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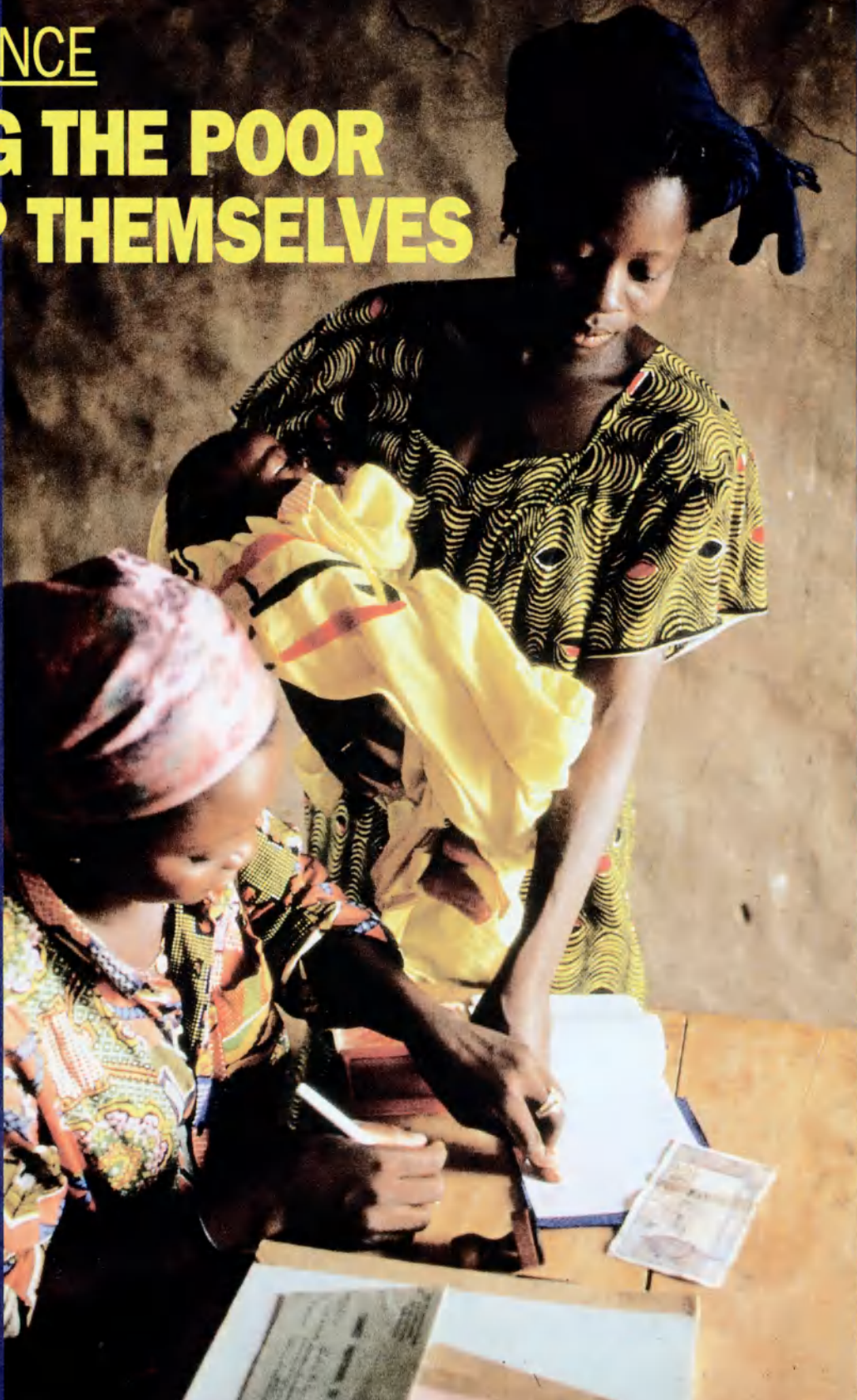
MICROFINANCE

HELPING THE POOR TO HELP THEMSELVES

INTERVIEW WITH
**JOHAN
GALTUNG**

HERITAGE:
**COLONIA DEL
SACRAMENTO
(URUGUAY)**

ENVIRONMENT:
**PEOPLE AND
PLANTS**



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E N C O U N T E R S

To our readers

Since our regular "Encounters" feature first appeared, on the inside front cover of the July 1989 issue, your talented and imaginative contributions have abundantly illustrated the range of the creative cross-fertilization that the feature is intended to encourage.

The invitation we issued then is still open to all our readers: "Send us a photo (of a painting, a sculpture, or a piece of architecture) which you regard as a good example of cultural cross-fertilization. Alternatively, send us pictures of two works from different cultural backgrounds in which you see a striking connection or resemblance. Please send a short caption with your photos. Each month we will publish one of your contributions."

In anticipation of many more rewarding encounters.

THE EDITORS



M I C R O F I N A N C E

**HELPING THE POOR
TO HELP THEMSELVES**



INTERVIEW

Johan Galtung,
*one of the founders of modern peace studies,
proposes a practical approach to conflict
resolution (p. 4).*

Colonia del Sacramento (Uruguay).
*The majestic architectural legacy
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Cover: A transaction in a loan and savings bank run by and for women in Burkina Faso.

© M. Dongny/UNFPA/REA, Paris

Johan Galtung

Peace education is only meaningful if it leads to action

Professor Johan Galtung, of Norway, is one of the founders of modern peace studies. He established the International Peace Research Institute, Oslo (PRIO), in January 1959 and the *Journal of Peace Research* in 1964. He has published over 70 books, the most recent of which is *Peace by Peaceful Means: Peace and Conflict, Development and Civilization* (Sage Publications/PRIO, 1996). Here Johan Galtung talks to the *Courier* about the guiding principles of his career as a peace theorist and a peace field-worker. Interview by Natascha Batić

■ **What is the educational purpose of peace studies?**

Johan Galtung: A major focus of peace education is to enable and empower people to handle conflicts more creatively and less violently. This is what I mean by peace education, and a lot of knowledge and skills, theory and practice are required for it. Peace studies is an applied social science, just as medicine is applied anatomy, physiology and pathology. It is only meaningful if it leads to action. The goal is not more books, but more peace.

■ **How are peace studies structured?**

J.G.: To understand peace and violence we need to consider basic human needs—for survival, well-being, freedom and identity. Development aims to promote those needs; violence insults them; peace preserves them.

As I see it there are three types of violence and hence three types of peace: direct, structural and cultural. Direct violence insults human needs with the deliberate intention to hurt and harm; structural violence does so more indirectly. Cultural violence is symbolic and refers to those aspects of our cultures that are used to legitimize direct or structural violence.

These three notions can be taught dialectically, with their negations—direct peace, structural peace, cultural peace. It makes no sense to focus on only one of them. Conflict is part of a double, yin/yang totality: both Creator and Destroyer. Deep inside a conflict there are one or



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more contradictions or incompatibilities. When handled creatively they can be the driving force of human social and moral development. Gandhi is a rich source of creative and non-violent inspiration for the theory and practice of both sides of conflict.

■ **When did peace studies become a university discipline?**

J.G.: Sometime around the late 1960s and the early 1970s. Today the subject exists in some form in at least 500 universities and colleges around the world, but mainly as a theoretical, literature-oriented subject.

Two leading centres for peace studies are the European University Centre for Peace Studies (EPU) and particularly the courses in civilian peace-keeping at the Austrian Study Centre for Peace and Conflict Resolution in Schläining south of Vienna (which won the UNESCO prize for peace education in 1995), and the Institute for Conflict Analyses and Resolution at George Mason University in Fairfax, Virginia (U.S.A.). Theory and practice go hand in hand in each of

these institutions. But many other places are coming up. We need at least 1,000 of them with at least 10,000 graduates a year.

■ **What teaching methods are used?**

J.G.: They are not so different from those used in medicine. Theoretical work has to be combined with case studies and practice, but students should only go into the field when they are ready. Many do this too early, as amateurs or dilettantes, sometimes causing harm. Most never get closer to reality than some university library. (There is room for those, too.)

But it cannot be said too strongly that peace studies must be action-oriented and empowering for ordinary people in civil societies.

■ **What do you think of the idea that conflicts should not necessarily be avoided or suppressed, but that violence and destructiveness call for positive intervention?**

J.G.: This is a truism. In a sense it's a bit like saying "weather should not necessarily be avoided or suppressed, but destructive, violent weather calls for some protection". It makes me think of politicians and diplomats who talk about "conflict" when they actually mean "violence", and "peace" when they mean "cease-fire". Such sloppy talk makes people fail to see a conflict before it erupts into direct violence—and then they only see its negative, destructive aspect. There is also a common failure to see that the situation after a cease-fire is usually worse than before the violence because of the invisible damage of violence, for instance to structure and culture.

■ **Is there a difference between 'positive intervention' and peacekeeping, peacemaking or peacebuilding?**

J.G.: There certainly is! I would prefer people to be empowered for self-intervention rather than some managerial top-down intervention by others. Positive intervention should be creative, non-violent and empathic. People should know how to do it.

■ **What do you feel about peace enforcement?**

J.G.: This is a very last resort, like a surgeon carrying out an amputation. The term stands for violence, and in my experience violence breeds violence, regardless of how many Security Council



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resolutions and “advanced democracies” stand behind it.

■ **One definition of conflict resolution is to use conflicts non-destructively and creatively ‘to promote needed social change’. Is social change an inherent part of human experience?**

J.G.: To me daoism gives the answer to this question. Contradiction is inherent in all life, and hence conflict is ubiquitous. Human needs and wishes are enormously complex. Society is simpler, structured in response to formulas deep in the culture, and incapable of catering to all these needs and wishes. Some of them will be repressed and hence contradictions will germinate. Sooner or later they will surface in attitudes and behaviour and lead to social conflict. Social change will be demanded to solve some problems, at the expense of creating others. And so on. That process is called history.

■ **When is social change necessary?**

J.G.: When the basic needs of human life and life in general have been insulted or there is a threat thereof, and when this is a structural/cultural process, i.e. not just the result of the whims of some ruler or ruling group. Democracies handle this better than non-democracies. That is why we need human rights, the whole repertory of the International Bill of Human Rights, to intervene at the bottom of societies and protect minorities. The problem is that so far we have only heard from the West; we also need the contributions of other civilizations.

■ **What is your own theory of social change?**

J.G.: I could never be the slave of only one theory; I try to be eclectic. Peace studies take you along all kinds of highways and byways. *Ars longa, vita brevis*. My theories are relatively complex, and in any concrete situation I would use as many of them—and others—eclectically, as I would find necessary.

In the late 1950s and early 1960s I worked on rank-concordant, feudal and -discordant systems in order to locate sources of social change and on ways in which concordant world structures combine into highly rigid, imperialist structures.

Since then I have been working on various forms of violence, visible and invisible, and their peace counterparts; and on the theory and prac-

tice of reconciliation after violence. And also on deep cultures in various civilizations or social cosmologies as I call them, in an attempt to trace their impact on macro-history, particularly for peace and conflict and development, including the destruction of the social fabric, values and norms which is so rampant today. I have also been concerned with pathological cosmologies and possible therapies; with the collective subconscious of various nations, and with hard-soft and transcendent-immanent aspects of religions and other cultural manifestations.

In philosophy I have been concerned with apodictic thinking in the Occident and its role in utopianism and fundamentalism; especially as this is expressed in the leading ideology of the West today, economism based on ego-centric cost-benefit analysis. In political science I have worked on the origin of the state system from feudal times and its pathologies. In economics I have been particularly concerned with externalities and how they can be internalized in an equitable manner, both within and between countries in new trade theories. As a futurist I have been concerned with better, less violent social and world systems. All of these are or can be read as theories of peace and social change.

As a peace and conflict worker I have also been concerned with the fascinating steps involved in putting theory into practice; including my own efforts in twenty-five conflicts. So far.

■ **Can social change arise from a natural, spontaneous movement rather than force?**

J.G.: Sometimes it is natural, spontaneous; sometimes it is very deliberate. Sometimes it is non-violent, sometimes violent. I believe in deliberate change to reduce *dukkha* (suffering) and bring about *sukha* (happiness, enlightenment) as a Buddhist would say. It does not come by itself. Working for this is itself *sukha*.

■ **Is humankind doomed to live in a perpetual state of crisis?**

J.G.: No. Problems yes, crises no. There is no reason to be apocalyptic. Some problems, even crises, are solved; others arise, hopefully at a higher level, although I am far from sure of that.

■ **How should we learn to discard the old and live with the new peacefully?**

J.G.: I don't think we should. The point is not old/new but *dukkha/sukha*. Monks in a monastery often know more about this than people surrounded by possessions. And yet I do not think their truth is universal. I am a strong believer in pluralism, not only in ideas but in social formations, as long as they are nonviolent. The basic problem is not to do things that cannot be undone. Our action should be reversible. We may be wrong. If we do something irreversible that is also wrong, we create violence for those who come after us. Reversibility is for me a much better guide than universalizability. Non-violence follows from this principle since we cannot recreate life.

■ **When traditionally determined role relationships are disrupted, what is the role of culture as a means of understanding and communication?**

J.G.: That kind of disruption happens all the time, and the result is what Durkheim called anomie, an absence of compelling values and norms. People then seek old or new sources of meaning, and many find them in what others call sects and try to discredit as "fundamentalism". We shall get much, much more of this as we go on destroying not only cultures but old social fabrics in the name of globalization, creating a society of empty monads, what I call "atomic".

■ **What role should international organizations play in this situation?**

J.G.: I see more possibilities for non-governmental organizations (NGOs) than for inter-governmental organizations, given the pathologies of the state-system, particularly the narcissistic and paranoid behaviour of certain "big powers". I think it was an act of genius on the part of the United Nations to give NGOs a voice during major UN conferences. This is our world civil society, our world public space. The NGOs will have to come to grips with the devastating impact of what passes for free markets, including labour flexibility on a global scale. The system is now creating mass unemployment and misery on a hitherto inconceivable scale, trying to destroy all alternatives. On the other hand, as I pointed out above, the alternatives will themselves bring in their wake new problems that will also have to be taken seriously. Such is life.



Johan Galtung conducts a seminar.

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■ **What can be done to make education for justice and peace efficient at grassroots level?**

J.G.: I think most of this education is invisible. The major teachers are still the mothers, the kindergarten workers, the millions teaching in elementary and other schools, the religious people in their churches, mosques and temples, people running organizations in a participatory manner, and many others. But often their messages are harsh, exclusive, filled with hatred.

■ **What is the impact of a worldwide form of communication to which there is no equal access?**

J.G.: There never has been a form of communication with perfectly equal access. The range, speed and volume were always unequally distributed. But, if other social goods like education and money are reasonably distributed, then communication will follow, like the red telephones that dot the Japanese land- and city-scapes and are accessible to almost everyone. I am more worried about one-way communication like TV, and the enormous amount of disinformation traveling on those famous highways, all the virtual realities we are encouraged to confuse with the reality where real people meet their real *dukkha* and *sukha*. That is the world we live in and peace studies try to come to grips with one bundle of problems: violence. Communication is one of the tools. Education, formal and informal, is another. I see that as a source of light in our dark century. ■

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between pages 2-3 and 50-51.



For most of us the words finance, credit, savings and investment call to mind the world of big business and banking activities on a very large scale. The idea that these major financial circuits could somehow be miniaturized might seem to fly in the face of reason. For some time, however, this is what has been happening.

Finance and poverty no longer inhabit two different worlds. On every continent tens of millions of families who once lived on the margins of society now have access to facilities for credit, savings and investment on a very small scale. The term microfinance has been coined to describe their transactions. So important has microfinance become that a world summit is being devoted to it this coming February in Washington, D.C.

What has happened to bring about this departure from traditional banking practice? What are the real conditions that underlie this change? What can be expected from it, especially as a weapon in the war on poverty? This issue of the *UNESCO Courier* attempts to answer these and other important questions about microfinance.

No one imagines that microfinance is a panacea for poverty. But it can indubitably bring hope to men and especially to women, many of them illiterate, whose economic activities have hitherto been so precarious and sporadic that they have never been statistically recorded. The hope is that they can break out of the vicious circle of destitution and escape from the humiliations of lifelong rejection by society.

