

INTER PARES

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COMMUNITY AND CREDIT: *Creating Opportunity out of Need*

Some years ago a group of community leaders in the West African nation of Burkina Faso came together to discuss how to revitalize the economic base of their rural communities. The viability of over 80% of small family farms was threatened by soil depletion caused by insufficient rain and intensive land exploitation. Those who had attempted the transition to cash crops promoted by the government were being pushed to ruin by fluctuations in market prices, rising costs, and lack of capital.

In beginning to regain control of the forces affecting their communities, these leaders recognized that the priorities of the national government and international donors were not the priorities of the local communities. Banks and public lending institutions that were willing to offer credit imposed extreme conditions of collateral, high interest, and short terms. Small farmers, especially women, could not meet these conditions and were forced to rely on local loan sharks, or middlemen who acted as marketers and merchants. Local farmers ended up mortgaging not only their land, but even their unharvested crops, and every year more and more farmers were losing everything. Not only in West Africa, but throughout the world, this pattern has been a major factor in the crisis of landlessness and urban drift.

The conclusion of the community leaders in Burkina Faso was that if their communities were to be saved and developed, they had to create structures that were community owned and capable of generating capital and credit to meet community needs. They developed a strategy that was based not on grants and outside capital, but rather on promoting and mobilizing savings within the communities, and then using these savings to promote agricultural production and other socio-economic actions to the benefit of entire communities



Bruce Paton

and the region as a whole.

This courageous beginning has led to almost 80 self-managing savings and credit cooperatives, as well as over 30 savings clubs and study circles, with a present total of 11,000 members. While this network continues to struggle with the myriad problems that can beset community organizations confronting a rapidly changing world, their accomplishment remains enormous.

Understanding this achievement of the small farmers of Burkina Faso also helps us to understand the distinction between credit – which, if called by its true name, would be called debt – and equity, which is autonomous, non-repayable capital, subject to growth and profit.

Like the farmers of Burkina Faso, the poor throughout the world are sometimes allowed credit, but too often this credit serves only to increase their debt and distance them further from the opportunity to build equity through their efforts. Credit can be an invaluable resource. But it is not the solution to all problems, and often can itself be part of the problem.

Credit is like priming a pump. If we prime a pump in a well that is dry, we

do not get more water; we get sand. If we apply credit in unproductive activity, we do not generate capital, we generate debt and economic stagnation and ruin.

Credit is useful only when we assure that it is invested in viable production that generates a surplus on a sustainable basis. Most critically, credit creates long-term benefits only if this surplus is then available to small producers to repay the loan and begin to capitalize production themselves – that is, to begin to achieve self-sufficiency and economic independence.

Credit is a positive resource when the capital generated by productive activity remains in the community and recirculates within the local economy. Credit achieves long-term results when the wealth accumulated is distributed among the local population for further economic activity and development, rather than being siphoned off to centres of wealth at the national or international level.

This *Bulletin* explores the issue of credit and presents a few examples of Inter Pares' support for alternative approaches to community-based credit programs.

Working With Credit, When Credit Works

Inter Pares has learned a great deal in our relationship with the organizations whose work is described in this *Bulletin*. The following principles reflect some of what we have learned.

- Successful credit programs:
- are built on savings campaigns that promote both individual and community savings;
 - are group-based, with borrowers sharing the management of the fund, and the liabilities;
 - emphasize investment in productive, income-generating activity;
 - emphasize broadening and deepening the local economy;
 - have clear social as well as economic objectives, promoting the common good through community improvement initiatives.

Most credit programs that Inter Pares supports are built on revolving loan funds. Usually the management of the loan fund, and the loan decisions, involve representatives of the community. The community is responsible for repayment, either through a loan committee, or through the structure of "loan circles" (four or five borrowers who share responsibility for the loans of the individuals in the circle, with only one member holding a loan at a time). The borrower feels responsible to the community for repayment, and the community as a whole feels responsible for the success of the loans.

The credit programs of the organizations that Inter Pares supports usually also include technical assistance prior to the loan, in the preparation of loan applications, and in the implementation of the project for which the loan has been granted.

The best credit programs involve mandatory savings, and aim to build the loan fund as much as possible, and as quickly as possible, on the savings of the borrowers themselves. External assistance can help with infrastructure and technical support, and small capital grants. But ideally the capital base will come from and belong to the community, and will grow with the community – people borrowing from themselves, sharing the risk, and sharing the benefits of the success of the ventures initiated.

