

“Money, says the proverb, makes money. When you have got a little it is often easy to get more. The great difficulty is to get that little.”
-Adam Smith

Motivation

When I read Adam Smith’s quote a half semester into my independent study on microfinance, I felt that it grasped the true goal of this alternative method to traditional poverty relief measures. Although offering aid alleviates some poverty in the short-run, it is unrealistic to think that a country’s poverty can be cured through gifts from wealthier nations. I immediately took to the idea of microfinance when I learned about it because many people are limited by lack of opportunity. Micro-loans provide the poor with an opportunity they typically might be excluded from. Offering the credit-less poor even the smallest loans breaks the cycle of extreme poverty allowing the poor to look beyond day-to-day survival and create long-term income generating plans. My goal of the semester was to complete a three-part research project focusing first on the history and background of microfinance, and second, on the implications if implementing methods that have been successful in developing countries in the US. Throughout the semester I posted much of my research, questions and thoughts on a blog: microfinance.hamiltoncollegeblogs.com. Finally, the third portion of my project is to apply what I have learned to a local scenario. As my project developed throughout the semester, I began to focus my studies on women and when the opportunity of working with refugee women in Utica came up, that’s whom I decided to create a microfinance model for. I have come to believe that implementing microfinance in the U.S. is not as realistic of an option as in developing countries, but the refugee population functions as a microcosm of an undeveloped country in this case. The goal of this paper is to provide a chronological overview of my research from the past

semester and use this knowledge to create a model tailored to the \$40,000 grant for the group of refugee women in Utica. I want to create a model that will sustain this \$40,000 over time allowing the refugee women to continually use the money as a fund to a weaving guild offering them a necessary income and fiscal independence instead of handing over the money as a charitable gift. Believing in another person is a powerful motivator and showing belief to helpless poor through fiscal opportunity is the practice of microfinance.

History and Background

Historical Overview

Micro-lending, a growing practice around the world, allows the credit-less poor to receive loans in hopes of breaking the cycle of poverty. Muhammad Yunus (founder of the first microfinance bank: Grameen Bank) determined the best way to help the poor was to grant them access to money, empowering them. Microfinance focuses on providing banking resources to those who would never be considered potential borrowers by traditional financial institutions due to a lack of credit. Adam Smith famously stated, “Money, says the proverb, makes money. When you have got a little, it is often easy to get more. The great difficulty is to get that little” and this is exactly what microfinance addresses. A study in Indonesia showed that micro-borrowers were able to increase their incomes by almost 13%, while the control group increased their income by only 3%. Additionally, “an eight-year study in Bangladesh demonstrated that, among the poorest in the country, only 4 percent were able to pull themselves above the poverty line without assistance. Recipients of loans from the Grameen Bank... escaped poverty at a rate of 48 percent” (Sharma). When offered credit, the poor are often able to employ themselves

and raise not only their own incomes, but the GDP of their country as well. Micro-loans increase the aggregate supply of a country, ultimately increasing the countries production potential. A rigorous loan process and a group loaning method help allow, “micro-loan repayments [to] typically top 97 per cent, far higher than conventional lending” (Blakely). Success rates of micro loans show that they can help build the infrastructure needed to uplift depressed communities by utilizing the previously unused resource: the unemployed poor. Although these loans are small, they do have a significant impact on the national economy as their positive effects ripple throughout, living standards, income, employment, aggregate supply, and GDP. The practice of microfinance in the US may be young, but as success in other countries has shown, a commitment to supporting micro-loans will improve the poverty in the country.

Microfinance is an Enabler

Micro-lending that targets poverty has enabled higher income generation through a multitude of economic activities. Offering credit to the unemployed poor, works as a powerful method to breaking the cycle of poverty. Stuck within deathly cycles, these people were squashed under the forces of those they worked for or borrowed from. When one has no other choice but to work a full day for a just handful of rice, that is what must be done. Micro-lending offers another option, enabling people to become independent. Micro-loans provide access to credit and finance, training and skills, which lead both lead to better job opportunities, higher incomes, and a decent standard of living (Geodesudbury.com). Micro-lending makes the previously impossible option of self-employment a reality. With increased opportunities, higher incomes are available. Higher incomes do not only benefit the previously unemployed poor, but the country as well.