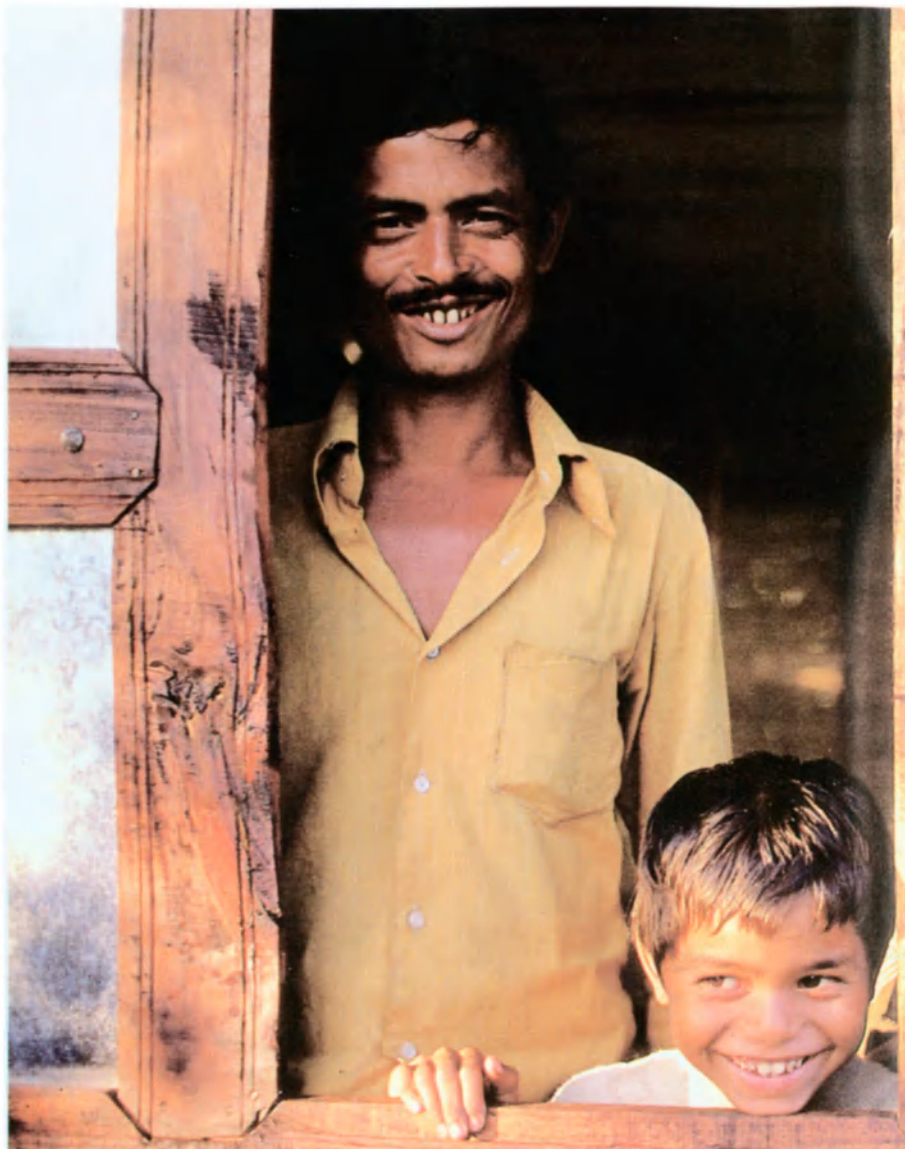
But what is really new is not that these people are beginning to feel the stirrings of hope, but that certain banks are starting to take them seriously and are responding by reviewing their goals and methods and adjusting to the demands of small-scale economic activity.

Perhaps this is because poverty in many countries has reached such proportions that it is threatening to throttle economic activity, destroy social cohesion and sabotage development. When the gap between poverty and prosperity becomes so flagrantly wide, when the numbers of the unemployed, of society's outsiders and rejects become so high, there comes a moment when the only question worth asking is what can be done to bring them back into the community. ■

REACHING THE UNREACHED

BY SAYEEDA RAHMAN

Hard-headed microfinance institutions are showing that lending money to the world's poorest people is a realistic option



Over the past two decades, local institutions in different parts of the world have developed innovative mechanisms to provide credit and savings facilities for those who were traditionally excluded from the formal financial sector. These “microfinance institutions” (MFIs) have devised original financial services delivery systems for the very poor and have succeeded in reaching segments of the population previously unreached by such facilities. They have demonstrated that, contrary to conventional wisdom, the poor are good credit risks and have high savings propensity.

MFIs are now operating in rural and urban areas of Asia, Latin America and Africa within a wide range of social, cultural and economic environments. They use different methodologies, have a number of institutional arrangements and exist in a variety of policy settings, but share a common concern: the alleviation of poverty.

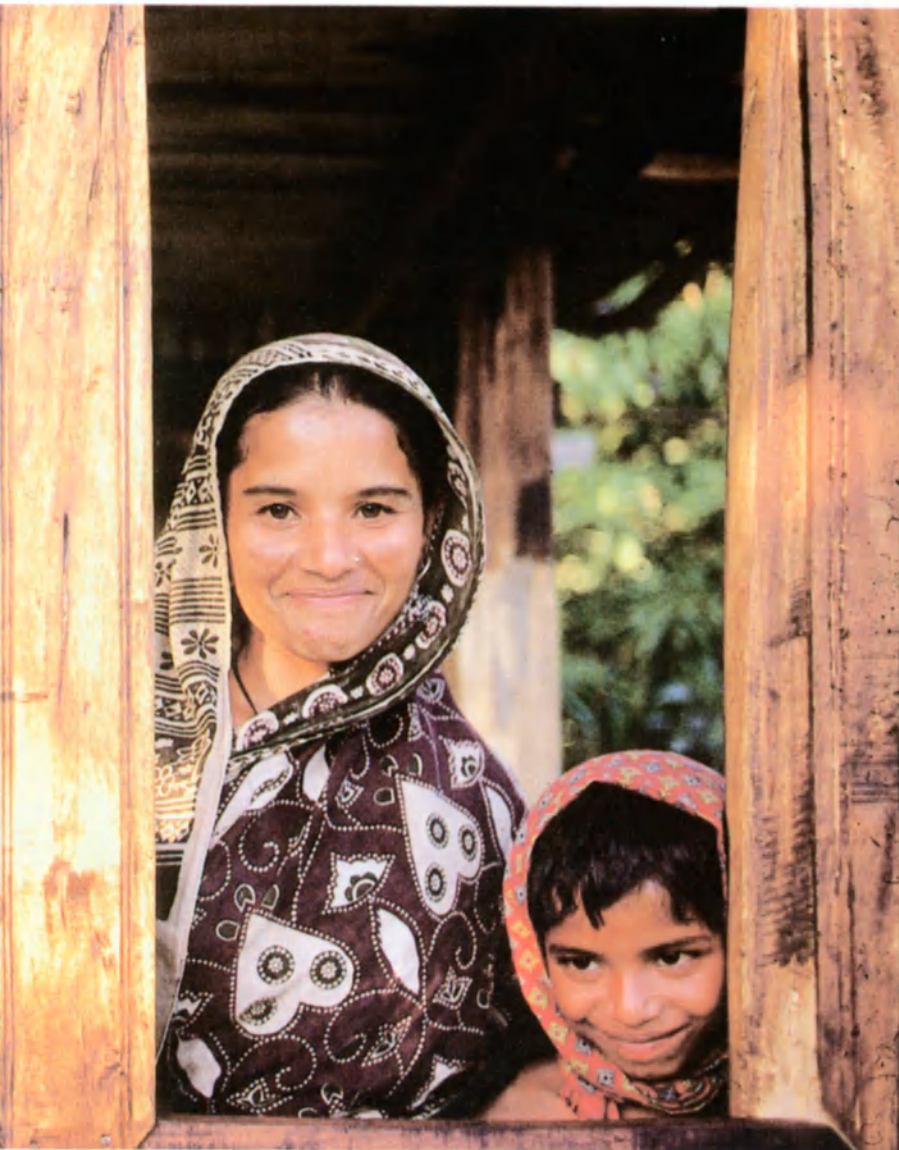
The methodology most frequently used

by the leading MFIs is that of “group lending” to units ranging in size from small three-to-ten member “solidarity groups” to village banks composed of approximately thirty to fifty members. Group members collectively guarantee loan repayment, and access to subsequent loans is dependent on successful repayment by all of them. Risks and administrative costs per borrower are thus reduced and the group guarantee serves as a substitute for collateral requirements.

Growing demand

MFIs provide very small short-term loans, usually for twelve months. The prospect of subsequent larger loans is a strong motivation for repayment. Although most MFIs charge a relatively high rate of interest, the repayment rate is notable and demand is increasing, suggesting that it is not the cost but the timely and continual availability of microfinance which is important for poor clients.

The initial focus was on micro-credit facil-



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A loan from the Grameen Bank enabled this family in Dhaka (Bangladesh) to build a new house.

ities, and it tended to be forgotten that provision for saving can be as important as credit if not more so, for poor rural households. In more recent programmes, however, increased attention is being paid to mobilizing voluntary savings in order to make loans more widely available.

MFI's are based on the principle that provision of financial services for the poor must be situated in localities close to the clients, and function as a set of small local units linked by a central body. Several of them have made a specific policy decision to target poor women, first because access to resources and services is even more difficult for them than it is for men, and second because of their stronger repayment performance and willingness to form groups.

Although successful MFIs in different parts of the world have removed conventional misconceptions about the "bankability" of the poor, it must not be forgotten that their services do not reach the majority of the world's poor. Having overcome the initial obstacles to

obtaining funds and authorization to set up their programmes, the MFIs thus face the challenge of expanding their operations. With this in view they are trying to reach a stage where, independent of external funds or subsidies, all their costs are met from interest charges, and loan capital requirements are met by borrowing from local commercial sources.

So far, only a handful of commercial banks have shown interest in taking on the microfinance client group. This is because the legal and regulatory framework within which the formal financial institutions operate is not favourable to microfinance practices. Policies which maintain interest rates artificially low, especially for credit to the poor, do not allow the banks to cover their costs and so they have remained outside this field. A fresh approach to this question would encourage the formal banks to extend their reach to sections of the population they have hitherto ignored.

Social and cultural support programmes

Non-governmental organizations (NGOs) have played a vital role in channelling credit and other services to the poor, and growing numbers of them are moving towards transforming themselves into full-fledged institutions specializing in finance. NGOs working at the grassroots level can help commercial banks to reach the poorest clients in remote areas and, where required, monitor, supervise and collect loans.

But in order to alleviate poverty for more than a billion people today, progress in the field of microfinance will have to be complemented with supporting programmes and services, notably taking into account the social and cultural dimensions of development. The responsibility for devising mechanisms to ensure that these additional services also reach a maximum number of poor households resides not with the MFIs but with other development partners.

UNESCO is exceptionally well placed to take up this challenge. It can contribute to the campaign to explore ways and means of increasing access to microfinance for the poor on a commercially viable basis and to develop new techniques for providing appropriate services to this difficult-to-reach population. With this in view, UNESCO has entered into a co-operation agreement with the Grameen Bank (see page 23). It envisages similar forms of collaboration designed to support the clients of other successful MFIs with complementary programmes in the fields of education, science and technology, and culture and communication. ■

A NEW WEAPON IN THE WAR ON POVERTY

BY JOSÉ GARSON

To be fully effective, microfinance must slot into a broad strategy for cultural, educational and social development

It all began with a simple question. What operational definition can governments or co-operation agencies use for poverty, independently of the sufferings of the needy? In other words, what should anti-poverty programmes try to do and how should their success be measured?

After some hesitation, economists came up with a practical definition that incorporated scales of poverty and measured progress in alle-

viating it. A person who has a much lower income than that of the rest of the population and who is deprived of any real access to basic services (health, lodging and education) is regarded as living in poverty. In a given population, the poor are those whose incomes are lowest and who therefore consume least. They are those who have the worst quality of life, since they are excluded from the public services which the state provides for its citizens. Poverty alleviation, in this context, means focusing on a precise target—those sections of the population with a much lower income than the rest—via these two parameters. A poverty alleviation programme achieves its goal if it produces a sustainable increase in the income of the poorest segments of the population.

Village women in Burkina Faso learn the basics of accountancy.



Self-help projects

Of course formulating an operational definition does not mean that we have the financial muscle to get rid of poverty. Developing country governments and co-operation agencies do not possess sufficient resources to grant subsidies that would sustainably increase the income of each person defined as poor. Any large-scale increase in the income of needy people must come from elsewhere.

Very early on, some developing countries—mainly in Asia—realized that this “elsewhere” could be the poor themselves, on condition that they were associated with poverty alleviation policies. After all, they reasoned, many needy people have sufficient initiative and energy to devise small projects or activities that, once underway, could increase their income. By providing successive increases in income, such projects could gradually lift these people out of poverty without direct and massive state intervention.

Before this could happen, obstacles to the creation of small projects had to be identified, and the poor who so wished had to be pro-



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vided with the wherewithal to get round them. One of the chief obstacles was credit, which banks do not usually channel to small-scale projects, especially those undertaken by the poor, who are by definition not very credit-worthy. By granting credit selectively to the enterprising poor, governments and co-operation agencies hoped to initiate a sequence of events that would lead to the creation of income-generating economic activities, thereby

Above, a training centre in Ghana where women learn craft skills and receive loans to help them start up small businesses.

The main challenge for microfinance will soon be cultural, educational and social." Below, an outdoor lesson in Nepal.

alleviating poverty. Here was the first link between credit and poverty.

From credit to savings

But generating additional income by granting credit to the working poor only alleviates poverty among a small part of the population. What about the rest, the overwhelming majority? Credit is of no use to this majority, but savings certainly are.

To understand this, it is necessary to analyse what actually happens in the poorest and most isolated parts of developing countries. In these regions all monetary transactions are made in cash. Since there are no banks, people have to keep all their possessions with them. A transaction can only be completed if each party to it has a wad of notes, with the concomitant risk of loss and theft. At best, someone who wants to "invest" his savings can do so by purchasing an animal. In these circumstances it is difficult for the very poor to accumulate sufficient resources to escape from poverty. The absence of institutions that make it possible to transform cash into a deposit and then into savings is a hidden but genuine reason why poverty is so intractable and persistent. ▶



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At a centre in Daghestan, a Chechen refugee woman makes duvets to sell on the market.

► The poor cannot save effectively and transactions between them involve countless difficulties because there are no on-the-spot financial intermediaries to provide the basic financial services that would permit the emergence of economic activities to lift their region from poverty.

In addition to credit, then, microfinance—the process which encourages the development of financial intermediation at the local level—is one of the most powerful weapons in the

struggle against poverty and economic isolation. Banks, specialized non-governmental organizations (NGOs) or a combination of the two are the architects of this development.

The next steps

In the traditional method of doing business or saving, a poor person needs common sense but does not need to know how to read or write. On the other hand, in a relationship with a financial intermediary—and in the world that the financial intermediary gradually creates around itself—people must become literate; they must participate culturally in the world of reading and writing. Traditional businessmen carrying their money in their pockets transact business which is their own affair and no one else's. When they open a bank account, however, they must understand that the money they deposit is also going to serve others—the people to whom the bank issues credit. They must understand that this money is both theirs and other people's. They must recognize and accept a fact of life of which they were ignorant.

This explains why the arrival of microfinance is profoundly disturbing for some soci-

A cotton spinner in Laos.



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eties. The mechanisms of traditional relationships with self, others and the community are shaken. The very structure of language can become an obstacle, as in some southern African languages where the same verb designates the act of borrowing and lending. Co-operation agencies must therefore be cautious and avoid prejudice. A credit scheme in which 40 per cent of borrowers do not repay their loans is not necessarily a bad scheme in itself. If four borrowers out of ten have not kept their end of the bargain, it is because repayment of a loan within a given time frame is behaviour that is not innate but is acquired culturally in societies where borrowing is widely practised. A good scheme must take these factors into account in its initial analysis of the local population's needs.

The challenge

Microfinance's main challenge will soon cease to be financial and become cultural, educational and social. Bilateral and multilateral co-operation agencies working with the World

Bank and the leading microfinance networks have met to examine all the financial questions that microfinance can raise. In two or three years' time, the different methods of implementing microfinance systems will all have been tested.

The next step will be to build on the far-reaching revolution begun by the Asian pioneers, Grameen and Bank Rakyat Indonesia (BRI), continued by others such as BancoSol in Latin America and taken further by African initiatives such as the Kenya Rural Enterprise Programme (K-Rep).

Microfinance opens doors by creating solidarity groups, by insisting on the need for personal repayment disciplines and by thinking of individual activities in social terms. If it is to develop, action must be taken to promote literacy, education, craft learning and health care among the populations it is aimed at and via the social structures it has set up.

