# MicroFinance in New England

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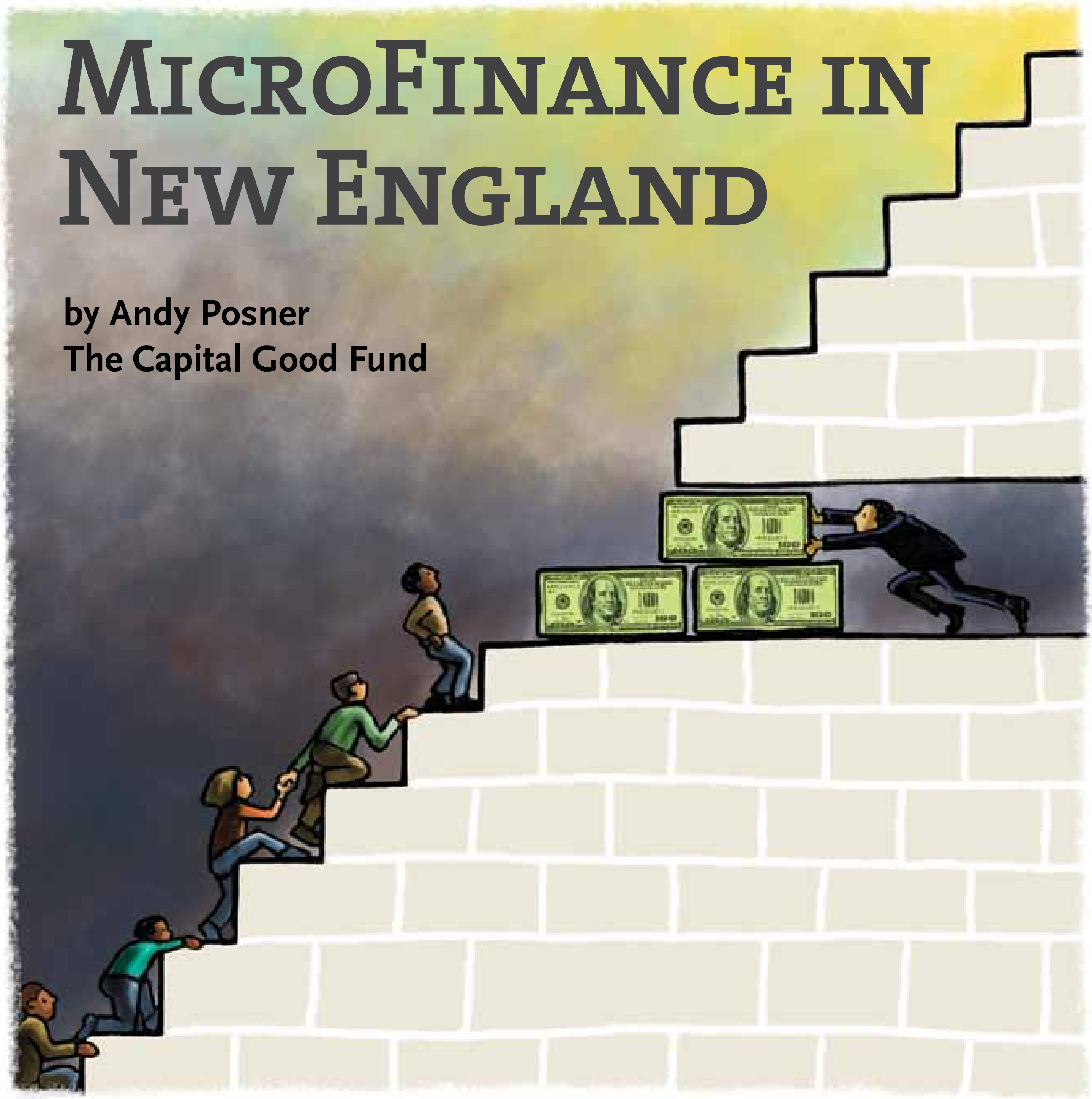

Barrie Maguire

Internationally, not only has microfinance proven to be an effective tool for fighting poverty and strengthening community, but microfinance institutions (MFIs) have achieved tremendous scale. Indeed, many MFIs serve millions of customers, and it is increasingly common for them to be profitable. Several have even had IPOs. In the United States, however, the picture is quite different. High transaction costs, differences in the nature of poverty in the states, and the availability of credit from fringe and predatory lenders have all prevented the development of a truly mature domestic microfinance industry, one that is capable of reaching the scale needed to create systemic change.