Micro-lending can expand a country's financial sector, but adding new companies and products. Variety and increased volume are both beneficial, especially to developing countries that may rely heavily on one export. With this expansion of business, the individual's and country's economic power grows.

Loan Process

Through a rigorous loan process, loans focus on aiding the poorest of the poor (who would never be considered as potential borrowers by traditional financial services), those who are unemployed and barely scraping by. Typically, first loans are equivalent to about \$5-\$15 American. It is difficult for many to fathom the magnitude that this small amount of money can have. The CEO of Grameen foundation explains, "if 110 million people increased their per capita income by \$3 a day, every day, that starts to become more meaningful on an aggregate level" (Hawser, 24). No collateral, credit history, or other legal paperwork is required for micro-borrowers to receive loans and the smallest amounts completely alter lives through the opportunity they provide. Many are able to break payment cycles they are stuck under, start their own businesses or even simply put a roof on their own home (Geodesudbury.com). Micro-loans open a world of opportunities for the poor who would otherwise be likely to die of poverty. □ Whether or not loans will be repaid is a chief concern and criticism in the field of Micro-lending. Yunus and Grameen Bank developed a system, to ensure the payback of loans from borrowers. All loans are granted to people in groups of five. If one person in the group fails to pay back his or her loan, the entire group is let down. The group dynamic allows borrowers to have support and encouragement from their community, helping to ensure loan repayment (Yunus). Yunus admits his loans to be risky, "[borrowers] don't have

collateral, they don't have guarantees, they don't have lawyers, nothing. How risky can you get? Still, our money comes back," yet is confident in the process (Parker, 1).

Macro effect of a loan

The promotion of microfinance-supporting policies can positively affect the macro-economy, specifically, government spending, unemployment, savings, investment, GDP and ultimately, poverty. Whenever money is loaned out it is eventually put back into another bank and is ready to be loaned out again. Even micro-loans have an effect on the economy. Although these loans are small, they do have a significant impact on the national economy as their positive effects ripple throughout, income, employment, aggregate supply, GDP and living standards. □ The only way for a country to expand its output in the long run is for it to expand its aggregate supply. Aggregate supply is accounted for by, natural resources, labor, technology, capital and education. If any one of these factors is increased, overall output and therefore GDP can be increased. Micro-loans can help to increase many of these five factors within aggregate supply. Giving the unemployed poor an opportunity to take part in the economy is a great step in itself. This increases the amount of labor available in a country shifting the AS curve outward. With loaned money, capital resources can be increased as the poor buy materials to begin their own businesses. Many of these businesses need other laborers, who will be taught a new skill. These increases in capital, education and labor productivity also shift the AS curve outward. The potential output of the country is increased by this shift in aggregate supply. Micro-loans help to utilize those previously unused resources in a country such as the unemployed poor and force them to effect the economy in a positive manner. □ □ When offered credit, the poor are often able to employ themselves and raise not only their own

incomes, but the GDP of their country as well. Micro-loans also increase the aggregate supply of a country, ultimately increasing the countries production potential.

Looking further into the future, the increased investment in small businesses will increase the country's output (raising aggregate demand through increased consumption and investment) as it also decreases unemployment and pushes the economy toward its full-employment level. With more people receiving credit and therefore a larger pool to distribute loans to, the credit market would become more efficient allocating funds to the best investors and obtaining the best returns for the country. Also, because the government will be saving money (spending less on welfare) and personal savings also increase proportionately with income, in the long-run the production potential of the economy will permanently increase. Most importantly, micro-loans help the poor to improve their own lives and increase their dangerous living standards. Through its provision of credit, micro-finance empowers the poor, alleviating the strongest symptoms of poverty and helping stagnant countries to prosper.