Only this cultural, educational and social development will keep microfinance in sight of its original purpose and ensure that it remains a weapon in the war on poverty. ■

Fishermen's huts on the banks of the Mekong River.



© Michel Huteau/ANM, Paris



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THREE GOLDEN RULES

BY MARÍA OTERO

Keys to success for microfinanciers and their clients

Above, women tea pickers on a plantation in central Sri Lanka.

Tiny economic units operating at the margin of the “modern” sector or outside it are the major source of employment in urban areas throughout the developing world. In some cities, more than half of the economically active population are employed in these “microenterprises” as carpenters, shoemakers, street vendors, trash recyclers, and in innumerable other businesses of varying sizes and sophistication.

Microenterprises operate outside the laws and regulations that govern formal business activity. They are not licensed as businesses, generally do not fulfil the legal labour requirements (social security, benefits, taxation), and

operate informally, often employing non-paid family members. Other characteristics include a lack of division of labour or specialization in the workplace, lack of accounting procedures, serious limitations in accessing capital, the prevalence of businesses located in the owner’s home, and more important, the lack of access to information, technology, training and bank credit.

Although some microenterprises belong to relatively well-to-do individuals, the vast majority of their owners come from the poorest sectors of the population and have seldom completed secondary education. Most microentrepreneurs live in the slums of large cities and therefore lack access to public services and to adequate housing.

The technology for lending to microenterprises has improved greatly in the last few years through the work of such institutions as Bank Rakyat Indonesia (see page 24), the Grameen Bank (see page 20) and ACCION International (see page 28). The lending

schemes run by these institutions share the following core characteristics that make them highly effective:

- **Familiarity with the market.** Microenterprise institutions know that the poor are willing to pay for access and convenience. Their major need is for small short-term loans to cover working capital needs and liquidity constraints.

Microentrepreneurs need these loans quickly with little paperwork or other time-consuming requirements. Microenterprise institutions locate branches near the client, provide simple application procedures and disburse funds quickly. The institutions charge interest rates that are higher than commercial banks, but much lower than the moneylenders who are the major source of credit for the poor.

- **Techniques to cut administrative costs.** Successful microenterprise institutions use the simplest procedures to distribute very small loans. Loan applications often fit onto one page, and approval processes are decentralized. Most institutions use group lending techniques in which borrowers guarantee each others' loans and also assume part of the loan processing burden. These groups are often comprised of three to five individual microentrepreneurs and are modeled on the informal savings and loans groups that exist throughout the world. The group—known as a solidarity group or peer group—receives a loan via one transaction, divides it among its members and assumes responsibility for managing the loan.

- **Techniques to motivate repayment.** Microenterprise institutions also use small groups as mechanisms to assure repayment by everyone in the group. The promise of repeat loans in increasing amounts is available to those—whether in individual or group lending schemes—who pay back on time. This assurance of continued access to credit is a powerful incentive that has enabled effective microenterprise institutions to maintain very low loan loss rates, often below 2 per cent.

The application of these lending principles enables microenterprise institutions to accomplish two key goals: to expand their outreach so they can reach tens or hundreds of thousands of borrowers; and to cover their costs through the income earned, thereby becoming self-sufficient in the long term. The most advanced institutions have demonstrated that they can cover their operational and financial costs and therefore are able to make the transition from donor money to borrowed funds from commercial lending institutions. ■

FINANCE FOR THE NEEDY

The **Grameen Bank** (Bangladesh) is probably the best-known micro-finance institution in the world. It started as an action research programme in 1976 and was transformed into an independent bank by government ordinance in 1983. Operating throughout rural Bangladesh, the Grameen Bank mainly serves very poor women. (See page 20)

The **Bank Rakyat Indonesia (BRI)** is a state-owned commercial bank. BRI's Unit Desa (banking) System is an extensive network of unit-banks operating throughout Indonesia as an independent profit centre. The voluntary savings scheme which it designed mobilizes considerable amounts of savings, and loans are fully financed by these deposits. The Unit Desa is a significant source of profit for BRI. (See page 24).

The **Kenya Rural Enterprise Programme (K-Rep)** was established in 1984, and in 1987 became a non-governmental organization (NGO) working in both rural and urban areas. Initially K-Rep promoted Kenyan NGOs' credit programmes by providing grants, training and technical assistance and later developed its own direct lending programme. (See page 30).

The **Foundation for International Community Assistance (FINCA)** is a U.S.-based nonprofit organization that specializes in rural credit. FINCA developed the village banking methodology and administers programmes using this methodology in different parts of the world. (See page 32).

Banco Solidario, S.A. (BancoSol) started operations in 1992 as the first private commercial bank devoted solely to microenterprises. It operates in major cities throughout Bolivia. BancoSol grew out of PRODEM, an NGO affiliated with ACCION International, a U.S.-based non-profit organization. (See page 28).

Sayeeda Rahman ■

WHERE CREDIT IS DUE...

BY ROBERT PECK CHRISTEN

Microcredit cannot succeed without economic opportunity

Have you ever tried to sell half a goat without killing it because you only needed ten dollars? The question may seem absurd but it sums up a dilemma that faces many poor people in the developing world. Saving and lending are part of their everyday lives, as they are for the rich. However, economists would say, they have fewer options than the rich for managing their liquidity through financial instruments and they save in inferior stores of value—such as goats and construction materials.

For the privilege of having more money up front (loans), you pay. This is because the lender cannot be totally certain that you will be able to fully repay the amount advanced against your future cash flow and probably has other opportunities in which to invest the money advanced to you. The borrower's greatest concern is not what interest rate I am going to charge him or how profitable the venture will be that he undertakes with my resources, but rather, when and how much will he have to repay. A very profitable business opportunity or a great personal need may have motivated

him to borrow a certain amount in the first place. Maybe the quality of my credit service made him choose me over my competitor. But ultimately, his decision to enter into a credit agreement with me has much more to do with whether I can offer him repayment terms that coincide with his projected cash flow so he can meet his payments safely.

Going the whole hog

To use a common example from microlending. Many village banking programmes lend tiny amounts of money to very poor women so that they can initiate an economic activity such as fattening a hog. Most of these lending methodologies require repayment on a weekly or monthly instalment basis since this technique seems to reduce the levels of default among borrowers. In fact, repayment levels among women who fatten hogs they buy on credit is very high.

But where do they get the money to repay the loan? Clearly it can't come from the hog. It must come from some other income source. In fact, we often see careful microentrepreneurs setting the amount of their instalment loan payment to the value of sources of income they receive on a steady basis such as rent from property they own or salaries someone in the household receives, irrespective of the cash flow they expect to receive from the investment activity carried out with the loan.

When does a microloan generate economic "development", if it essentially fulfils a cash flow management function?

It can do so in a number of ways. When the up-front nature of a credit relationship allows microentrepreneurs and small farmers to take advantage of a specific economic opportunity, they can increase their incomes. When, through access to credit, borrowers reduce their costs by purchasing in larger volumes, take advantage of sales of discounted merchandise, and replace an

Members of a craftswomen's savings and credit group meet in Sumatra (Indonesia).





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Above, a baby sleeps in a hammock strung above a bed of apples in the Xinjiang region of western China. Many microenterprises are home-based family businesses.

informal moneylender, they can generate an immediate increase in income. Microentrepreneurs may also use a loan to increase their sales by financing their clients to allow them to pay in instalments for the goods they have purchased. Credit may allow borrowers to increase their productive or commercial capacity through the purchase of major assets more rapidly than would be possible through the simple reinvesting of the proceeds of their businesses. Credit may allow them to undertake activities which they would otherwise not have the resources to finance.

An enormous number of microentrepreneurs,

This Togolese hairdresser joined a small enterprise development loan programme in order to take part in its savings scheme.



© B. Press/Panos Pictures, London

small farmers and fishermen, and others who earn their living independently could benefit from the efficient provision of microcredit services on the part of specialized financial institutions. They cannot take advantage of economic opportunities that they see out there, because they do not have access to rapid and appropriate sources of finance at reasonable rates of interest. This fact has led many to enthusiastically endorse the idea that "credit creates economic opportunity, hence development".

A dangerous illusion

This simplistic belief lies at the heart of the failure of many microcredit schemes to achieve high repayment rates. The sponsors and administrators of these failed programmes forget that it is economic opportunity that creates greater income potential and, eventually, prosperity. Only when credit allows individuals to take advantage of economic opportunity can it contribute to prosperity.

No amount of credit to small farmers who produce traditional staple crops has allowed them to leave poverty behind, as long as farm gate prices remain depressed to favour urban consumers, rural marketing and physical infrastructure remain undeveloped, and rural technology remains inappropriately simple. Rather, rural credit programmes to traditional farmers with strict repayment enforcement could very easily wind up removing peasants from their ▶

- ▶ land once their indebtedness reached unacceptable levels.

Successful microenterprise credit initiatives over the past twenty-five years have focused their loans on target groups who, through credit, could gain access to real economic opportunity. Concretely, most concentrated their lending in non-farm enterprises that had been in existence for at least one year prior to the loan, and that demonstrated a clear repayment capacity.

These programmes have funded individuals and the cash flow of their ongoing business activities. By considerably shortening average loan terms, they opened the opportunity to re-lend to the same clients greater amounts if their business had prospered with the original loan. If, on the other hand, as frequently happens, the projected increase in sales failed to materialize, the loan repayment was not necessarily jeopardized since it was based on the cash flow stream of the original level of business activity.

Encouraging results

An intuitive grasp of the essentially fungible nature of loan funds led the organizers of these programmes to the conclusion that it was fruitless to spend great effort tracking the end use of funds, once disbursed. Instead, they saw the merit of developing a long-term relationship with clients and found that by getting to know them over a series of financial transactions the credit risk would be considerably reduced. They developed community or peer group based lending technologies that generated information about potential participants' willingness to repay and generated incentives to do so.

These approaches produced results. Better programmes were routinely able to produce and sustain repayment levels above 98 per cent. Since the loans went to low-income individuals who, through credit, gained access to real economic opportunity, it was possible to charge sufficiently high rates of interest to fully cover operating costs. When programmes recover 98 per cent of their loans and more than cover their operating costs, they can grow exponentially and serve ever greater markets. Furthermore, the history of economic development has clearly shown that a well functioning financial system will make a big contribution to overall local prosperity as confidence in financial systems increases the pool of local savings and the availability of resources for investment. ■

Heads held high, a group of Grameen Bank members in a village near Dhaka, the capital of Bangladesh, give a purposeful salute that symbolizes their refusal to accept poverty and submission.



© P. Lisacek/CRIC, Paris

The founder of the Grameen Bank describes the genesis of a pioneering institution that has encouraged the social and political emancipation of needy women in Bangladesh

In 1972, the year after Bangladesh became independent, I began to teach economics at one of the country's universities. Two years later the country was hit by a devastating famine. On the campus I was teaching complicated theories of development while outside people were dying in hundreds. Conventional economics suddenly seemed hollow. The classroom was a world apart from the reality of poverty and struggle outside. I left it and stepped out into the villages of Bangladesh.

I started talking to people for whom life was an endless struggle for survival and learned things that I had never encountered in textbooks. I met a woman who worked hard making bamboo stools. At the end of each day she had made only two pennies, hardly enough to buy two decent meals. I could not understand how anyone could work so hard for so long and receive so little. I found out that to



A BANK FOR THE POOR

BY MUHAMMAD YUNUS

buy her raw material she had to borrow from a trader, who took most of the money and left the woman with very little. I realized that if the money she needed were available at normal interest rates the woman would earn enough to reinvest and make higher profits. She could earn a decent living and escape from poverty.

I spoke to forty-two other people in the village who were trapped in poverty because they were dependent on loans from traders and money-lenders. Their total credit requirement was only thirty dollars. I lent them the money out of my own pocket. I thought that if normal banking institutions would do likewise, these people could leave poverty behind. However, conventional banking institutions do not make loans to the poor, especially to rural women.

The bankers I met laughed at me. They did not think it was their business to hand out

small amounts of money to the poor. They did not think it was possible to hand out money without collateral. Since poor people by definition had no collateral, the banks refused to deal with them. I went from one bank to another. They all said the same. I offered to act as guarantor for the loans. This was acceptable to them for a few more loans, amounting to a few hundred dollars.

All the poor people who contracted these loans repaid the money. I went back to the banks, showing this as proof that poor people repay their debts and that there was no need to insist on collateral. The bankers said, it may work in this one village but it wouldn't work in many. I tried the same scheme in many villages. All the poor people who borrowed paid back. I went back to the banks. They said it may work in a few villages but it won't work in an entire district. So I extended the scheme to an entire district. It worked. The banks remained unpersuaded.

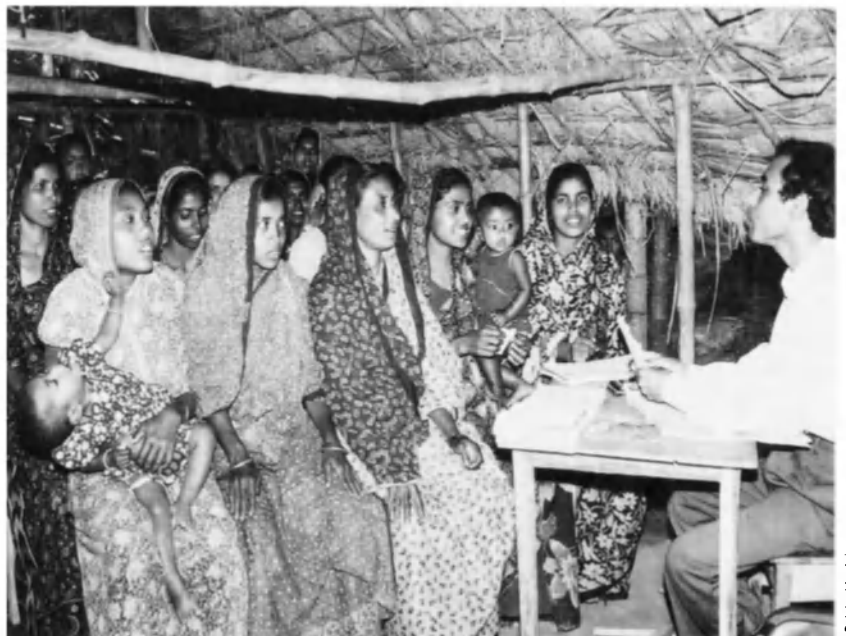
I said to myself, why am I running after the bankers? Why don't I solve the problem by setting up my own bank? And so I asked the Central Bank and the Government for permission to set up a special bank for poor people. It took a long time but the Government finally gave permission in 1983. Grameen Bank was born as an independent bank, a bank for the poor.¹

Banks that lend only to the rich

The conventional banking system has been deliberately designed to be anti-poor, gender biased, and anti-illiterate.

The idea of "collateral", which bankers regard as sacred, is to push the poor away from banks. But any good banker who looked at ▶

A weekly meeting of Grameen Bank members in a Bangladesh village.



© Saahudin Azree

► our banking system in Bangladesh would be horrified. Millions of dollars are lent to very rich people who never bother to pay back. The repayment rate of our industrial banks, which lend money to rich people in the name of industrialization, has been less than 10 per cent over the past fifteen years. "Why call yourself a bank?" I ask them. "Why not take your signboard down and put up a new one saying something like 'Charity Organization for the Rich'?"

Banks do not like women. They do not want to lend money to women. There are "Ladies' Branches" all over Dhaka city designed to serve women only—i.e., designed to get their money. Lending to them is a very different story. In a Bangladeshi bank, if a woman wants to borrow money, she is asked whether she has discussed it with her husband. If she says "Yes" she is asked, "Is he supportive of your proposal?" If the answer is still "Yes", she is asked to bring him along to talk the matter over. No male borrower is asked whether he has discussed the idea with his wife, or whether she is supportive of it, or whether he would like to bring her along to discuss the proposal. I would think that less than 1 per cent of borrowers in Bangladesh are women. There must be something wrong with the system.

Banks demand that clients write everything down. In Bangladesh, where 75 per cent of the people cannot read and write, this is a ridiculous situation. Even when people bring money to deposit in the bank, they have to write down every detail on paper. I asked why banks cannot simply take money and issue a receipt saying "received such and such an amount of money from such and such a person?" Why must the depositor have to do all this writing? When I first challenged this notion, bankers asked me how records could be kept without reading and writing. My reply was that banks could issue receipts for amounts received or disbursed, and that all the necessary accounting could be done by the bank. Why punish the illiterate person?