Having spent the first three weeks of 2009 being trained by Grameen Bank and having seen firsthand the way in which microfinance can change a life, a family, a community, and even a culture, I have become deeply committed to finding ways of bringing that level of impact to the United States. The economic downturn and credit crisis have only served to highlight the need for access to affordable, equitable, and effective credit. As the executive director of a young and small nonprofit microlender, the Capital Good Fund, I have been experimenting with new approaches to domestic microfinance. Though we have yet to find a perfect solution, here is what we have found so far.

## Microfinance as Hub

First and foremost, we have come to see microfinance as a kind of hub around which a number of social service agencies can operate. We have found that many programs become more effective and meaningful when combined with a loan product. For instance, business training courses lead to the creation of profitable businesses only if the graduates are able to obtain start-up capital, and financial education programs have the potential to truly create behavioral change if combined with an actual loan product that enables participants to put their new knowledge into practice.

Second, in order to overcome the high cost of finding new clients, we have begun embedding our lending within social service agencies. In the United States, people don't wake up in the morning and say, "What I need is a microloan." Instead, they go to the local moneylender, pawnshop, or payday lender. Our approach is based on the idea that social service agencies across the country already have well-established relationships with the same people microlenders hope to serve, and the products and services that MFIs offer can enhance the work of the agencies and ensure that people are able to move toward financial self-sufficiency.

Third, microfinance can only get to scale in the United States if affordable interest rates can be combined with extremely high repayment rates and low transaction costs. The group-lending model pioneered by Grameen Bank is, simply put, a marvel of efficiency. One loan officer can serve up to 600 clients (there are 12 groups of five borrowers per "center," and each loan officer attends two center meetings a day, five days a week). As a result, the interest income earned off those 600 clients covers the salary of the loan officer, with enough left over to cover defaults, back-office costs, and the like.

## It Can Work Here

The standard argument against group lending in this country has been that we have a culture dominated by individualism, and therefore the model cannot work. Grameen America, which already has 4,000 borrowers, is certainly proving otherwise. And our considerably smaller experience—we currently have around 25 group-loan borrowers—is also demonstrating that the same dynamics can be created here as in Bangladesh or Bolivia. The key is to tap into existing communities of people who meet on a regular basis and are working to overcome a similar challenge and better their lives. These communities already exist in most social service agencies.

As a case in point, take our partnership with Amos House, an innovative organization that assists the homeless, those with drug addiction, ex-offenders, and other individuals struggling to better their lives. Together, we identified a specific need that many of their clients had: paying off traffic fines that accumulated while they were incarcerated so that they can reinstate their driver's license and, in turn, gain access to employment. Amos House already had job-training programs leading to job opportunities. The license issue was the last major barrier to allowing their clients to take advantage of those opportunities.

By combining our experience and understanding of group lending with Amos House's understanding of the needs of their constituents, we were able to develop a group-loan program that hews closely to the Grameen model but that, instead of providing microbusiness loans, offers participants loans to get their driver's licenses reinstated.

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Before joining the group, each participant is first screened by a caseworker at Amos House to ensure that he or she is stable enough for the program and can benefit from it. Next, group members must complete at least four classes' worth of financial coaching—taught at the weekly group meeting, which is hosted at Amos House—to ensure that they have the financial knowledge to budget and manage a loan and bank account (all borrowers must open bank accounts). Only then can two of the group members, selected by the group on the basis of need, request a loan. Those two individuals must then make at least one loan payment on time before two more group members can request a loan.

Though still in its infancy, this model—partnering with a social service agency to identify a specific need among its clients and then developing a group-loan program to meet that need—is proving tremendously effective. According to our director of programs, Joseph Holberg, who has been running the Amos House program, "When a group of strangers with a shared set of goals, namely financial stability and security, and with similar obstacles to overcome, interact and participate in group lending, the cohesion and the relationships formed bridge any type of racial, cultural, or socioeconomic barrier that exists between them. This group dynamic forms the basis for the social support that encourages financial mobility and acts as the primary risk management tool for the lending MFI and strengthens the existing social service agency. It is simultaneously simple yet powerful."

The bottom line is that despite being the wealthiest country in the world, the United States faces significant, persistent, and endemic social challenges. These include a poverty rate that currently stands at 15 percent, the largest prison population in the world (which leads to tremendous social and economic costs, urban blight, and violence), and a credit crisis that has millions of Americans caught in a vicious cycle of debt.

Microfinance is not a silver bullet, but by combining the Nobel-prize-winning effectiveness of group lending with the life-changing work of social service agencies, MFIs can become much more than financial institutions with a mission. Indeed, it is reasonable to expect that by forging these new partnerships, MFIs can achieve unprecedented scale and effectiveness, stretch the value of every donor dollar going to them or their partner agencies—and most important, begin to make a meaningful and significant dent in some of the most daunting and costly social issues facing this country.

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