BANGLADESH: Putting Savings to Work

In 1987, two Bangladeshi development workers visited the village of Vishnapur and asked to meet with local women. The women of the village, curious about what the visitors had to say, gathered to meet them at the village well. The visitors spoke about their work organizing women in other villages. They explained the achievements that women's groups had made once they began to work together. After a long discussion, one suggestion that emerged was that local women organize a women's club in Vishnapur. The visitors left, promising to return the following month for follow-up discussions.

During the next month, women in Vishnapur talked about whether they should organize their own club. Some people were cautious and didn't want to get involved. Others were more optimistic. When the visitors returned the following month, almost 30 women gathered to meet them to discuss how to get started.

The Vishnapur women's club was launched with weekly meetings where

women talked about common problems. With the encouragement of the development workers, the women started a group savings program. Each club member deposited one *taka* (about 4 cents) per day into the group savings account. Over time, these daily deposits grew into a sizeable pool of funds. Within a year there were sufficient funds to begin a loans program.

The women established procedures to make loans to club members. Everyone in the group had to agree to the purpose for which the loans would be used. Interest would be charged and loan repayments would be closely monitored.

One woman used a loan to purchase three chickens. Within two months she had earned enough from egg sales to repay the loan and buy three more chickens. Another woman purchased vegetable seeds and started a kitchen garden, selling peppers and tomatoes in the market. Over the course of several years, every woman repaid her loan and interest on time.

By 1992, the loan fund was working well. The women wanted to expand their activities and get access to larger amounts of capital. With assistance from Inter Pares, the loan fund was augmented.

The first large loan of almost \$300 was granted to a young woman named Sonavan who wanted to purchase a rickshaw. Her husband pulled the rickshaw and turned over a portion of his daily earnings to Sonavan to repay the loan fund. Two years later, the loan had been completely paid off. Sonavan and her husband are now the owners of a rickshaw, a productive resource which they could never have dreamed of owning before.

The credit program in Vishnapur continues to operate and most of the women in the village are members of the club. The women are now talking about other needs – for improving the road, for a school, and perhaps even a second well. If the success of the loan program is any indication, it will only be a matter of time before they address these development challenges and strengthen their growing confidence as agents of community change.



Peter Gillespie, Inter Pares

EL SALVADOR:

Democratizing the Economy in the Barrio

Most of the families living in the marginal slums of San Salvador and other departmental capitals were displaced by the long civil war. Having little of the formal education or job training that are essential to finding employment in the formal economy, these families opted to develop their own enterprises, mainly buying and selling popular consumer products. However, the income generated by such activity is not sufficient to make them eligible for credit within the formal banking system. The only way they can obtain loans is through private lenders who charge very high interest rates and absorb whatever small profits the market sellers can earn.

With the support of Inter Pares, the Salvadoran Communal Movement (MCS), in cooperation with the Counselling Service for Support of Community Development Projects (PROCOMES), has set up a network of small community loan banks. The banks provide

credit, advice and technical assistance to enable people to take an active role in improving their own living standards.

Last year, 374 borrowers received loans ranging between \$80 and \$500. The majority of beneficiaries were women and individual heads of families. The loans were used to develop small income-generating enterprises.



Micro-Enterprise (Bicycle Shop) supported by PROCOMES

The loans are for a 4-month period at a 3% monthly interest rate. One half of the interest is paid to the community bank to build its capital, and one half is used to create a reserve fund to compensate for unpaid loans.

The credit users, with the support of PROCOMES and MCS, are actively involved in the administration of the banks and the funds. This was a critical objective in setting up the banks, and constitutes one of its most impressive achievements. This approach fosters self-management within the community, sustaining the process of communal economic and social development, with increasing levels of independence from external resources.

This work is part of the dynamic coordination of efforts by many organizations and networks in organizing for democratic economic alternatives in El Salvador.

INDIA: *Banking on Change*

The Association of Sarva Seva Farms (ASSEFA) of India has proved that it is possible to establish a banking system based on people's needs and still operate at a surplus.

ASSEFA recognized that access to credit is a critical requirement to improve people's lives. ASSEFA set out to design a credit program which would be based in rural areas, support community goals as well as individual credit needs, while ensuring that all financial resources would stay in the community rather than be siphoned off to urban centres.

The first branch of the Sarva Jana Seva Kosh (Peoples' Bank) was established in 1989 in a village in Tamil Nadu. All

members of the village were invited to purchase a share in the Bank for one rupee. No one is allowed to own more than one share. The capital of the bank consists of membership fees, community funds operated by the community council – the *gramasaba* – as well as savings deposits made by village people. The share-holders elect a management committee which oversees the operations of the bank. However, the *gramasaba* council is ultimately responsible for setting priorities and ensuring that the bank operates in the interests of the community. The *gramasaba* sets priorities for loans and may specify that amounts be set aside to meet the needs of specific groups within the community, such as women and the landless.