The Grameen system

Grameen Bank now operates in over half the villages of Bangladesh. It has over two million members, 94 per cent of whom are women. Over \$1.7 billion have been disbursed so far, and more than 300,000 houses have been built with Grameen housing loans. Depositors, saving only one or two taka per week, have managed to save over \$120 million. This has been achieved because Grameen Bank is pro-poor, pro-women and supportive of the illiterate.

Grameen Bank rejected collateral-based banking as a structural impediment to the participation of the poor, and introduced instead group-based lending and peer monitoring to ensure both the selection of needy clients and

the maintenance of high repayments. Groups of five are formed with members from homogeneous backgrounds who know and trust each other. Six to eight groups are integrated in one centre. Each village will generally have one or two centres. Instead of making people come to the bank, Grameen goes to the people. All financial transactions take place at weekly centre meetings. This lowers transaction costs as well as making the banking institution subordinate to people's needs.

Ninety four per cent of Grameen members are women. This emphasis on women is based on the fact that women are the most oppressed within the ranks of the poor and, more importantly, because giving credit to poor women translates into greater welfare within the household. Unlike men, women in rural Bangladesh spend almost all their earnings on the family and plan for the family's future. There is also a social dimension to the emphasis on women group members. Women who had earlier rarely ventured out of their houses now come to group meetings; women who had previously never handled cash now keep accounts and engage in financial transactions; women who had never been visible in public now become assertive and confident.

Most Grameen members have no formal schooling. At Grameen they are taught to sign their names, to count and keep accounts. Banking procedures are simple and transparent. Members discuss among themselves and learn to keep track of their money without having to use difficult forms. Simple receipts are issued so that record keeping is simplified.

With her fourth loan from the Grameen Bank this Bangladeshi woman bought a dairy cow.



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Thanks to a loan from the Grameen Bank, Anguri (above) is no longer dependent on middlemen for the bamboo she uses to weave baskets.

Grameen has led to a virtual transformation of rural society. Numerous studies on the Bank have shown that it has increased the economic well-being of its members. Grameen loans have contributed to the building of sturdy houses, to better health and sanitation, and to higher school attendance. Studies have also pointed to the increasing power of women, to their challenging of conventional norms discriminating against them, and to their greater political participation. While much remains to be done to alleviate poverty

and end inequality and gender discrimination, microcredit in Bangladesh, as practised by the Grameen Bank, has provided one simple strategy that works.

Poverty alleviation initiatives

We at Grameen, however, are not content to stop here. We dare to dream of microcredit paving the way for poverty alleviation once and for all. The Grameen family is thus working on expanding agricultural productivity through environment-friendly integrated agricultural methods. We are promoting the development of fisheries. We are expanding local markets by linking weavers from the heartland of Bangladesh to retail outlets in the United States and Europe through the export of "Grameen check" clothing.

We strongly believe that the most advanced technology should be appropriated by the poor. We are thus working on harnessing solar and wind energy, and on providing telecommunication facilities to every village in Bangladesh. This will not be organized by wealthy corporations. Access to credit will ensure that poor rural men and women are both the owners and users of such products and services. ■

1 Muhammad Yunus talked about the Grameen Bank in an interview published in the September 1995 issue of the *UNESCO Courier*. Editor

UNESCO AND THE GRAMEEN BANK

In September 1995, UNESCO signed a memorandum of understanding with the Grameen Bank in which the two organizations pledged to combat poverty by joining forces in their specific areas of competence. UNESCO's participation in the co-operation scheme has so far involved:

- designing a basic education programme for Grameen borrowers and their families directly related to their economic activities;
- providing the Bank with technical assistance in setting up a company which now brings cellular telephones to needy rural women in Bangladesh;
- supplying expert advice on the exploitation of solar power and other renewable energy sources;
- organizing training programmes and workshops for Member States interested in adopting the Grameen Bank model. A workshop for Central Asian countries was held at Bishkek (Kyrgyzstan) in March 1996 and has been followed up by a study visit of the Grameen banking mechanism in Bangladesh.
- producing an information kit explaining the Grameen Bank's philosophy, mechanism and success (published in English, French and Spanish). ■

MICROFINANCE IN INDONESIA

BY MARGUERITE S. ROBINSON

A nation-wide banking network provides sustainable finance for poor rural communities

Within the last two decades, the Bank Rakyat Indonesia (BRI), a large state-owned commercial bank, has shown via its “unit desa” or local banking system that the demand for microfinance can be met sustainably on a large scale.

BRI has traditionally been specially assigned by the government to provide banking services to the rural areas of Indonesia with particular emphasis on agricultural credit. In the early 1970s it developed its unit desa system in order to provide subsidized government credit to rice farmers. More than 3,600 local bank units were established, functioning primarily as channelling agents for subsidized rural lending programmes.

The long-term results were similar to those found in many other developing countries. First, the low-interest, and therefore desirable, loans tended to reach local elites who had the influence to obtain them. Secondly, lower-income people typically did without credit or borrowed on the informal commercial mar-

ket for much higher interest rates. Thirdly, both arrears and losses were high.

Savings accounts began to be offered in the unit banks in the mid-1970s. However, annual interest rates were set by the government at 12 per cent for loans and 15 per cent for most deposits; given this negative spread the bank could not cover the operating and other costs required to attract voluntary savings. By 1983 the unit banking system had reached a point at which it would have to be either closed down or converted into a fundamentally different system.

Wrong assumptions

During the 1970s, the unit banking system had mobilized deposits of only about \$17 million nation-wide. This was widely attributed within the government and the formal financial sector to the lack of local demand for financial services, absence of “bank-mindedness” and mistrust of banks that were assumed to characterize Indonesia’s rural population. These assumptions were wrong.

In June 1983 the first of a series of major financial reforms was announced. Government banks were now permitted to set their own interest rates on most loans and deposits. Among its other purposes, this deregulation served to provide an enabling environment for the transformation of BRI’s local banking system. Following the reforms, the government decided that the subsidized unit banks would be converted into a sustainable system of commercial banking at the local level, and that a programme of general rural credit at commercial interest rates would be implemented through the unit banking system. After an initial period, the loan programme would be financed by locally mobilized savings. Commercial microfinance in the unit

A branch of the Bank Rakyat Indonesia.





© P. Lages, Paris

It is estimated that institutionalized finance is unavailable to over 80 per cent of all households in developing countries."

A MASSIVE GAP BETWEEN SUPPLY AND DEMAND

Despite widespread demand, it is estimated that institutional finance is unavailable to over 80 per cent of all households in developing countries. This, of course, includes the vast majority of the poor people in the developing world. The massive gap between supply and demand occurs for two primary reasons. Those who hold the power do not see the ubiquitous microfinance demand; those who see the demand do not hold the power.

In the former case, local demand for microfinance is either invisible to its potential institutional suppliers, or the latter believe that it would be unprofitable for them to meet

banks began in 1984 in the rural areas. In 1989 the unit banking system was extended to urban areas as well.

In January 1984 BRI began its new programme of general rural credit, called KUPÉDES¹, offered throughout its unit banking network, and by 1986 a new set of savings instruments had been introduced providing, for the first time at local level, the much-in-demand combination of security, convenience, confidentiality, liquidity, and returns. These instruments, along with the KUPÉDES credit programme, were offered in BRI's unit banks throughout the country. The spread between loan and deposit interest rates was set to cover all costs and to return a profit.

Since 1984, BRI's unit banking system has performed spectacularly. As of the end of 1995, it held deposits of about \$2.7 billion in about 14.5 million deposit accounts, and there was about \$1.4 billion in KUPÉDES credit outstanding to about 2.3 million borrowers. The KUPÉDES long-term loss ratio was 2.3 per cent. In 1995 return on assets for the unit banking system was 6.5 per cent. Unit bank deposits, a highly stable source of funds, finance all KUPÉDES loans.

A 1996 report by the World Bank states clearly the reasons for the success of BRI's unit banks:

"The programme succeeded because the banks loaned at market rates, used income to finance their operations, kept operating costs low and devised appropriate savings instruments to attract depositors. By mobilizing rural savings, [the unit banking system] was ▶

this demand. Misunderstandings about local financial markets are widespread on the part of many governments, financial institutions and donor agencies. It is generally assumed—wrongly—both that the cost of delivering financial services at the local level is too high for non-subsidized institutions, and that the informal market satisfies demand.

Since there is little incentive to meet an unrecognized demand, or one that is considered unprofitable, the level of institutional commercial microfinance globally has remained very low.

M.R.



© Bank Rakyat Indonesia (BRI)

Craftswomen hand-paint cloth in a Balinese (Indonesia) workshop.

► not only provided with a stable source of funds, it also kept financial savings in rural areas, thus helping development growth in the countryside. Other reasons for success included: the simplicity of loan designs, which enabled the banks to keep costs down, effective management at the unit level, backed by close supervision and monitoring by the centre; and appropriate staff training and performance incentives.”²

There are three main reasons why BRI’s experience is important.

First, it has shown that the high cost of small loans can be substantially reduced and that financial institutions can profitably provide microcredit to large numbers of borrowers, delivered locally with low client transaction costs, at much lower interest rates than those normally paid by lower-income borrowers for informal commercial credit.

Informal commercial lenders in many developing countries typically charge lower-income borrowers a “flat” monthly interest

rate ranging from about 5 per cent to over 40 per cent on the original loan balance. Money-lenders may offer lower rates to better-off and more influential borrowers, but in general the higher rates are charged to the poorer borrowers who have the fewest alternatives. In contrast BRI’s local banking system offers a flat monthly interest rate that is at or below 1.5 per cent on the original balance of the loan. No additional fees are charged to borrowers who pay on time.

A self-sufficient institution providing microfinance must, of course, charge higher interest on loans than those charged in the same country by large urban banks providing commercial and corporate loans. This is necessary because it is much more expensive to deliver financial services locally to many customers in thousands of locations than it is to deliver these services to relatively few clients with much larger loans and deposit accounts in large urban branches. However, sustainable microfinance institutions provide loans at far lower interest rates than lower-income borrowers can normally receive otherwise.

Secondly, BRI has made credit widely available. Various institutions in developing countries supply credit at the local level in the form of subsidized loans, but since subsidies are capital constrained by government or donor budgets, this form of credit can meet only a small fraction of demand. Being cheap and desirable, it tends to reach local elites, not the

A small textile business funded with a loan from the Bank Rakyat Indonesia.



© Bank Rakyat Indonesia (BRI)

CREDIT IS NOT A PANACEA

Poverty alleviation requires a toolbox. Credit is a powerful tool, but it cannot be the only one. It is used effectively when it is made widely available to the working poor. Among the poor, the hungry, the destitute, the aged and the ill, those who live in regions severely deprived of resources, and those escaping from natural or man-made catastrophes have prior needs: food, medicine, shelter, employment.

M.R.



© Bank Rakyat Indonesia (BRI)

The owner of this grocery shop took out a loan from the Bank Rakyat Indonesia (BRI).

poor. From the borrower's point of view, the key words in microcredit are *access* and *cost*. Subsidized loan programmes do not provide wide access, and while moneylenders provide access it is generally at a cost that precludes microenterprise growth.

The third lesson to be learned from BRI's experience is that voluntary savings promote institutional viability. Institutions that provide microcredit on a commercial basis have an incentive to make arrangements that are appropriate for small saver demand. These institutions can meet a high demand for savings services. They set a spread between loan and deposit interest rates that is adequate to cover all costs, including the non-subsidized cost of funds, and to enable institutional profitability and growth in equity. Such institutions can become fully self-sufficient. There is much evidence to show that they can mobilize massive local savings, in amounts that are small on average, but large and stable in aggregate.

The necessary—although not sufficient—conditions are an enabling macro-economic environment, a reasonable level of political stability, an appropriate legal and regulatory framework, an adequate degree of monetization and infrastructure development, and suitable demographic conditions. Given these conditions, institutional microfinance can achieve both profitability and wide coverage.

The new institutional commercial microfinance challenges the widespread assumption

that on-going subsidies are required for microfinance in developing countries. The institutions that on-lend donor funds at subsidized interest rates, that combine social and financial services and that do not mobilize voluntary savings effectively have not (and cannot) become self-sufficient. Some are highly effective at providing credit to large numbers of poor people and in recovering loans. However, institutions of this type have been dependent on large amounts of continuing donor or government injections of low-cost funds. The demand for institutional microfinance is too large for this approach on a global scale. ■

1 KUPeDES is an acronym for Kredit Umum Pedennan, or general rural credit. *Editor*

2 World Bank News (1996).

'THE BANK IS A SERVANT, NOT A KING'

The relationship between microfinance and social and economic development is best understood—and best expressed—by the clients of commercial microfinance institutions. The comments below were made to the author by microfinance clients of two banks.

Savings services are the subject of many comments by clients. As this comment by a BRI client living in rural Java, shows:

"Before, we did not have so many employment opportunities. We kept our savings in animals or gold, and we kept cash in the house. Now, except for a small amount, we do not like to keep money and gold in the house. Because we are working, there is not always someone at home. There is a security problem, and we cannot sleep peacefully at night if we keep money and gold in the house. We can keep savings in up to eight goats. After that there is too much work to care for the goats, and the shepherds are all in school. But we have more savings than eight goats. We could buy a cow, which is less work than eight goats. But we cannot cut off the ear of the cow when we have to pay the school fees. We prefer to put our savings in banks."

One long-term client of Indonesia's oldest microfinance bank, the Bank Dagang Bali, said:

"I grew up poor and without education. I learned, though, that I could improve myself, and that the bank would help me. The president of Bank Dagang Bali is a great man. Why do I say that? Not because he is a bank president; there are many bank presidents. Because he knew that poor people fear banks, and he taught us not to be afraid. BDB taught us something important that we never knew before. BDB taught us that the bank is not a king. It is a servant."

M. R. ■

LATIN AMERICA: ACCION SPEAKS



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The story of
BancoSol, the
first private
commercial
bank for micro-
entrepreneurs

ACCION International is a U.S.-based private non-profit organization that currently provides technical assistance to a network of institutions in thirteen countries in Latin America and six cities in the United States. Its network of eighteen independent organizations in Latin America has lent over \$1 billion to microenterprises in the last five years, in loans averaging less than \$500.

Three of the most advanced institutions in the ACCION network started their programmes as non-profit organizations and have, in the last five years, converted into regulated

financial institutions that are part of the financial system in their countries but specialize in serving the microenterprise sector. One of the most successful of these institutions is BancoSol in Bolivia.

Solidarity groups

Banco Solidario, S.A., or Bancosol, grew out of a non-profit joint venture created in 1986 by prominent members of the Bolivian business community and ACCION International. The latter brought with them leadership and seed capital, while the former provided technology and methodology. PRODEM, as the programme was named, provided credit and training to broaden employment opportunities for the very poor self-employed, encourage investment in microbusinesses, and increase the income generated by this sector. PRODEM used the group lending technique of "solidarity groups" and began making small working capital loans.

In its first five years of operation, PRODEM financed loans to over 13,300 microentrepreneurs, 77 per cent of whom were women, disbursing over \$27 million in loans averaging \$273. The default rate remained close to zero during this time. In five years, PRODEM was unable to recover only about \$2,000 of the \$27 million it lent.

Many factors contributed to PRODEM's success. The most important were the organization's commitment to total quality, including 100 per cent repayment; investment in training employees; and a powerful management information system. By the end of 1991, PRODEM had a portfolio of \$4 million



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Workmen trim wood in a Bolivian sawmill whose owner took out six loans from BancoSol in a year in order to buy machines and hire more hands.

LOUDER THAN WORDS

BY MARÍA OTERO



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Local branches of BancoSol in La Paz (Bolivia). Centre, the information desk of the Garita district branch. In background is a poster which says, "I've got to make a repayment every Monday." Left, customers inside the El Alto district branch. Far left, the entrance to the branch.

and realized that despite its success, it was only reaching a small percentage of the market that needed its services.

The enormous demand, coupled with PRODEM's desire to provide savings services to its borrowers and to access capital markets for funds, moved PRODEM's leadership towards the transformation of this non-profit institution into a fully chartered private commercial bank specializing in microfinance—the first in the world.

The transition required two years' work which began in 1989. The process included raising the equity capital required by Bolivian

Below, a fruit and vegetable vendor in the El Alto district of La Paz. She took out eight loans from BancoSol over a 4-year period. The last loan was 50 times bigger than the first.



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law before it would charter a bank; designing the bank's financial structure, as well as its projection for profitability; training staff; and meeting the requirements of the Bolivian Superintendency of Banks.

