

It takes a village to make a loan

Dennis Coday | Aug. 13, 2009 NCR Today

I have to confess, I was a bit upset by the lead story under the fold of *The Wall Street Journal* today: [A global surge in tiny loans spurs credit bubble in a slum](#) [1].

Microlending fights poverty by helping poor people finance small businesses -- snack stalls, fruit trees, milk-producing buffaloes -- in slums and other places where it's tough to get a normal loan. But what began as a social experiment to aid the world's poorest has also shown it can turn a profit.

That has attracted private-equity funds and other foreign investors, who've poured billions of dollars over the past few years into microfinance world-wide.

Microloans range from a few dollars to a few hundred. Tiny. The capitalists got involved with this "social experiment," because it offers dependable returns. The granddaddy of all microlenders, the 30-year-old Grameen Bank of Bangladesh, reports repayment rates of nearly 98 percent.

Leave it to the capitalists to screw it up. *The Journal* article continues:

Today in India, some poor neighborhoods are being "carpet-bombed" with loans, says Rajalaxmi Kamath, a researcher at the Indian Institute of Management Bangalore who studies the issue. In India, microloans outstanding grew 72% in the year ended March 31, 2008, totaling \$1.24 billion, according to Sa-Dhan, an industry association in New Delhi.

"We fear a bubble," says Jacques Grivel of the Luxembourg-based Finethic, a \$100 million investment fund that focuses on Latin America, Eastern Europe and Asia, though it has no exposure to India. "Too much money is chasing too few good candidates."

These johnny-come-latelies should have done their homework better. Catholic Relief services has had microfinance programs for two decades, reaching the poorest areas of the world.

Why have they been successful? Check out [CRS's Microfinance Principles](#) [2]. Here are a few:

Link loans to savings

We connect the size of a client's loan to the amount of that client's savings to ensure that they are building wealth as they borrow.

Use solidarity guarantees

Group-guaranteed loans replace collateral. Solidarity guarantees work by linking new loans to on-time repayment of past loans. A self-selected group of clients guarantee each other's loans with the understanding that no one in the group will receive a new loan until each member's previous loan is repaid.

Practice participatory management

Clients are directly involved in the management and administration of the services they receive, from voting on loan applications to collecting payments from other borrowers. In this way, CRS guarantees the inclusion of those most affected by these major decisions.

These microfinance principles might be summarized as: it takes a village to make a loan.

Source URL (retrieved on 01/29/2015 - 17:15): <http://ncronline.org/blogs/ncr-today/it-takes-village-make-loan>

Links:

[1] <http://online.wsj.com/article/SB125012112518027581.html>

[2] <http://crs.org/microfinance/principles.cfm>