Criticism

There are certainly criticisms of the field that need to be recognized to foster national support for such policy changes. The most common criticism of microfinance is that the credit-less borrowers must have low repayment rates. Astonishingly, microfinance borrowers have a repayment rate of 97%, which is well above the repayment rate of traditional banks. High interest rates (necessary because borrowers are credit-less) are also a point of tension, but the Elizabeth Littlefield of the Consultant Group to Assist the Poor stresses, "without firm ethical principles and a commitment to benefit poor people's lives first and foremost, it will no longer be microfinance"

(Blakely). In current times, microfinance is equated to sub-prime loans causing a fear of crisis. Different from sub-prime loans, micro-loans are smaller in scale and are given out with more caution and in the context of a group support system. Microfinance is about helping the poor help themselves by offering the poor financial services that previously excluded them from contributing to their country.

Targeting Women

Over the years micro-loans have targeted women, who dominate the poorest populations. Women make prudent investment decisions for themselves, but also ones that improve their children's lives and contribute to the potential of their country. Offering credit produces a great effect on enhancing the lives of women, whereas it offers few advances to men. Proven to obey more consistent repayment rates, women are labeled as the lowest-risk borrowers. Through its provision of credit focusing on women, micro-finance empowers poor women and helps to alleviate the strongest symptoms of poverty and advance underdeveloped countries.

Women Make Up A Majority Of The Poor

Today 1 billion people survive on less than \$1 a day, the great majority of whom are women. To most effectively tackle the issue of world poverty, those who are most affected must be addressed, meaning women. Even at its inception, the Grameen Foundation sought out women borrowers, but not only does the Grameen foundation target women, 90% of loans in the micro-finance field worldwide are to female borrowers ("Bangladesh"). Women account for somewhere around half of the population in a given country. Without economic independence or power, women can make little or no impact on the economy. Given a loan, a woman can create her own small business and become a

contributor not only to her family, but to her country as well. Alex Counts, the CEO of the Grameen Foundation rationalizes, “if 110 million people increased their per capita income by \$3 a day, every day, that starts to become more meaningful on an aggregate level,” explaining the great power that issuing just small loans can have (Hawser, 24-5). Loans affect more than just the people they are granted to, but continue to ripple throughout the economy as the money is utilized and spent. Women make up a significant proportion of any population, so having them go from no to even a small amount of income has a considerable impact on the macro economy. Aggregate supply, the only factor that allows a country to grow in the long run, is accounted for by, natural resources, labor, technology, capital and education. If any one of these factors is increased, overall output and therefore GDP can be increased, helping to lift a country out of poverty. Micro-loans help to utilize those previously unused resources in a country such as the unemployed poor and force them to effect the economy in a positive manner. Through micro-loans increase in potential GDP, both the economy and living standards are boosted for current and future generations. Granting women micro-loans amounts to finding an untapped natural resource within a country’s earth.

Women Are Lower-Risk Borrowers

Proven to be lower-risk borrowers, women also choose sensible and development-promoting investments for themselves, their children and their country. Recent data in both sociology and economic reports displays the, “greater probability that money in the hands of women is spent on children’s health and education relative to money in the hands of their husbands” (Armendáriz and Morduch, 143). Focusing on women to allocate borrowed money works as a more productive method to increase the living

standards in a country. Addressing children's health lengthens the life span of a child and decreases the likelihood of future problems if proper habits are developed early. Education, often a luxury for those in underdeveloped countries, can become a reality with micro-loans, improving not only the child's future, but also the future of the country.

□ With a healthier, more educated population, the growth of aggregate supply continues.

Microfinance Empowers Women and Improves Self-Awareness

Credit does not only improve living standards through aggregate supply, but also increases women's empowerment and her overall awareness in a given country. In a study based in Bangladesh examining the effect of micro-credit on women's autonomy, it was observed that when offered credit, women experience a statistically significant increase in, "the latent empowerment factor associated with finance," including independence from a husband and ability to freely make financial decisions (Pitt et al., 25). In contrast, "male credit significantly reduced the overall empowerment factor, had a significant negative effect on six of the other empowerment factors and did not have a positive effect on any of them" (Pitt et al., 24). Offering credit and loans to men causes primarily negative effects and makes no developmental progress of any kind, yet another motivation for banks to focus on women as their chief borrowers. Along with this empowerment, women's autonomy with purchasing, control over economic resources and confidence in their own ability to raise money in case of emergency, all increased. Rarely considered equals of men, women face discrimination and restricted freedom in many developing countries. The study showed, "female credit affects the likelihood that a man will describe his wife as intelligent and the probability that a women will say that she does not view her husband as superior to herself" (Pitt et al., 26). With the