BancoSol opened its doors in 1992. PRODEM transferred to BancoSol its \$4 million portfolio in exchange for shares, making PRODEM the largest shareholder of this newly formed bank. Other shareholders included ACCION, Calmeadow from Canada, which had been very instrumental in the formation of the bank, Fundes from Switzerland and ICC, the Inter-American Development Bank's private arm.

Small is profitable

After four years of operation, BancoSol is currently serving nearly 70,000 clients through twenty-nine offices. This clientele constitutes about 40 per cent of all the banking clients in the Bolivian banking system. It is interesting that while BancoSol's loan loss remains very low and in 1994 it registered the highest return on assets in the Bolivian banking system, its clients—very low income people of indigenous background, mostly women requiring very small loans—are not considered bankable clients by other banks. Currently, BancoSol lends approximately \$80 million a year, in short-term loans averaging below \$600. BancoSol's outstanding portfolio is some \$35 million, about one fourth of which is funded through savings deposits. Its plans are to continue expanding its coverage in Bolivia, to increase its mobilization of savings, and to maintain itself as a profitable bank that services a population that has never had access to financial services.

BancoSol's success is helping reshape Bolivia's financial system. In 1994 the Superintendency of Banks created a new type of regulated financial institution to enable other financially strong non-profit organizations to become regulated and thereby expand the availability of financial services to this sector. Institutions in other countries are also learning from the experience of BancoSol and adapting it to their own settings. K-Rep in Kenya, Accion Comunitaria del Peru, and Genesis in Guatemala, for example, are following BancoSol's lead and in the next two years plan to become regulated financial institutions specialized in microfinance. ■

ENTERPRISE IN AFRICA

BY KIMANTHI MUTUA



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Microfinance in Africa has grown out of the informal economy and social welfare programmes. The next step is to provide it with a legal framework.

Far from empty-handed. Members of a women's tontine in Cameroon, above, put their notes on the table. They use the tontine banking system, based on mutual confidence among its participants, as a springboard into the business world.

The Kenya Rural Enterprise Programme (K-Rep) is one of the largest microfinance institutions (MFIs) in Africa. Since it was founded in 1984, it has made available over 50,000 loans worth \$17 million and is now financially sustainable. It is currently transforming itself into a regulated financial institution, just as MFIs in other African countries are doing in order to tap their financial markets for funds, and thus minimize or eliminate dependency on donors.

A new strategy

At first microfinance in Africa was usually handled by institutions that ran social welfare projects, and little attention was paid to promoting financial sustainability. The projects did not reach large numbers of people and were criticized for not being cost effective. There was no clear strategy.

Next, many African MFIs looked to the experience of other continents, notably Asia and Latin America. There was a major change of method, whereby training and technical assistance were hived off from the delivery of financial services. This "financial systems approach" is now widely followed by MFIs in Africa, including K-Rep.

In its early years K-Rep supported credit programmes that were tacked on to social welfare programmes, providing them with grants, training and technical assistance. Over time it became clear that welfare and relief institutions found it difficult to adapt to the financial systems approach and that the mix of credit delivery and training of entrepreneurs was having a limited impact.

K-Rep therefore adopted a new strategy in 1989, notably by changing the form of its financial support from grants to loans. Finally it started its own direct lending scheme, Juhudi Chikola.

Abundant choice

When it decided to establish a bank, K-Rep considered the question of whether or not to continue with its other development activities, and whether these goals could be achieved by a bank. Its response was to go on with these activities because it believes that microfinance is not a panacea to development problems. Microenterprise development, for example, has limitations in terms of reaching the poorest of the poor. To remain relevant to the constituency of the poorest, it is necessary to develop new instruments and products. A microfinance bank can provide many of these services, such as loans for domestic, health and education purposes, but it cannot provide other services such as affordable housing mortgages and health insurance. K-Rep thus does not intend to become a conventional bank but to use the banking framework to fill an important gap that commercial banks have been unable or unwilling to fill.

The choices made by K-Rep take their place within the wide diversity of approaches and systems being developed by MFIs in Africa today. Apart from solidarity groups and credit unions, many rotating savings and credit associations (Tontines in West Africa, Chikolas in Kenya and Stockvel in South Africa) have a

proven track record as efficient sources of microfinance. In Egypt the Alexandria Businessmen's Association has created a microcredit system which takes advantage of the strict law and cultural stigma on defaulters of promissory notes. In West, Central and Eastern Africa the village banking system, community managed credit and associations have proved to be very effective.

New microfinance institutions, such as The Centennial Bank in Uganda, The Community Bank in South Africa, City Savings in Ghana and The People's Bank in Nigeria are being or already have been established as regulated financial institutions. A number of countries, including the Gambia and several French-speaking West African countries, are in the process of formulating new legislation for MFIs. In South Africa, MFIs have taken the initiative of establishing a self-regulating body to oversee the conduct of its members.

This legislation is extremely important. Apart from providing a conducive regulatory environment for MFIs, it provides legitimacy for a practice still considered by many to be a short-term donor-dependent intervention. The sector has also attracted many "get-rich-quick" quacks, who must not be allowed to hijack the industry. ■



◀ **A** women's self-help group in Soweto (South Africa).



C Cameroonian fashion designer Joséphine Bertrano employs 12 men in her dress-making workshop.



◀ **A** grain mill owned by a women's co-operative in Mali. Bought on credit, it was gradually paid for with money charged for milling.



A meeting to discuss microfinance projects in Kenya.

VILLAGE BANKING: A REPORT FROM 5 COUNTRIES

BY RUPERT SCOFIELD

In Latin America, Africa and Asia, an international nonprofit foundation has created a 3,000-strong network of autonomous village banks

HONDURAS

For as long as anyone can remember, the women of Siguatepeque, a rural pueblo in central Honduras, have produced ceramics. You can see them for sale on the side of the highway that runs between the capital city of Tegucigalpa and the northern city of San Pedro Sula: great stacks of flower pots, urns, plates and ornamental pieces in the shapes of roosters, parrots, dogs, cats and caimans.

Six years ago, most of the women worked for a man—let's call him Don Alejandro—who purchased the pottery the women made, and resold them to a wholesaler who trucked them to retail markets in Tegucigalpa. The women of Siguatepeque were poor, and disorganized. Most of them sold the pieces as fast as they made them, for a fraction of what Don Alejandro and the retailers earned on them. They had no choice: they needed the money to buy their daily food.



Kaabong women of Uganda make bricks with which to build a Women's Enterprise Centre, assisted by the World Food Programme's Food for Work programme.

© Crispin Hughes/Panos Pictures, London

In 1990, when I was looking for a suitable place for the first village bank to be organized by the Foundation for International Community Assistance (FINCA) in Honduras, a friend of mine suggested I go to Siguatepeque. The organizational meeting took place with about thirty women, in Don Alejandro's house. Our host was quite chagrined when, halfway through the meeting, I explained that the bank was for women only. Still, Don Alejandro was a good sport, and supported the idea that FINCA would make \$50 loans to the assembled women to invest however they felt best, and that, four months later, they would repay the loan with interest of 3 per cent per month. Another condition of the loan, I explained, was that they would save at least 20 per cent of it, or \$10.

I kept waiting for some of the women to drift away, or to be scared off by the interest or the savings requirement, but they all remained, nodding solemnly, as if they understood and were in complete agreement. I didn't tell them it was only the second time I had organized a village bank. But as I was to learn from this and subsequent organizing meetings, they all go this way. It was as if the women already knew how the system worked. It was that simple.

In those days, FINCA had few resources, and I was unable to return to Siguatepeque to conduct the follow-up meetings with the women. Fortunately, the village banking manual I had left behind with the women fell into the hands of an enterprising Peace Corps volunteer, and one month after I had left I received a letter from the women of Siguatepeque which read: "Dear Mr. Scofield: Carolina, the volunteer, has helped us organize our village bank, which we have named "Pinos del Porvenir" ("Pines of the Future"). We have had our four meetings, and we all understand how the bank works. Please send us a check for \$1,500."

It was almost four months before I could return to Siguatepeque. I watched as the President, Graciela, ran the meeting. The first thing I noticed was the palpable change in attitude. In sharp contrast to my first meeting with the women, today they were all smiles. Checking the books, I saw that all the loans were current, and that the group had savings of almost \$1,000, after only three months.

I asked the women what they had done with the loans. "I spent it on food for my family," woman after woman said. I was appalled. "But how can you be paying off the loans?" Graciela explained to me that the FINCA loans had enabled them to purchase a month's supply of food, which had taken the pressure off them to sell their ceramics as fast as they produced them. Instead, they produced a month's stock, withholding it from Don Alejandro and the other middlemen until the price was more favourable. The village bank loans had given them power in the marketplace.



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Another satisfied customer!
A lender receives a loan at a village bank in Uganda.

Today, "Pinos del Porvenir" is independent of FINCA, and has several thousands of dollars in savings, which capitalize the bank's loans to its members. The women no longer sell to middlemen, but have their own retail store.

FINCA Honduras, meanwhile, has grown from a shoestring operation to a financially self-sufficient lending institution servicing 13,000 low-income borrowers in several regions of the country. The experience of the women of Siguatepeque has been repeated many times. Some of the village banks in Siguatepeque, in fact, went on to "graduate" and become clients of the local commercial bank.

FINCA has derived a number of lessons from the Siguatepeque experience. Most important, perhaps, is the fact that a mere \$50 loan can catalyze a process of individual and community development, which appears to be self-sustaining. Second, is the idea that the borrowers, in possession of far more information regarding local conditions than we outside "experts", are better prepared to determine how to invest that loan. Finally, there is the evidence that village banking can create a three-tiered self-sufficiency: at the borrower, community, and even national levels. If this kind of result can be replicated on a massive, worldwide scale, then rescuing many of the over one billion people living in poverty today may not be as daunting a challenge as we imagined.

PERU

The village bank "Union y Progreso" ("Union and Progress") is located in a crime-ridden shanty town on the southern border of Lima (Peru). Like many other "pueblos juvenes" ("young towns") surrounding the Peruvian capital, this one was established by squatters fleeing the violence of the "Shining Path" Guerrillas, and the impossibility of scratching out ▶

► a living from agriculture on the rapidly eroding, parched soils of the Andean highlands. From the outside, the village bank President's house bears little resemblance to a bank. The walls are a conglomeration of scavenged lumber, cardboard, and corrugated metal, and the roof is a patchwork of the same, weighted by stones to prevent the strong winds from blowing them away. As a deterrent to housebreakers, the top of the wall is crested with an intimidating glaze of broken glass, barbed wire and nails.

Inside, the eighteen members of "Union and Progress" are holding their meeting. The Treasurer and President are giving the financial report, with the aid of two large sheets of paper, upon which the bank's "vital signs" have been recorded with a pink magic marker. After two years, the eighteen members of "Union and Progress" have saved a total \$12,322, or almost \$700 apiece. An examination of the bank's records reveals that, through active relending of their savings, the members have generated an additional \$55,278 in loans over the past four months. This dwarfs the mere \$7,200 which FINCA Peru has lent to the group. The interest income from these "internal account" loans is \$1,100.

Other income has been generated from fines on borrowers whose payments were made late. A late payment on either an internal account loan or external account carries a fine of 10 *soles* (about \$4.50). This goes into a pot shared by only those who had perfect payment records. The women of "Union and Progress" came up with this carrot-stick system themselves. It strikes me as ingenious. An institutional approach would be to focus exclusively on the punitive side, the fines. I intend to see that this idea gets disseminated to the other 3,000 village banks in the FINCA network. Most of the good ideas incorporated into village banking methodology have arisen in this way, from the borrowers themselves. The concept of the "internal account"—the relending of the borrowers' savings, among themselves and to the community at large—came from a village bank in the border town of Sasabe, Mexico.

Now it is the turn of the borrowers, to ask questions or to make comments. I listen to the testimony of Maria Ponte, aged sixty-five, who is leaving the bank, returning to the mountain town of Puno to live with her son. She thanks FINCA Peru for bringing the village bank to their community, and the members for trusting and supporting her. "I used to be thin as a stick. Now, thanks to FINCA, I have meat on my bones (she holds up her biceps and squeezes her flesh). I can afford to take vitamins. I have \$683 in savings. I used to be afraid to borrow money. When I got my first loan from FINCA, I was shaking. This cycle, I borrowed and repaid \$1,867 from the internal account in four months. We used to be afraid of dollars. In FINCA, I learned to save and borrow."

© FINCA, Washington, D.C.

With an average savings rate of \$281.57 per member, Peru has the largest savings-to-loans ratio in the FINCA network. In all, FINCA's 68,000 borrowers have saved \$3.6 million over the past ten years, up 80 per cent from just two years ago. This money has not been funneled off to commercial banks in the capital, or sent offshore to Miami or Switzerland. It remains in the poorest communities of the world, working to create jobs and income on the bottom floor of the economy. Clearly, microenterprise has great potential for what my economics professor used to call "capital formation: the engine of development."

EL SALVADOR

In 1991, Maribel Escobar Avalos' situation seemed desperate. Having witnessed the destruction of her first home in an earthquake in 1985, and her second in a guerrilla offensive in 1989, she had few possessions other than the clothes on her back. At the same time, she was supporting a family of nine, including an unemployed male companion, her seventy-three-year-old father, an invalid brother, two daughters, a son, a son-in-law, and a niece. But Maribel had learned from her mother in the markets of El Salvador how to sell. In a bold gamble, she sold what little she had left to make the down payment on a corner house lot in the western El Salvador town of El Sunsa.

The first year in El Sunsa was one of sacrifice and struggle. Totally decapitalized, the Escobar family spent the year in a makeshift shack of cardboard, with palm fronds for a roof. Their food budget was so small that often their only nutrition came from a concoction Maribel calls *sopa de monte* ("weed soup").

It was in these conditions that Maribel dis-

A grocery shop in Honduras funded by a loan from FINCA. The Honduran affiliate of FINCA is the foundation's second largest.



covered the FINCA Micro-Enterprise Support Center. The MSC made Maribel the first loan of her life, \$50, which she invested in the purchase and sale of used clothing. Over the next two years, through her skill in selling, and access to ever-larger loans, Maribel began to diversify. First she established a small grocery store. Then a restaurant. Finally, she began to supply fruit and vegetables to other traders in El Sunsa. Eventually, these activities provided employment for the entire family. Along the way, Maribel accumulated \$805 in cash savings in her village bank. Today, on the corner lot which used to host a ramshackle *choza* of cardboard and palm fronds, a comfortable four bedroom brick house stands. The store front room houses the store and restaurant, with an electrified "Orange Crush" sign featuring the name "Restaurante y Pupuseria El Canalito."

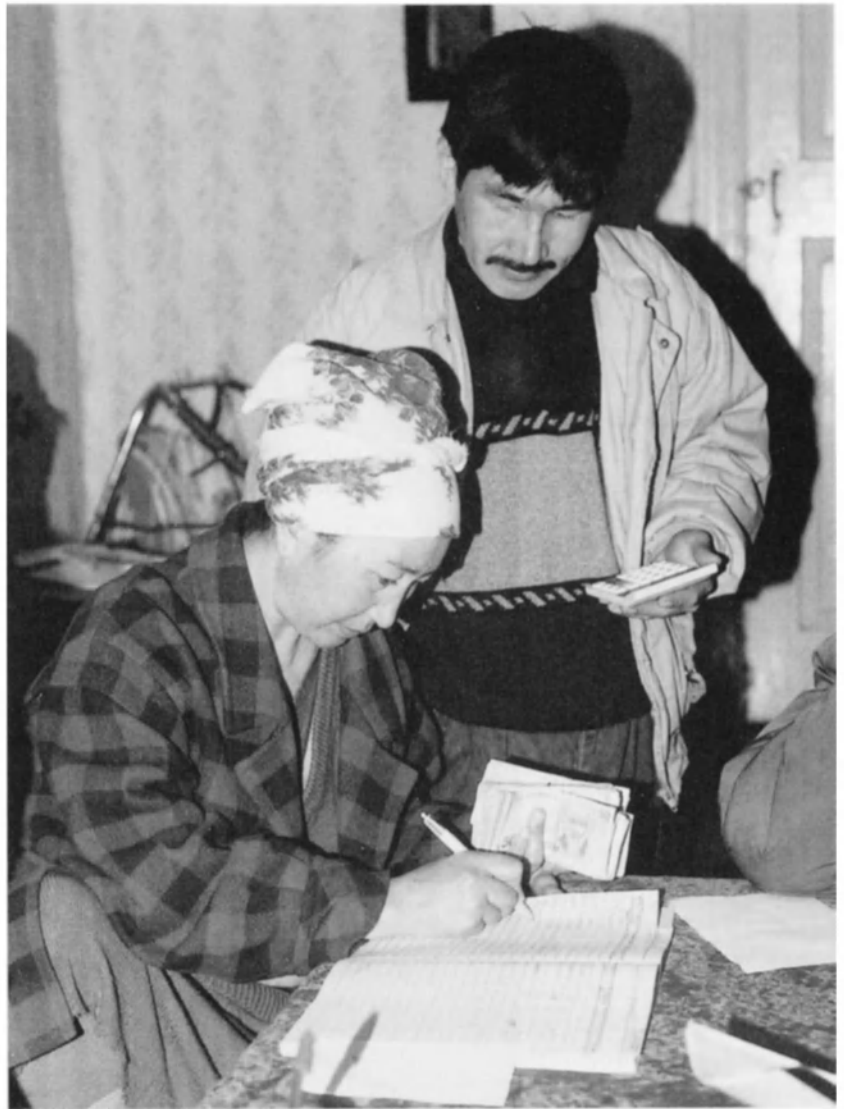
As she sends her children off to high school (she herself never progressed beyond third grade), Maribel explains her formula for success. "My whole life, I've worked hard, getting up at 5 a.m. and going to bed at 9 p.m. But the difference is, now we are saving. The more we save, the more we can borrow. The more we borrow, the more we can sell. The more we can sell, the greater our income."

