, Cascadia's main office is in Seattle. The organization opened an Oregon office, which is located in Portland's Central Eastside Industrial District, in April of 1999. Cascadia has funded more than \$500,000 in loans since opening the Oregon office, including loans to:

- Glass Alchemy, a manufacturer of special "hard" glass for the art industry, is a woman-owned company located in Northeast Portland's Columbia Corridor;

- FeatherLite Enterprises, a distributor of shoes and gloves for the workplace, is owned by an African-American and is located on NE Martin Luther King Jr. Blvd.;

- Pioneer Executive Towncar, provider of high-quality transportation to and from the airport and around town, is owned by an African-American and is located in Southeast Portland.

For more information about borrowing from or investing in Cascadia Revolving Fund, call the office in Portland at (503) 235-9635 or visit their website at www.cascadiafund.org.

Obtaining A Small Business Loan Just Got Easier.

With Albina Community Bank's **Fresh-Start Revolving Loan Fund™**, obtaining a small business loan between \$5,000 and \$50,000 has never been easier.

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With a goal to create a \$1,000,000 revolving loan fund for small businesses in north/northeast Portland, in particular minority and women-owned businesses, make the **Fresh-Start Revolving Loan Fund™** your first choice in business financing.

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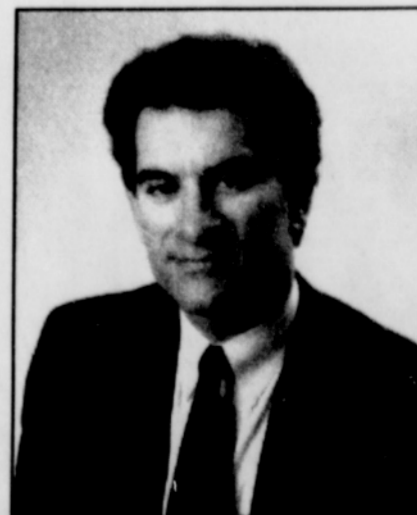
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OFFICE OF PUBLIC UTILITIES

The City of Portland is working with minority, women and emerging small business entrepreneurs to enhance employment opportunities.

We join in the celebration of *Minority Business Development Week*, an opportunity to acknowledge the successes that provide role models for our youth.

We are committed to the availability of *training* as well as the use of the *purchasing power* of the City.



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