opportunity of credit, women's empowerment increases and slowly equality will spread. Additionally, "female credit positively affects the factor relating to women's awareness and activism," including women's knowledge of divorce options and probability that she will vote (Pitt et al., 26). Such knowledge also increases the human capital of a country, providing better living conditions for the future. By giving women money and in turn, power in their household, not only is the issue of poverty being addressed, but the one of female equality and opportunity as well.

Implementing Microfinance In Developed Countries

Differences Between Developing and Developed Countries

The United States may be a developed country by global standards, yet still more than 12% of Americans live below the poverty line and an ideal method to incorporate these Americans is microfinance¹. Although, "the banking sector is much more sophisticated and complete in the United States than in developing countries...gaps in access to financial services continue to exist...particularly for low-income people, women and people of color" (Sevron, 175). The US may have a smaller population that would fall into the "poorest poor" category, but still many people without credit are excluded from the financial system (Yunus). Today, "though microfinance serves an enormous number of people already, demand is still largely unmet" and tapping into this demand from a large unused resource of people who can work and invest would increase GDP considerably (Sharma). To support the implementation of microfinance programs, the government must promote and adopt policies to support the concept.

The US has strict regulation that hinders the Grameen loan process. Currently the

¹ US Census Bureau News, www.census.gov

Bank is relying on donors to get them going and keep them running at first. The Grameen bank is not allowed to take deposits and operate as a mainstream bank in the US, but they hope to “eventually be able to collect and re-lend savings to make expansion easier and create self-sufficiency” (Devi). In addition to governmental restrictions on the practices of the Grameen bank, there are also restrictions to starting one’s own business in the US. Restrictions include government approval, costly insurance and permits. Self-employment is not a simple answer to poverty as it may be in undeveloped countries where if you can produce something, you can go sell it.

In the original Grameen model, borrowers were bunched together into groups of 5 to receive loans and it was intended for this model to be transferred to the US. With the group method, “if one person misses a weekly repayment of defaults, the whole groups advances more slowly,” adding increased incentive for each woman to do her part (Devi). There is criticism that the group method could fail to be as effective in the US where “the cult of the individual still reigns” (Devi). Apparently, the group method has worked so far in Queens and success will likely be dependent on the nature of the community. I think that the group method will work best with immigrant and refugee populations. It is likely that the countries these people came from have stronger community ties than in the US and now that they are here together, they have become ones another’s support and live together. The idea behind the group method is to offer support and additional incentive to make payments and start their own businesses. In Bangladesh the groups were made up of five very close women who were relatives of one another or close neighbors. I believe this would be the requirement of a successful group method; they would have to be invested in the success of one another’s lives.

In my own opinion, I believe the most important difference is the discrepancy in skill level of the poor populations in developed and developing countries. In developing countries, the poor typically live in rural areas and therefore do not have infrastructure to rely upon. These people build their own shelter, prepare their own food and create the majority of the clothing and goods they need. These are productive skills and if they are able to create one necessary item better than another person, they gain the comparative advantage to create and sell this product. In a developed country, the United States for example, the majority of the poor lives in urban settings, relying on the city's infrastructure instead of their own skills to obtain shelter and others leftovers for necessities. In addition, the United States has shelters and programs to aid those who are homeless or unemployed. In undeveloped countries, even if a poor person obtains money she does not have a store to go to (here we have low cost clothing like the salvation army). The poor in an undeveloped country would likely use their money to buy an input that would aid them in creating something they needed. Having such skills gives the poor from undeveloped countries an advantage in the microfinance realm. These people have marketable skills that they can put to use in the marketplace whereas the majority of the poor in the U.S. do not and would therefore likely prosper less from the opportunity of micro-loans.