UGANDA

Prior to 1992, the women of Kimantu village in southeastern Uganda, near the sources of the Nile, had never managed their own money or run a business, let alone received credit. What little money did pass through their hands had to be begged from their husbands, even to buy food for their children. When I first described how the village bank would work, one of the women in the village asked me how much money FINCA would lend them. "Fifty thousand shillings," I replied, which was the equivalent of \$50. This was a tense moment for me: I had been assured by the Executive Director of another non-governmental organization working in Uganda that the women would turn up their noses at such a paltry sum.

The woman gasped and nearly fainted. She assured me that 50,000 shillings was too much; she could never take responsibility for paying back such a princely sum. In the end, at the urging of her neighbours, she agreed to accept half that amount, splitting the loan with another woman in the bank.

When I returned to Kimantu, four months later, I found the women, and the village, transformed. They had repaid their loans, 100 per cent. They had saved in excess of the required 20 per cent. "The thing I like best about the village bank," one woman told me, "is that I have learned to start a business and to manage money." The woman who had been too timid to borrow 50,000 shillings now told me she intended to borrow 100,000.



© Bill Weaver/FINCA, Washington, D.C.

The treasurer of a village bank in Kyrgyzstan in central Asia records repayments.

The men in the village, who had initially viewed the village bank with suspicion, now welcomed it. As the Kimantu village chief told me: "When the women first started to hold their meetings, we men were concerned. We thought they were talking about divorcing us. But then, when we saw them earning money, and they no longer came to us for money to buy salt, and pay school fees, we saw that the village bank was a good thing. But Mr. Scofield, I have one question." "And what is that?" I asked. The chief grinned. "Can you create a village bank for us men?"

In many communities of Uganda, Aids has left its brutal imprint, sweeping away husbands, wives, and sometimes entire families. In most cases, however, the children survive, to be raised by the village as a whole. Many Ugandan village bankers are supporting not only their own children, but those orphaned by deceased relatives and neighbours. It is an intensely sad, but at the same time inspiring experience to meet these selfless, struggling mothers. "Women who are in village banks are seen as the most responsible members of the community," was the way one observer put it. "It is natural that people look to them, when they ►

- want a secure future for the children they leave behind.”

KYRGYZSTAN

Can microenterprise succeed in a country where, until recently, private enterprise was officially discouraged, considered immoral, and, in some cases, even outlawed? In 1994, FINCA established the first village banks in the newly independent state of Kyrgyzstan, Central Asia, in the capital city of Bishkek.

With the snow-capped Himalayas as a backdrop, Bishkek is a city just coming to life, economically, after years of surviving on subsidies from mother Russia. Today, an estimated 15 per cent of the population is unemployed, and more expected as state-run enterprises are privatized or closed altogether. Increasingly, the population is moving to self-employment as an alternative to the meagre wages of the public sector.

Today, the village bank *Bereke* (“Blessing”) is receiving its first loan. Village banks are smaller in Kyrgyzstan than in other countries in the FINCA network, reflecting an added cautiousness on the part of the members towards their neighbours, the vast majority of whom have never operated a business. FINCA has learned to respect the members’ appreciation of local conditions as being far superior to its own, and seldom intervenes in decisions regarding the selection of the bank’s members, or in the loan approval process. In this case, most of the fifteen borrowers will be investing their loans in consumer goods, to be sold in the local market. A great feast for the visitors was laid out on a gorgeous, hand-woven rug in the village bank president’s living room. Other rugs, of equally dazzling patterns, adorned the walls. These rugs, which sell domestically for less than \$10, can command over \$100 in export markets. Though it was only mid morning, glasses of brandy were offered and accepted.

The meeting began, presided over by a democratically elected President, Treasurer and Secretary. The President followed the standard village bank agenda: financial report, approval and disbursement of loans, and collection of obligatory and voluntary savings. Besides the small size of the village banks, the methodology has suffered little modification in its adaptation to the Kyrgyz context. Contrary to initial warnings that no one would be interested in small loans in Kyrgyzstan, FINCA has found the demand to be strong. To date, FINCA Kyrgyzstan has reached 2,300 borrowers, and, in a country of five million, the word is just beginning to spread. ■

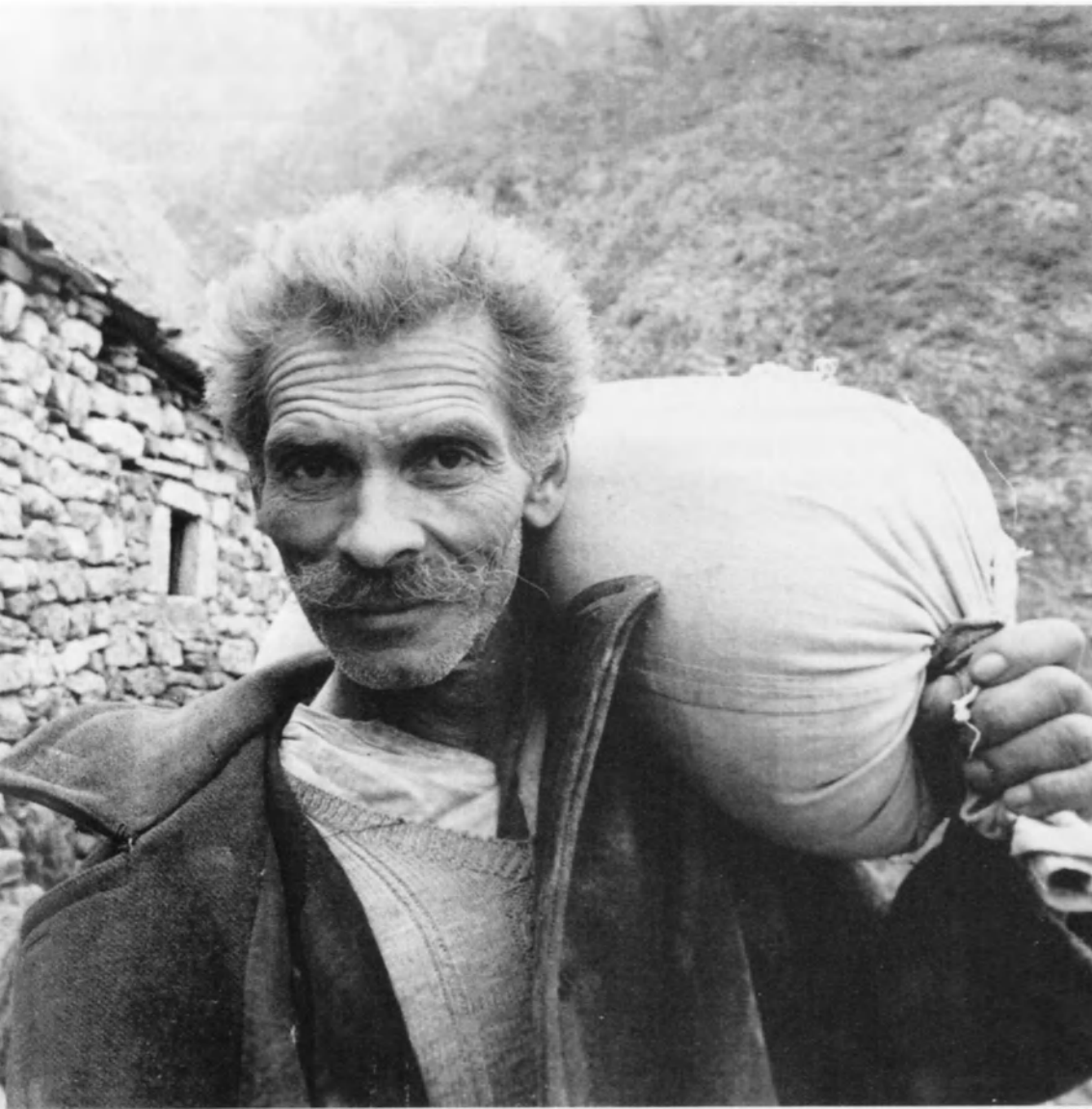


THREE MICROCREDIT

In the North as well as the South, microfinance can help to strengthen the community

Wage-earning is the most widespread form of employment in the industrialized countries. However, in a context of economic crisis and high unemployment, the proportion of self-employed workers has risen steadily since the early 1980s. Microcredit is one tool of development for this sector.

The Association for the Right to Economic Initiative (ADIE) was set up in France in 1990, and was supported from its inception by a number of private foundations, the French state and the European Union. To date



In rural Albania, left, there is an expanding network of village credit funds managed by locally elected committees.

© Rhodri Jones/Panos Pictures, London

SCHEMES IN EUROPE

BY MARIA NOWAK

ADIE has funded more than 2,500 micro-enterprises started by the unemployed and people receiving the minimum social wage (RMI¹). It has branches in fourteen French regions and works in tandem with authorized savings and loan banks such as *Crédit Mutuel* and *Crédit Municipal*.

Nearly 40 per cent of ADIE's customers have not completed a vocational training

1. The RMI ("revenu minimum d'insertion") is an allowance paid by the French state to people over 25 who have no other source of income.

Author's note

course, and about 10 per cent can barely read or write. But in life's hard school they have acquired entrepreneurial capacities and energy that no formal schooling could have taught them. Some of them pursue occupations traditionally associated with poverty such as street vending and scrap-metal dealing; others are astutely exploiting the possibilities of modern technology, e.g. by teleworking—providing secretarial services from home.

What most differentiates them from their counterparts in the countries of the South, however, are the administrative complexities and the social charges they have to cope with. Social security coverage for the most vulnerable groups tends to discourage potential entrepreneurs from starting new businesses.

But helping unemployed people create their own jobs on a permanent basis costs the ▶

- ▶ state three times less than supporting them for a year while they are out of work. In France microcredit is used as a tool to help people on the fringe of society to help themselves.

The dismantling of Albania's co-operatives and state farms that began in 1992 has put farmers in charge of individual holdings averaging 1.4 hectares but with no farm implements or input.

As part of the Rural Poverty Alleviation Project financed by the World Bank and Aide International, village credit funds have been set up to inject resources into rural areas and rebuild village community life destroyed under communist rule.

Managed by farmer-elected committees, these village funds grant loans and collect repayment instalments with support from the Albanian Rural Development Fund. To date they have granted 8,000 loans, the average amount of which has gradually risen from \$200 to \$400 with a 99.5 per cent repayment rate.

This network so far covers only some 5 per cent of Albanian villages but is expanding rapidly. A law was passed in April 1996 allowing credit funds to collect savings as well. The success of microcredit in rural areas has led the government to extend the programme to the towns, where loans average \$2,000 and are granted on an individual basis.

As well as providing finance, microcredit enables formerly communist countries to decentralize decision-making by privatizing

the grassroots economy, promoting the emergence of new entrepreneurs and facilitating the transition to a market economy.

A project in Tuzla

The Republic of Bosnia and Hercegovina is facing the combined difficulties arising from a transition economy and a war-torn economy. Unemployment among people of working age is running at 64 per cent, and nearly 80 per cent of the population lives on humanitarian aid.

To ease the passage from humanitarian aid to economic activity the World Bank has launched a pilot project in Tuzla to support local initiatives. With support from the non-governmental organizations that endeavoured to help the civilian population during the war, the project is focused on displaced persons, demobilized soldiers, small farmers and the unemployed.

Loans range from \$300 to \$600 depending on the projects and the borrowers' capacities. In refugee centres the loans give single women with children a chance to rent plots of land to plant potatoes, buy a cow or goat, knit or embroider. In the villages, they usually fund crafts and businesses that supplement income from farming, which is inadequate. In cities, where the market is larger, they enable people to start or relaunch microenterprises by job creation. Microcredit is helping a country emerging from war to turn to the future. ■

Below left, a craftsman from Bordeaux (France) makes imitation antique armour for theatre companies. He set up his own business after receiving a loan from the French Association for the Right to Economic Enterprise (ADIE).

Below, a refugee who lost all her possessions during the war in the former Yugoslavia. After receiving a loan from a World Bank pilot project to support local initiative, she bought goats and now sells their milk to support her family.



© Philippe Lissac/CIRIC, Paris



© ADIE, Paris

What is poverty?

Microcredit Summit

Washington D.C., February 2-4, 1997

The purpose of the Microcredit Summit is to adopt a plan of action and launch a global campaign to reach 100 million of the world's poorest families, especially the women of those families, with credit for self-employment by the year 2005.

The Summit will bring together all sectors of global society—public, private and non-profit—to affirm this goal and to help develop the specific steps each institution will take to contribute to its fulfillment.

For further information contact
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Further reading

Maximizing the Outreach of Microenterprise Finance. An Analysis of Successful Microfinance Programs, by Robert Peck Christen, Elisabeth Rhyne, Robert C. Vogel and Cressida McKean. Center for Development Information and Evaluation, U.S. Agency for International Development (USAID), 1995.

The New World of Microenterprise Finance: Building Healthy Financial Institutions for the Poor. Edited by María Otero and Elisabeth Rhyne. Kumarian Press, Inc., Connecticut, U.S.A., 1994.

The Sustainable Banking for the Poor Initiative, a group within the World Bank, has created a database of microfinance institutions worldwide, entitled

A Worldwide Inventory of Microfinance Institutions.

It can be obtained by contacting

Ms. Laura Gomez:

Fax: (1-202) 522-1662.

E-mail: lgomez@worldbank.org.

FOCUS: A series of notes which is CGAP's primary vehicle for presenting to governments, donors and private financial institutions the best practices in microenterprise finance.

FOCUS: 1818 H Street, N.W., Washington, D.C. 20433, U.S.A.

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Poverty is usually thought of as a lack of income—because it is income that is largely assumed to determine a person's material standard of well-being. Thus, if \$1 a day is taken as the poverty line, 33% of the developing world's population, or 1.3 billion people, are poor. Nearly half of them—more than 550 million—live in South Asia, 215 million in sub-Saharan Africa and 150 million in Latin America.

But "income poverty" is only part of the picture. Just as human development encompasses aspects of life much broader than income, so poverty should be seen as having many dimensions.

A new, multidimensional measure of human deprivation, the capability poverty measure (CPM), was introduced in the United Nations Development Programme's *Human Development Report 1996*. Intended to complement income measures of poverty, it focuses on human capabilities, as UNDP's human development index¹ does. But rather than examining the average state of people's capabilities, it reflects the percentage of people who lack basic, or minimally essential, human capabilities.

Source: *Human Development Report 1996*. Published for the United Nations Development Programme (UNDP), by Oxford University Press, New York and Oxford (UK), 1996.

The CPM considers the lack of three basic capabilities. The first is the capability to be well nourished and healthy—represented by the proportion of children under five who are underweight. The second is the capability for healthy reproduction—proxied by the proportion of births unattended by trained health personnel. The third is the capability to be educated and knowledgeable—represented by female illiteracy. The index is noteworthy for its emphasis on the deprivation of women, which is severe in some countries. It is now well known that deprivation of women adversely affects the human development of families and society.

According to national income poverty lines, 21% of the people in developing countries live below the poverty line. The corresponding figure for capability poverty is 37%. In other words, 900 million people in developing countries are income poor, but 1.6 billion people are capability poor. ■

¹ Since 1990 the *Human Development Report* has presented the human development index to capture as many aspects of human development as possible in one simple composite index and to produce a ranking of human development achievements.