There are now 17 banks in villages in Tamil Nadu operating on the basis of these principles. Assets of these banks total over one million rupees. Over half of this amount has been loaned out with interest, providing a major stimulus to local economies. More than 90 percent of all loans have been repaid on time.

Perhaps the most telling indication of success is that commercial banks are beginning to complain that they are losing business. Through the work of ASSEFA, people now understand that their savings can be invested in their own communities, providing social and economic benefits to everyone.

LAND AND LIVELIHOOD: *Putting Credit in Context*



Colin Rowat

Rosa and Manuel have moved back from the Guatemalan coast to their highland home after years of displacement from military violence. They heard that credit was being made available for land purchase for some of those who wanted to resettle. With their family, they returned hoping to purchase a parcel of land on which to support themselves.

But available credit is pushing up the price of already scarce land. The amount they thought they'd be able to pay back is no longer enough to buy sufficient productive land to meet their own food needs, let alone support market agriculture and provide employment for their children. In any case, the lack of local infrastructure and access to national markets makes it virtually impossible for most peasants to develop their small landholdings to generate a sustainable income through cash crops.

So Rosa and Manuel must now make a decision: do they stay, and hope to eventually pay back a large loan? Do they go back to work as migrant farm labourers on the coast, where they face threats if they protest pay that is less than the legal minimum wage? Or do they go to the city, in the hope of finding shelter, and enough work to at least give their children an education and hope for a better future?

Why are Rosa and Manuel, and so many other families, in this situation? For several years, with the support of Inter Pares and other national and international agencies, organizations of displaced

people in Guatemala have assisted people like Rosa and Manuel to return to their communities to start over. This assistance has included credit for housing and agricultural inputs for those who have land or have formed community cooperatives. But as credit for purchasing land is becoming available from major international donors such as the United Nations, northern governments, and some aid agencies, there is less and less good land available for purchase, and prices are rising dramatically.

At the same time, beneficiaries of land redistribution in Guatemala – individual families or communities – are required to take almost all the responsibility for finding the land and purchasing it. This puts them in competition with each other on the open market, and fuels speculation. Escalating land prices mean that fewer and fewer people have the opportunity of owning land, be they refugees, internally displaced or other landless peasants.

To avoid this situation, land redistribution must be the responsibility of government. Land must be made available through the appropriation of unused or underused land, with compensation at prices related to original purchase cost and tax value, not speculative value. And the cost of finding and purchasing land should be borne not by the peasants, but by the government with funds generated by changing spending priorities and reforming the tax base. Land purchase with external funds – grants from donor governments, for example – only increases inflationary pressure further.

But land reform alone, even when well-executed, cannot provide opportunity and justice for all poor Guatemalans. Under conditions of marginal subsistence farming, in which people eat what they produce but do not generate income, credit to buy land or plant crops means only more debt, and as the land is unable to sustain them, peasants are forced to leave for the cities.

Justice lies in transforming the rural economy from subsistence agriculture to diverse local economies – including diversified agriculture, rural industry, services, markets and infrastructure – that

are integrated with urban markets and the national economy. Anything less is not sustainable, and continues the subordination of peasants.

A plan for land redistribution would also recognize that not all Guatemalans who are justly entitled to land will own land. There is not enough productive land to distribute to all who might wish to receive it. And the more people engaged in market production, the less economical it is for any one farmer. In any case, many of the peasants who fled their land long ago for the cities will not return to the land, nor will their children. Therefore agrarian reform and agricultural credit schemes can only be part of the solution to increased landlessness; attention must also be paid to generating economic opportunities and social integration for those who have left the land permanently, and have joined the wage economy, whether in rural areas or in the cities.

Inter Pares is committed to work with organizations of refugees, displaced people, and peasants as they explore these and other questions, and struggle for solutions in an increasingly complex world. And we are committed to accompany Rosa and Manuel, and other displaced families, whether as farmers, migrant farm workers, or new arrivals to the city, in their search to re-establish their lives and their communities, and to build a new future.

Montréal Community Loan Association

For some years, Inter Pares has invested in the Montreal Community Loan Association, which we helped to establish. A revolving loan fund owned and operated by the community, the Loan Association welcomes enquiries from socially-conscious investors who wish to see their investments work for the community.

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