Policy changes in US

The policy environment of the US must be altered to promote self-employment and create micro-loan incentives in order to implement successful microfinance programs. The policy change of chief importance is an increased promotion and support of self-employment as a legitimate method of income-generation. "In an entrepreneurial

society, self-employment is a respectable alternative to unemployment,” but in the U.S. the barriers truly self-employment from being a realistic ambition, particularly for someone with little capital who does not know the opportunities of microfinance (Evers & Jung). Self-employment is a realistic option in developing countries, whereas permits, licenses and inspections are sizeable hurdles to starting a business in the U.S. (Sevron, 174). (Sevron, 174). In addition, many micro-loan candidates are the “poorest poor” and likely on welfare and, “in New York and many other states, work requirements are interrupting low-income entrepreneurs’ attempts to use self-employment to move off welfare” (Sevron, 175). A connection of a government sponsored micro-loan program with current welfare programs would allow recipients to transition from one to the next and reduce the risk considered by those leaving welfare for self-employment. Kevin Powell, a researcher of NY microfinance argues; “people are not seeking handouts. They don’t want the government to support them—but we must provide the infrastructure and the necessary tools to allow people to lift themselves out of poverty in a self-sustaining way².” In addition to promoting self-employment, other policy changes might include, tax incentives (for micro-loaners and borrowers) and decreased costs of licenses and permits for new businesses. These monetary incentives would address the reoccurring barrier to starting a business: not wanting to risk the capital. By offering the tools necessary, the poor could be empowered to become self-employed, decreasing unemployment and contributing to the GDP through their own products and the ripple effect that their increased income would create.

² www.kevinpowell.net/our_platform/Micro%20Loans%20Position%20Statement_FINAL.pdf

Creating a Microfinance Model in the United States

Part way through the spring semester, I was informed that Emily Powell, a Hamilton Senior had applied for and received a \$40,000 grant to fund the Utica Refugee women's efforts to begin weaving as a source of income. I was very interested in the potential of this money as a microfinance project for two reasons: one it was directed towards women who I had found to be the greatest beneficiaries of microfinance and two, it was local and I had previously hoped to create a model by the end of my independent study that could be applied somewhere in the greater Utica area. My initial impressions were that the grant was desired to provide the women with a hobby, which would be a nice idea, but there is too much potential for this money to be considered solely for a fun hobby. After expressing my concern for the lack of fulfilled potential of this grant, Judy Owens-Manley, director of the Hamilton College Levitt Research Center explained the origination of the desire for the women to begin weaving again, "I think that it is not accurate to say that the women were weaving for "pleasure" in their home country... they wove to make essentials for their home and because, in their culture, it was what a woman does." At a forum between Hamilton Professors, students and the refugee women, the women expressed a need for their own source of income to aid their families. Because the women have strong weaving skills and were used to creating items in their home country, Emily applied for a grant to buy the capital necessary to allow the refugee women to once again weave and create some fiscal independence. The project was never envisioned as merely providing the women with a pleasurable pastime and needs to be thought of through the lens of microfinance to allow the women to collect an income. It is Emily's \$40,000 grant for the Utica refugees that I would like to develop a sustainable

model for. Although there has been little development of microfinance within refugee populations, a paper on the topic suggests, “programs for new arrivals might include a ‘starter’ grant,” which is exactly how the weaving guild would be built (Jacobsen, 10). The idea is to use the grant to create a weaving guild for the women through the purchase looms and thread. Ultimately the goal is to enable the women to create the woven products they were accustomed to creating in their home countries and sell them for a profit, keeping some and giving some back to the guild (through the form of loans). Instead of handing out the \$40,000 to start the women off, requiring a loan process (using the \$40,000 as the initial fund of a microfinance project) will allow the women to develop fiscal skills and allow the fund to last longer and benefit other women in the future.