Facts and figures

- It is estimated that less than 10 million of the few hundred million people who run micro and small enterprises have access to financial services. (*FOCUS* no. 1, published by the Consultative Group to Assist the Poorest [CGAP])

- If 10% of all low income entrepreneurs are to gain access to institutional finance by the year 2005, financial systems will need to be transformed. Financial intermediaries' total portfolios in microloans, now about \$2.5 billion, would need to be about \$12.5 billion by 2005. These rapid increases in lending levels are reasonable and reflect growth rates that are lower than actual growth rates in the last five years. The main challenges will be in expanding the capacity and resources of those retail intermediaries committed to providing financial services to low income entrepreneurs. (*FOCUS* No 3)

- Of the world's total labour force of 2.8 billion, around 30% are not productively employed, according to the International Labour Organisation. This includes more than 120 million people who are unemployed, and 700 million who are underemployed. These people constitute the bulk of the world's absolute poor. (UNDP)

Sources: FOCUS, CGAP, UNDP.

Fashion for development

While hand-loom weavers from Bangladesh demonstrated their skills, some fifty designs made from their fabrics were modelled at a show held at UNESCO's Paris HQ early last year. The event, which formed part of cooperation between UNESCO and the Grameen Bank, showed how cultural wealth can be linked to social and economic development.

"UNESCO is not planning to get into the fashion business," said UNESCO's Director General, Federico Mayor. "We only want to suggest how the crafts of the weavers of Bangladesh could find an outlet in international markets."

Many weavers in rural Bangladesh, where high-quality textile production was once the mainstay of the economy, have been forced to abandon their looms because of lack of working capital and raw materials, and competition from machine-made products. Grameen Bank is helping them to produce and promote their fabrics, thereby contributing to preservation of the cultural heritage as well as preventing these skilled craftspeople from falling into poverty.

The potential of microfinance to help the world's poor can only be fulfilled if their products find outlets. In its strategy for the weavers' survival Grameen is linking traditional handlooms with a product policy responsive to fashion trends and aimed at winning new markets both locally and internationally.

The fashion show, at which one of the creations was designed by a Paris fashion house, demonstrated the linkages that can be established between local crafts and the international market. ■

Federico Mayor

Education, the seedbed of the future



Unesco/Gil Jacques, Montreal

Tomorrow's world will be shaped by our children's vision of it. What kind of vision will it be, and how can education help to shape it? These questions raise two sets of issues. One has to do with the contribution that education must make to society; the other relates to the expansion and reform of the education system itself so that it can meet the hopes and expectations that society has vested in it.

While the challenges to education are universal, the responses to them must come from the heart of the cultures of each region. Education must reflect all that is best and most distinctive within ourselves and our societies. Only thus will it help to unite people everywhere around shared values in defence of their common interests.

Everywhere and from every standpoint, education is crucial to peace. For peace, as we all know, is more than the absence of conflict. Peace is a culture based upon tolerance and respect for others; it is a spirit of active solidarity among individuals, built upon expectations of justice and tranquillity. Sustaining and promoting these values must be one of the foremost duties of education. Our schools must be revered places of learning and their most valuable lessons are those that teach the wisdom of peace and the folly of war.

The promotion of democracy and human rights is an essential part of the peace-building process. So too is

the promotion of the rights of women. If we really believe in human rights, how can discrimination against women be tolerated? In practical terms, the cost to development of neglecting the unique talents of women is enormous. Morally, it seems to me inadmissible that, at the dawn of the twenty-first century, limitations should be placed on women's fundamental freedoms. The problem of women's rights clearly transcends education, but it is one with which education systems, especially in the countries of the South, should be closely concerned.

A growing body of research highlights the importance of the education of women and girls in accelerating development. To educate a mother is not only to educate a family, but also to replace a potential inheritance of illiteracy with a tradition of education that will be passed from generation to generation. The education of women also has a very powerful impact upon fertility rates.

A NEW ETHIC OF SHARING AND CARING

I must also stress the importance of the population question, which is of concern to us all. It is essential that we moderate population growth, but this can only be done if women have the power of choice, the capacity to shape their own destiny. It is not through the imposition of external models that the solution to the problem will be found. Education—giving people the means to decide for themselves—once more provides the key. An increase in education is directly correlated with a decrease in fertility. As well as reducing demographic growth, we must provide properly for all those already on board spaceship earth and those destined to join it—including street children, those exposed to hunger, disease and neglect. We must be ready to invest in education what we have in the past been prepared to invest in war. We must be ready to pay the price of peace.

With this in mind, UNESCO and its partners in the United Nations system are actively engaged in promoting worldwide improvements—qualitative and quantitative—in the provision of basic education. Particular stress is placed on providing quality education for girls and women. Another of our preoccupations is to improve the status and qualifications of teachers. Teachers are the front-line workers in the struggle to achieve a literate world. Their job is a challenging and difficult one; their salaries and conditions of service are often poor. Yet the vast majority of teachers are selflessly doing all they can to educate the citizens of tomorrow. They know how vitally important their task is. We must remember this and offer teachers the appreciation, honour and respect due to them.

In a world in which progress is increasingly dependent on the products of the mind, education is increasingly recognized as the force of the future. This has in turn reinforced the importance of international co-operation, which is the vocation of UNESCO. I will not review UNESCO's many activities in this field, but I would mention two programmes especially designed to encourage the rapid transfer of knowledge and technology to developing countries. The first of these is UNITWIN, which links universities in developing countries with those in industrialized nations. The second is the UNESCO Chairs programme, which places high-level specialists at the disposal of universities in developing countries.

Our duty as educators is to use education to focus the energy and idealism of young people on building a society of peace, progress and prosperity. We must strengthen the function of peace-building in all cultures. We must infuse into the minds of young people everywhere a new ethic of sharing and caring. We must prepare the ground for a new civilization in which the word and not the sword will prevail. ■

People and Plants

by France Bequette

In India, between the Ganges and the foothills of the Himalayas, grows a shrub with pale pink flowers, smooth leaves and milky sap. In Hindi it is called *chotachand*. According to a local legend mongooses use to feed on the plant before fighting cobras, and its root is still administered as an antidote to snakebite. Its use gradually spread to the neighbouring provinces and then to the whole country. In Bihar province, for example, it has been used to treat insanity, epilepsy and insomnia. In the eighteenth century European botanists named the shrub *Rauvolfia serpentina*. It was studied and analysed, and today it is one of the most effective drugs used to treat high blood pressure.

An interdisciplinary science

Ethnobotany, the study of the relationship between plants and people, is a marriage of several disciplines—anthropology, botany, chemistry, ecology, linguistics and pharmacology. Its field ranges from the use made of plants by local populations to the environmental and cultural impact that the disappearance of a plant can have on its environment. This inter-

disciplinary science is mainly practised in developing countries and with indigenous populations because in that context the link between production and consumption is far more direct than it is in the industrialized world. An Amazonian Indian will go out and pick the leaf he needs to treat a burn, whereas in developed countries not many people know that the pretty foxglove (*Digitalis purpurea*) growing in the garden is the basis of the medicine they take for their heart condition.

Some of the reasons for today's growing interest in ethnobotany are psychological (a revival of interest in nature and "natural" products, a sense of urgency that has arisen because the knowledge and traditions of indigenous peoples are dying out), while others are more pragmatic (people in the poorest countries often cannot get hold of—and above all cannot afford—modern drugs).

The World Health Organization (WHO) is trying to restore respect for traditional medicine, and many other international organizations and non-governmental organizations have followed suit. In 1992 the World

Wide Fund for Nature (WWF), UNESCO and the Royal Botanic Gardens, Kew (UK) launched a joint programme called "People and Plants" "to promote the conservation of biodiversity and the sustainable and equitable use of plant resources by providing support to ethnobotanists from developing countries".

As part of the programme, on-the-ground activities are organized in biosphere reserves, World Heritage sites and other protected areas. Their goal is to record useful plants and knowledge, solve the on-going dilemma between conservation and exploitation in protected zones, invent non-destructive ways of harvesting wild plants, and ensure that conservation and the sound exploitation of plant resources really do benefit local communities. Local people, park and reserve staff, researchers and university students are taking part in the programme, to which American ethnobotanist Gary J. Martin has written a clear and practical guide entitled *Ethnobotany, A Methods Manual*, which sums up what has been learned during the first four years.

A traditional chemist's shop in Suwon (Republic of Korea).



Han-Kang, a Chinese botanist of the 2nd century A.D. as depicted in a 17th-century painting.





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Learning from shamans

An ethnobotanist working in the field must have received a rigorous scientific training. He or she also needs to be physically tough, adaptable and a good listener. In his book *Tales of a Shaman's Apprentice*, American ethnobotanist Mark J. Plotkin, who spent more than ten years in Amazonia, describes how he learned the local language, followed the shamans, collected samples, made a herbarium and noted the uses that were made of plants. He analysed medicines, the vegetal poison on the tips of arrows and the hallucinogenic substances used during initiation ceremonies.

He recorded the words of an old Amazonian shaman who said: "It is true the youngsters do not want to learn. One day the medicines that the missionaries send from the city will no longer arrive. The people here will come to me to relieve their pains, to conquer the evil spirits that kill their children. But I will be gone, and I will have taken my plants with me." Unlike modern doctors, shamans, medicine men and fetishists treat the mind and the body. They also help to maintain the group's cultural identity.

Shamans cannot practise their skills without preparation. They must be initiated, often using hallucinogenic substances like *ayahuasca* (*Banisteriopsis caapi*),

Group meditation in the open air (Republic of Korea).

or "vine of the soul", which are a passport to the spirit world. It is not surprising that missionaries try to eradicate these practices and beliefs and discourage shamans from taking disciples. It is just as easy to understand why Mark Plotkin has launched a training programme for apprentice shamans in several countries, with support from a non-governmental organization, Conservation International.

Friends of humanity

Plants have always been part of human history. "Thatch for huts, timbers for boats, fibers for cordage and textiles and dyes to colour them, and a plethora of medicinal plants all appear at early stages of human pre-

history," write Michael Balick and Paul Alan Cox in their remarkable book, *Plants, People and Culture*. Plants provide food, clothing, shelter, building materials, medication and ingredients of ritual. Unlike animals that have to eat either plants or other animals, plants live on sun, carbon dioxide from the air, a few mineral salts and a little water. From these basic elements they produce molecules that are sometimes so complex that no laboratory can synthesize them.

Humanity has recorded some 250,000 flowering plants, but this is not necessarily an exhaustive figure. There is no great book of nature where botanists can record their discoveries and cross out species that ▶

A Jivaro Indian shaman treats a patient in Amazonia.



© F. Ancelet/Rapho, Paris



Preparing a manioc-based beverage in a Jivaro village.

▶ have ceased to exist, yet we know that plants are victims of deforestation, soil erosion, pollution, herbicides, urban expansion and even over-harvesting. The United Nations Food and Agriculture Organization defines biodiversity as "the diversity of life on earth: it includes all life forms and the ecosystems of which they are a part". Its reduction results in the loss of irreplaceable genetic materials that are the essential components of the plant and animal life that agriculture and other human activities depend on.

The poor countries and their traditional pharmacopeia face another threat, however. Pharmaceutical and other laboratories that use the observations of ethnobotanists are taking part in a "plant rush" to take samples from nature, then large quantities of primary plant matter in order to produce drugs and cosmetics. To illustrate the problem, the People and Plants Programme commissioned Australian Tony Cunningham and Cameroonian Fonki Mbenkum to study the sustainability of harvesting the bark of the *Prunus africana* tree in Cameroon.

TO FIND OUT MORE:

People and Plants Programme, Ecological Sciences Division, UNESCO,
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Fax: (33) (0)1 40 65 98 97;
e-mail: 100427.1260@Compuserve.com

FURTHER READING:

- *Plants, People and Culture, The Science of Ethnobotany*, Michael J. Balick and Paul Alan Cox, Scientific American Library, 1996
- *Ethnobotany, A Methods Manual*, Gary J. Martin, Chapman and Hall, 1995.
- *Tales of a Shaman's Apprentice*, Mark J. Plotkin, Penguin Books, 1993.

A patent problem

This is a tree that grows especially well in the cool, volcanic soil of Africa's mountainous regions. It is a wild-growing cousin of the peach, apricot and almond trees and is found in Kenya, Uganda and Zaire, and also in Madagascar and the Comoros Islands. It is especially abundant in the southwest and northwest regions of Cameroon. Its bark is known in much of Africa as a treatment for malaria, stomach ache and fever. In 1966, a French laboratory discovered that it is an active agent in the treatment of prostate swelling, and applied for a patent, followed by three other European laboratories. In a single place 424 tonnes of bark were gathered from 7,717 *Prunus* trees between December 1984 and December 1985. Unfortunately, instead of simply taking bands of bark, harvesters often strip the tree bare so that it dies, thus depriving traditional medicine of one of its resources.

In this way the increased life expectancy of western Europeans has an impact on the Cameroonian forest, since one European male out of two over the age of 80 has a nine

out of ten chance of suffering from this prostate affliction.

It is increasingly imperative to adopt an ethical approach to exploitation of the resources of developing countries, and this is one of the goals of the People and Plants Programme. An ethical code is urgently needed. Greedy for new products, the pharmaceutical companies "buy" or "borrow" plant species and file patents on them. The neem (*Azadirachta indica*), a tree used for as long as anyone can remember as a pesticide in India, has been patented by an American company. Stranger still, a vine growing in the Amazonian jungle, known to shamans for its hallucinogenic qualities and used in initiation ceremonies, has been patented by an American and marketed via the Internet.

But who can stop a villager from "selling" a plant from his garden or a traveller from quietly pocketing it? Who can prevent a laboratory from borrowing a specimen from a botanical garden? If and when an ethical code is promulgated, ways of implementing it will still have to be found. ■

initiatives

EXPLORING THE EARTH WITH EARTHWATCH

Russian geochemist Igor Taganov once led a 3-man Earthwatch expedition in Siberia that became more than just a scientific outing. He tells how their food supply was destroyed by a hungry bear when they still had 300 kilometres to cover on their return journey to home base. Two days later their dogs discovered a huge piece of meat, the flesh of a young mammoth that had been perfectly preserved in a block of ice. During the next two weeks they cooked and ate a lot of the meat, and later sent some samples of it to Moscow for laboratory tests. Carbon-14 analysis revealed that the steaks they'd been eating were 30,000 years old!

This unusual episode happened on a serious scientific expedition organized by Earthwatch, a non-profit membership organization that was founded in the U.S.A. in 1972 and is one of the world's largest private sponsors of scientific field research projects. *Earthwatch* offers amateurs the opportunity to take part in projects and expeditions all over the world and thus contribute to scientific progress. It brings a touch of adventure to observation of the planet in such fields as agriculture, archaeology, the arts, botany, cultural anthropology, ecology, geology, palaeontology, volcanology and zoology.

Every year *Earthwatch* publishes a roundup of its teams' accomplishments. In 1996 for example, four new species of snakes, two species of lizards and a frog unknown to science were discovered on the islands off Hong Kong; the Wardaman aborigines of Australia were helped to record and preserve more than 14,000 paintings and petroglyphs made by their Ancestors; and Costa Rican sea turtles were tagged with satellite transmitters making it possible to keep tabs on their migrations and protect them.

To date Earthwatch has mobilized 1,882 projects in 111 countries. More than 40,000 of its EarthCorps volunteers have contributed over \$30 million and 5,230,000 hours to the search for solutions to important problems. It already has 70,000 members from all walks of life, and anyone can join. ■

EARTHWATCH HEADQUARTERS: 680 Mt. Auburn Street, P.O. Box 403, Watertown, MA 02272, U.S.A. Tel: (1-617) 926-8200; Fax: (1-617) 926-8532; e-mail: info@earthwatch.org
EARTHWATCH EUROPE: Belsyre Court, 57 Woodstock Road, Oxford OX2 7HU United Kingdom. Tel: (44) (0) 865 311-600; Fax: (44) (0) 865 311-383.



© Joe Englander/Ask Images

WHERE HAVE ALL THE FLOWERS GONE?