Refugees in the U.S. and Utica

Because third and first world countries are drastically different settings to implement microfinance in, third world refugee populations within the United States are an ideal group to begin with a first world country like the U.S. Refugees in the U.S. are essentially immigrants who have been forced to flee their home countries based on a fear of persecution either against their race, religion, nationality, political opinion or membership in a particular social group (BRIA). These immigrants are granted refugee status by the U.S. government, entering the country with few resources and only limited assistance from their assigned refugee center. Approximately 21,000 refugees entered New York State from October 1999 through September 2004 so this group does make up a significant portion of the economy (BRIA). According to Hamilton College Levitt Center’s, Judy Owens-Manley, once the refugees arrive, they are treated like almost anyone else, though they are not eligible for citizenship status for 5 years. They are

eligible, however, for all other benefits, like TANF, food stamps, Medicaid, SSI, and begin here automatically on TANF, food stamps, Medicaid. The refugees gradually work themselves off of aid by getting jobs. Refugees need to generate income almost immediately to pay living expenses in addition to the fact that, “refugees begin their life in American in debt; they’re required to repay the government, interest-free, the price of their plane fare from their home countries” (Burnett). As Peter Vogelaar (MVRRCR’s executive director) points out, “the newcomers don’t get a free ride.” (Burnett). Most people want to work and are just limited by their English language skills initially. They are supposed to be employed after about 6 months (some are sooner, some later). As the job market has tightened recently, it is more difficult to employ refugees within the target dates, limiting the funds the refugee center receives from NY State. The Bureau’s mission highlights its desire to, “help refugees and other persons eligible for refugee services achieve early economic and social self-sufficiency” (BRIA). This goal will become increasingly difficult to meet in the U.S. where most recent unemployment rates are 8.9% according to the U.S. Bureau of Labor Statistics. Alternative methods may be necessary to assist vulnerable refugees and maintain the goals of the Bureau.

Why Target the Women with Microfinance?

As is the case with traditional microfinance where women represent 95% of loan recipients, microfinance with refugees should also target those who are most in need, which in this case, is again, women. In most cultures it is the men who provide for the family and so when refugees come to the U.S., it is easy to believe that the men will find employment more easily than the women who have likely never worked outside their household duties. Women are more “vulnerable” within the refugee group and

“microfinance services for refugees should be designed to reduce poverty, risk and vulnerability” and would therefore be most beneficial to women” (Jacobsen, 9). Throughout my research I have found men to have an easier time adjusting to this vulnerability that poverty brings and I do not believe the case to be different with refugees. If anything the difference is exacerbated because the refugees are coming from cultures where male labor is dominant and most women remain at home, to the United States where the balance may not be perfect, but both genders have employment opportunities. Relatively to women in the United States, refugee women are behind in work experience, whereas the men have similar experience and will mostly be separated by levels of education. Women are lacking, “economic resources” and therefore are the more vulnerable of the two sexes especially in the context of refugees (Jacobsen, 10). This lack of economic resources is what refugee centers attempt to provide and using the grant to fund a weaving guild, ultimately providing the refugee women their missing “economic resources,” would decrease the vulnerability, risk and poverty (the goals of microfinance) of the refugee women involved.

MVCRC Women

All of the women initially interested in the weaving project to be funded by Emily’s grant are associated with the MVCRC. They range in age from 23 to 60 with a median age of 43. None of the women in this group have their own income and as expressed at the forum, need that income. According to Judy Owens-Manley who works closely with the MVCRC, “most people want to work and are just limited by their English language skills initially.” In addition to the fact that, “newly arrive refugees are often economically vulnerable as they have lost their property and have to rebuild their

livelihood in a new economic environment, often one with few economic resources such as a newly established refugee camp” (Jacobsen, 10). The weaving guild would allow women to generate their own income while simultaneously continuing English classes at the refugee center. The work experience, fiscal skill development and improved English would help them find other jobs in the Utica economy down the road. This group of refugee women needs to be motivated and willing to be educated to allow the long-run plan of fiscal independence and permanent jobs to come to fruition.

Motivation and Education Are Essential

In order to create a business and make the grant money profitable, the women involved need to understand business and be highly motivated. Microfinance is a method successful only for those determined to leave poverty behind. In addition, just because someone is motivated to generate an income, does not mean that she is qualified to do so. In order to ensure success of this microfinance project funded by the \$40,000 grant the women must; one, be motivated to create their own income and two, be taught necessary business skills allowing them to build a profitable business. In past meetings between the target group of refugee women and Levitt Center employee, Stephanie Wolter and Hamilton senior Emily Powell, the women have expressed concern due to their lack of knowledge of the project. These women have faced great trials in their lifetime and rightfully so, are skeptical of people who seem interested in helping without an incentive of some sort. They have asked questions like, “how many hours will we have to work” as though they are expecting to be forced into labor. The language barrier adds to the difficulty of gaining the trust of the women, so the first step of the process is convincing the women to trust those setting up the project and understand that we hold no underlying

ambitions other than helping them create their own income. After they understand the motivation of the project, the second step of the process is to be sure only the women passionately interested in making their own income should be involved in the project. According to a study conducted at Tufts University, “by increasing their understanding of microfinance, refugee agencies can make their programs more effective” (Jacobsen, 8). Microfinance projects and micro-loans take effort to build-up and repay. If one woman is not concerned with generating her own income she may be tempted to drop out once a tight payment schedule is implemented. Once the core group of women is formed, the women need to be taught some basic principles to turn a profit. Each woman (depending on work experience) may have a different understanding of running a business and everyone needs to be on the same page because they will all be working with one another. Teaching the women some of the basics of a market economy and about the different products they will create and venues the products will be sold at will allow them to imagine the final stages (and the collection of income), further motivating the women.

Microfinance Is Ideal with This Group

As mentioned earlier, the poor from undeveloped countries have more marketable skills applicable to microfinance than do the poor in developed countries. The refugee women are a clear example of this as they are able to weave a variety of products on looms solely because it is part of their culture at home. This group of women represents the skills of a third world country within a first world setting. This is an ideal stepping stone to implementing microfinance in the United States, here we are only changing one variable- location (therefore development level)- not both location and new type of poor.

Additionally, the fact that these women are from another culture allows the group method of loaning to be considered. In the U.S. there is not as much neighborhood camaraderie (there is a cult of individuality) as in other cultures and a group of women granted a loan would likely not feel the same duty to continue repayments for the sake of others. I believe the United States has a more selfish culture where it would be difficult to adopt group loaning methods, except in this unique case. ACCION International is a microfinance bank in the United States who after trials decided to abandon the group method of loaning used by the Grameen Bank (in developing countries) because they believed the lack of community in the US would not facilitate group loaning (Devi). I think the group of refugee women would be ideal candidates for group loaning or group business of any sort because they have a very strong community. Not only do these women come from cultures where group loaning is more realistic, but also they are now supporting one another living in a new place together. They are all each other has and my hunch is that they already depend on one another and desire to help others in their group succeed. There would be great support, encouragement and incentive not to let one another down in this specific group setting.

Model for Utica Refugee Weaving Guild

Model

This model is entirely hypothetical. I have been unable to meet with the group of refugee women as I wanted to and did not spend anytime this semester studying refugee populations in particular as this was not intended as my final project. Costs of rent, looms and thread are not definite and neither is the size of the group of women so this model will be theoretical instead of a break down of actual costs, loans and profits.

Small Loans

There has been little work done with microfinance and refugee groups and because of this I would like to keep the loans small-scale until glitches are spotted and removed from the system. According to a previous study of using microfinance with refugees, “interventions should be relatively low risk until the refugee’s creditworthiness [is-sic] determined” (Jacobsen, 10). I think the \$40,000 should be used to invest in 2-3 large looms (depending on how large the group ends up) and the women should not be involved in this purchase (ie. they do not have to pay for the looms with loans). This purchase would just be considered a start-up cost of the project, which can be done because there is a pool of grant money to begin with. The same study as above suggested, “while it is important that loan amounts are appropriate to meet the special needs of refugees, agencies should not over-estimate the required loan size...large individual loans are more complex and demand greater capacity to manage than small or group loans” (Jacobsen, 10). I assume none of these women have managed a loan before or started their own small business and to prevent failure, loan sizes should be small. Purchasing the looms and possibly subsidizing rent with the grant money allows the loan sizes to remain small. Small loans are more manageable and will increase confidence in the women, which will aid their fiscal and business skills for the future. For this project, and ultimately the grant, to be sustainable the women have to be encouraged and desire the microfinance project to continue to grow.