Fewer and fewer of the poppies, cornflowers and other wild plants that once dotted the grain fields of Western Europe are to be seen these days. They are being destroyed by selective herbicides, and some of them are even threatened with extinction. Generally hardier than cultivated plants, they compete with cereal crops for water, fertilizer, air and light. Some of them have extraordinary root systems. The roots of a single wild oat plant can measure almost 6,000 metres when put end to end. In many ways these wild plants are very useful. The presence of small concentrations of certain substances given off by cornflower roots (*Centaurea cyanus*) helps flax to grow, and poppies can have the same effect on wheat. ■

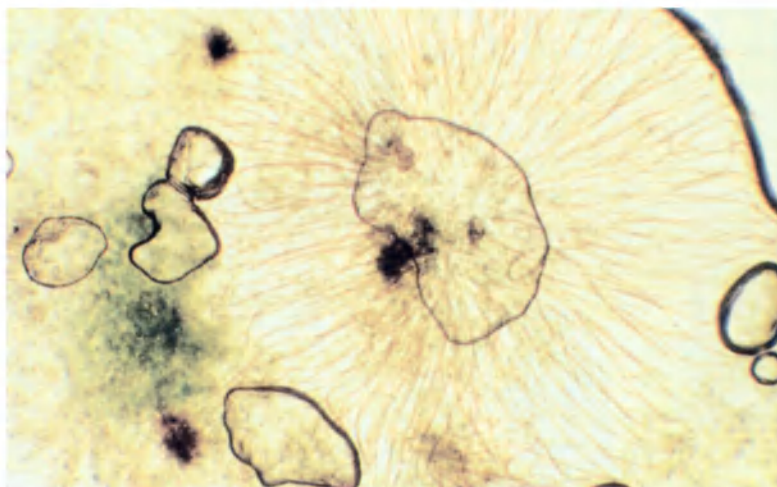
THE CAR FREE CITIES NETWORK

In Amsterdam in 1994 the European Union created a "Car Free Cities Club", which has today become a 60-member Car Free Cities Network. The aim is not for cities to outlaw private cars but rather to propose alternative solutions and develop efficient urban transport systems. In Copenhagen (Denmark), for example, there are 125 coin-operated "cycle points" where people can hire bikes. Since 1970 the closing of many Copenhagen streets to motor traffic and a reduction in the number of parking places (1 to 3% per year) have brought down the number of kilometres covered by private cars by 10%. It has to be said that Copenhagen is an exceptional case in Europe. ■

Europicities, 18 Square de Mécûs, 1050 Brussels, Belgium.
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A NATURAL FERTILIZER FOR RICE

Rice feeds nearly half of the people who live on planet earth. At the present population growth rate, 300 million more tonnes of the cereal will have to be produced to meet demand in the year 2020. This means using more fertilizer and pesticides, which are in the long run harmful to the environment and soil productivity. For the past few years, the French Scientific Research Institute for Development through Co-operation (ORSTOM) and the International Rice Research Institute (IRRI) of the Philippines have been studying the possibility of using microscopic algae known as cyanobacteria as a biological fertilizer in ricefields. Cyanobacteria are naturally present in the soil of rice paddies and are able to fix from the air 5 to 30 kg of nitrogen per hectare. When the algae decompose, the freed nitrogen is reabsorbed by the rice. Cyanobacteria thus act as natural fertilizer. Their other advantages are that they enrich the soil with organic matter and prevent the proliferation of mosquito larvae, vectors of numerous diseases such as malaria. ■

BRIGHT IDEA

A Greek household spends roughly 10% of its budget on electricity. In an attempt to help their compatriots save energy, students from Alimos High School suggest that consumers should simply change light bulbs. They write as follows in *Bleu Blanc Vert*, the magazine produced by the Young Reporters Programme of the Paris-based Foundation for Environmental Education in Europe (FEEE): "If we exchange 1 100-watt incandescent lamp for one fluorescent lamp of equal light power (20W), we reduce emissions of CO₂ by 650 kg for the whole 'life' of the bulb (8,000 hours)." ■

FEEE
UNITED KINGDOM: Graham Hashworth, Tidy Britain Group, The Pier, Wigan, WN3 4EX. Tel: (44) 19 42 72 46 20; Fax: (44) 19 42 82 47 78
IRELAND: Ms. Patricia Oliver or Ms. Jo Cooke, An Taisee, The Tailors' Hall, Back Lane, Dublin 8. Tel: (353) 1 451 47 86; Fax: (353) 1 453 32 55.

THE PROMISE OF AGROFORESTRY

Some 15.4 million hectares of the world's 2 billion hectares of tropical forests disappear annually, including 10 million to slash-and-burn farming. In order to resist this trend, the Consultative Group on International Agricultural Research (CGIAR), an international consortium sponsored by the World Bank, FAO, the United Nations Development Programme and the UN Environment Programme, is supporting research into sustainable farming practices. Agroforestry, one such method, consists of integrating trees into farming in order to reduce the pressure on forests by providing farmers with timber and fuelwood, as well as fruit, oils, resins, medicines and fodder. This would contribute to the earnings of rural households and increase food security. ■

CASTOR OIL TREATMENT FOR THE OZONE LAYER

Poly-Urethane Industria e Comercio Ltda, a Brazilian company based in Belo Horizonte, has perfected a new technology that uses castor oil as the expanding agent in the manufacture of insulating foam. This original idea should lead to a notable reduction in the use of Chlorofluorocarbons (CFCs), gases that destroy the earth's protective ozone shield, and also encourage castor-oil production in Brazil, where the plant from which it is made grows wild even in the big cities. ■



© Beatrice Petit, Brussels

Colonia del Sacramento remembers its turbulent past

by Edouard Bailby

Colonial monuments with an eventful history grace the old quarter of the Uruguayan port of Colonia



The Río de la Plata estuary, which is 280 km wide at its mouth, sticks like a wedge into the continent of South America between Argentina and Uruguay. Well inland, where the Paraná and Uruguay Rivers meet, its two banks are still 50 km apart. It is there, on

The Street of Sighs (*Calle de los Suspiros*), with the swirling waters of the Río de la Plata in the background.

a peninsula at Uruguay's southernmost tip, on the edge of the pampas, that Colonia del Sacramento was founded in 1680. This small town was spawned by rivalries between two colonial powers, Spain and Portugal, and its turbulent past is reflected in its unusual blend of two architectural styles. It was on those grounds that the site was put on UNESCO's World heritage List in December 1995.

Present-day Colonia del Sacramento, which is visited by tens of thousands of tourists every year, is a sleepy town untouched by the hurly-burly of modern life. From its upper district, it is possible at night to see the twinkling lights of Buenos Aires, the town from which, in 1680, the first Spanish expedition set out to take Colonia del Sacramento, then a Portuguese stronghold.

A coveted prize

For almost a century the Portuguese and Spanish fought for control of the Río de la Plata, which was of strategic importance. It was through that estuary, after a voyage of several thousand kilometres along the Paraná and Uruguay Rivers, that precious stones and

hides from Bolivia, as well as precious metals from Peru, passed on their way to Europe. It was through that same channel, but in the other direction, that the Spanish and Portuguese transported—and often smuggled—goods to the heart of the continent.

It is generally agreed that the first Spanish navigator to have entered the Río de la Plata was Juan Díaz de Solís in 1516. Later on, Spanish, English, French and Dutch privateers and pirates ventured into the estuary and unloaded cattle on to unknown land, hoping they would quickly proliferate and become a source of trade. But there were soon clashes with the Portuguese, who were seeking to extend their territory to the south of Brazil. In 1680, the Prince Regent of Portugal, Don Pedro, ordered Colonia del Sacramento to be founded.

But the Spanish were in no mood to accept that, and the same year the newly-founded town fell into their hands, despite the heroism of Joana Galvão: after the death of her husband, who had been given the task of defending the fortress, she took over command of his troops. Colonia del Sacramento





© Servanille/Rapho, Paris

The late 17th-century Church of the Most Holy Sacrament in Colonia del Sacramento is the oldest in Uruguay.

Remains of the St. Francis Xavier convent adjoin the Colonia lighthouse.

later changed hands several times as a result of treaties or battles, and was destroyed and rebuilt almost as many times. It was not until the first half of the eighteenth century that Colonia enjoyed twenty-seven years of uninterrupted rule by a single Portuguese governor, Antonio

Pedro de Vasconcelos. During that time (1722-1749), the town was graced with many fine examples of civilian and military architecture (the surviving examples of which can be admired today). It also reached its cultural and commercial zenith, and boasted twice as many inhabitants as Montevideo, which was founded by the Spanish in about 1726.

'Don't let's tamper with the past'

In the early 1960s a small group of Uruguayan history enthusiasts managed to persuade the government and the town council to come up with the financial and material resources needed to preserve Colonia's old quarter. Some house-owners agreed to sell their homes and restoration work started.

In January 1991, a team of archaeologists identified the precise location of governor Vasconcelos's palace. The discovery and subsequent work on the site resulted in Uruguay's first laboratory of historical archaeology being set up in Montevideo. Nelsys Fusco Zambetogliris, an anthropologist and archaeologist at the National Heritage Department, is opposed to any

plans for reconstruction. "Let's keep the old stones just as they are," she says, "and don't let's tamper with the past, except to show it to good advantage."

The historic quarter, which is sandwiched between the remains of the ramparts and the modern city, covers the area of the former Portuguese town of Nova Colonia do Santissimo Sacramento. It contains almost 16 hectares of buildings in a great diversity of styles. Its layout is unusual. Unlike many other Spanish and Portuguese colonial towns, which were built on a grid pattern, this stronghold was given a jigsaw-puzzle design, partly because of the site's topography, and partly to act as a windbreak—the Río de la Plata is subject to fierce gales.

Plaza Mayor, which was adorned with five royal palms and two cedars at the beginning of this century, gives on to the Río de la Plata. With its public gardens and lovingly preserved eighteenth-century mansions, it has retained some of its erstwhile bucolic charm. No. 180, a modest building with thick stone walls, houses the Portuguese Museum. Its *azulejos* (enamelled tiles), furniture made of jacaranda (a precious South American wood), clothes and kitchen utensils stand as a reminder that Colonia del Sacramento long had connections with the Portuguese crown. A stone's throw away, a small street called Calle de los Suspiros (Street of Sighs) runs gently down to the estuary. It has a central gutter that drains rainwater off its uneven cobbles, and is lined with early eighteenth-century peasant houses. Less centrally located is the Spanish Museum, the home of exhibits and documents relating to the Spanish presence in the town.

Probably the most interesting of Colonia's seven museums is the Municipal Museum, once the residence of the Irish Admiral William Brown, who played a heroic role in Uruguay's independence. It offers ▶



© Hugo Cardoso

► the most comprehensive collection of exhibits connected with the town's history. On top of 50,000-odd documents in Spanish and Portuguese and wide-ranging collections of colonial furniture, cannon-balls and stuffed animals, there are a number of utensils and weapons used by Charrúa Indians, the former hunter-gatherers of the region who were massacred and dispersed by colonization.

The governor's palace

The Church of the Most Holy Sacrament (Iglesia Matriz del Santísimo Sacramento) is Uruguay's oldest church. It has been partly destroyed several times since its foundation in the late seventeenth century. The greatest damage was caused in 1823 when the sacristy, which was being used as an explosives depot, blew up. Despite restoration work, the building has since lost its original architectural unity. The nave does however contain some admirable works of art, including a sixteenth-century altar-piece, a seventeenth-century painting of the Holy Family and a sculpture of St. Francis of Assisi made out of Paraguayan caoba wood. The only elements of the original church that have survived are its pillars, which date from 1695.

It is between this church and Plaza Mayor that archaeologists have succeeded in pinpointing the site of the palace of the Portuguese governor Vasconcelos. Nothing remains of the building itself, but by collating several ground-plans dating from the colonial period it is possible to delimit its outer walls and reconstitute at ground level the layout of each wall and partition over a surface of 1,000 sq. m.

Despite extensive research and excavations, the turbulent past of Colonia del Sacramento's old town has not by any means yielded all its secrets, and much remains for archaeologists yet to discover. ■

LISTENING

ISABELLE LEYMARIE TALKS TO DAVID SANCHEZ

Puerto Rico has a strong musical tradition dating back to the early colonial period. At the beginning of this century, the island had such a talented pool of instrumentalists that Afro-American band leader and jazz pioneer James Reese Europe recruited musicians for his wind section among them, in San Juan, the capital.

Until the late 1960s Puerto Rican music was relatively unknown outside the island, but since then a new generation of musicians has emerged. The young saxophonist David Sanchez, one of the most expressive of present-day jazz composers and performers, is a star in this constellation which also includes drummer Giovanni Hidalgo and bass-player John Benitez, with whom he has often played.

■ **Isabelle Leymarie:** Black influence is very strong in popular Puerto Rican music—both traditional music and dance music like *salsa*. This comes out very clearly in your playing and your compositions. *Bomba Blues* on your last record, *Sketches of Dreams*, blended the blues with *bomba*, an Ashanti- and Bantu-inspired genre created in Puerto Rico.

David Sanchez: In Puerto Rico, 90 per cent of the music has black roots. I'm thinking of *bomba*, of course, but also the more hybrid *plena*, which is played with tambourines and appeared after the First World War, and *danza*, which is orchestrated for European instruments. *Danza* comes from old courtly dances like the minuet, and when it arrived in the Caribbean in the eighteenth century, it picked up African syncopation. These black roots are per-

vasive. Although we have our own indigenous rhythms, which are our hallmark, we've also left our mark on Cuban music. Unfortunately, black music in Puerto Rico is often overshadowed by black American music and is still far less widely played than it deserves.

■ **I. L.:** Were you brought up in a musical family?

D. S.: I grew up in Guaynabo, near San Juan, in an atmosphere steeped in music. At home I heard local performers such as the drummer Rafael Cortijo, the singer Ismael Rivera and El Gran Combo, a famous band, all forerunners of Puerto Rican salsa. My father used to listen to the Mexican singer Toña la Negra and Cuban musicians such as the Orquesta Aragón and the singer Vicentico Valdés. My sister, who was studying literature, introduced me to Brazilian and Haitian records and *nueva trova*, politically committed Latin American songs of the late 1960s. I started playing on my brother's drum set and the conga. I had a particular liking for Cuban drummers such as Mongo Santamaria, Patato Valdés, Los Papines and El Niño, and jazzier groups such as Irakere. I especially remember *Misa Negra*, a composition by their piano player, Chucho Valdés.

■ **I. L.:** How did you move from "Latino" music to jazz?

D. S.: Again it was my sister who taught me to appreciate jazz with records like Miles Davis's *Basic Miles* and Billie Holiday's *Lady in Satin*. When I was twelve I moved onto the tenor saxophone. I studied classical technique



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and then went on to the Escuela Libre de Musica in San Juan, where some of our best musicians have studied. Then I analysed the styles of the great jazz saxophonists: Ben Webster, John Coltrane, Dexter Gordon and Sonny Rollins, whom I particularly admire.

■ **I. L.:** Although you're known as a jazz musician, you've never lost your affection for Latin rhythms.

D. S.: Yes, I like playing what is known today as "Latin jazz". It's a hybrid style that came from the United States in the late 1940s with musicians like Dizzy Gillespie, Charlie Parker, Mario Bauzá and Chano Pozo, who realized that jazz and Afro-Latino music flowed from the same sources and that they could get along very nicely. Some critics occasionally ask the question whether jazz

will last. I'm convinced that the future of jazz is in Latin jazz. At a time when jazz often returns to a certain kind of classicism, Latin jazz has created new forms of expression. Its popularity keeps growing, and we Latin American jazzmen are in top form.

■ **I. L.:** There seem to be two musical trends in Latin America and the Caribbean right now: a return to roots and fusion between different musical genres.

D. S.: The whole of Latin America, and Puerto Rico in particular, is multicultural, and has been from the start of its history. This is where we get our inspiration. This is what shapes our personality. If more people understood the enrichment that comes from cohabitation with other ethnic groups, there wouldn't be so many conflicts! ▶

■ **I. L.:** The Cuban flautist Alberto Socarrás used to describe how, when he moved to Harlem in 1929, American musicians couldn't believe that someone with a Spanish accent could play their music as well as they did. Is it still hard for a Puerto Rican instrumentalist to be fully accepted in the American jazz world?

D. S.: Sometimes there are tensions, but the joy of making music usually wins out over racial, language or cultural differences. As in any art form, what counts first and foremost is an open heart.

■ **I. L.:** How do you compose your music?

D. S.: The first thing I usually do is set the beat and the melody. For me, these are the two most important factors.

Rather than structure, I create themes and melodies that bring about the form. In my last recording, *Street Scenes*, I wanted to reproduce the different kinds of atmosphere in big cities like Paris and New York. Street life and everyday scenes were my sources of inspiration. Except for *Four in One* by Thelonious Monk, all my compositions were suggested to me by my band. Sometimes it's the way my musicians play that gives me ideas, and after a performance I sometimes sit down and transcribe into music what I've felt. ■

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