Creating Incentive

The women should be borrowing money for the parts of the project that provide incentive to work. I believe that every women who is involved in the project should be

responsible for taking a small loan out to help cover part of the rent. Depending on the cost of the rental workspace, this may be subsidized by the grant money (especially if the women do not have any income right now). Because each woman is already paying for the rental space, there will be incentive to go work in this area, whereas if it was just given to them, the women may not prioritize weaving products. To be fair, a schedule can be set up allowing each woman to have equal time working on the looms. If someone does not use her time-slot, the unused loom would be available on a first-come, first-serve basis. Included in the cost of renting the workspace will be costs of entry to any fairs that the women will be selling their products at. This also provides incentive for the women to work and create products because if they are already paying the costs to sell their products, it would be best to have items to sell.

In addition to creating incentive to work, this loan on rental space and selling costs will be a group loan (everyone is paying a piece of these costs). Robert Annibale, the global director of the Citigroup Micro-finance Group comments on the process, “most micro-financing of Grameen-inspired MFIs is done through lending to groups of five to 20 women co-guaranteeing one another...so if one of the women has a problem meeting a repayment, other women in the group often help her to make that repayment” (Hawser, 26). If one woman does not pay her loan payment one month, the whole group could default and the consequences of that are losing the workspace and therefore losing the women’s method of income generation. To avoid losing the workspace under such a circumstance, the grant money could cover this cost, but the woman who defaulted would have to be penalized to prevent others from thinking there is an incentive to defaulting.

Additional Loans

In the case of thread and the purchase of an individual loom (smaller versions of the large looms can be built), the women could either purchase the good with their own money, or an additional loan. To begin, the women are going to need thread to use on the looms. I am assuming that the women will have the capital to purchase this on their own and begin working. If not they could borrow and then begin repayment once they have sold some products.

Selling Products

Initially, the women will sell their products at farmer's markets and other fairs. As production grows, other options will be available. Local stores can be approached to sell the items of these women or the women could create their own store out of their rental space (further in the future). A practical idea that could be implemented sooner would be the creation of a website to sell the women's products. The cost of this is much lower than an actual store and easier to create.

Coordinator

There must be a coordinator of this project to manage the grant, the loans and make sure all is running smoothly. Ideally, this would be one of the women in the group, but lack of business experience may prevent this. Whoever is in charge of this grant at MVCRC could be the person for the job. The coordinator will teach whoever the most capable woman (in reference to business skills) is in the refugee group the job of managing the books. To start the project, the coordinator will likely have to be someone with the necessary finance skills (not in the group) to be sure everything is started correctly. If this person needs to be paid (he or she does not already work at MVCRC) it

should be a small time commitment (a few hours a week) to keep costs down. It is possible that someone from the Utica community may be willing to volunteer for this position as well. There is no need for a full-time coordinator especially since we want the women to become independent and capable of running the business on their own. The coordinator will act more as a guide for the initial steps of the project.

New Members

The project should be limited to the initial group for the first year until there is a strong base. This will prevent constant fluctuations in loans and loom schedules, creating a constant environment for the group to get the process mastered under. After a year the group can evaluate their success and consider new members if there is interest. If new members are taken in, they should all be accepted, training and integrated into the group at the same time. The rent (although there are more members) will not be cheaper for them (to be fair to the original group and to lower the amount the grant subsidizes rental by) and if this money sums to larger than the rental costs, the excess will be placed into the pool fund.

Repayment

Repayment will not begin until after the first fair or marketplace event where the women sell their products. To prevent women from being unproductive and not creating products to sell at these events they will have two events to begin selling. After this point they will have been receiving loan money without repayment for too long and will either be penalized or removed from the group. The coordinator in consultation with the group of women will make such decisions because the welfare of everyone's business and income generation would be at stake when one group member defaults. The women will

keep all of their profits made when selling their products (and if they want to sell on their own they may as well) and this money will be their income and used to repay their loans.

Interest Rates

Interest rates should be above the commercial level because these women would not receive loans at traditional banks (yet), but not much higher because the close-knit nature of the refugee community should provide an increased trust. Because this program is being run through the refugee center that has aided these women in their transition into the U.S., they would be unlikely to betray them and default on a loan. Also, there is extra protection in the fact that the women are not going to be handed money to purchase their own items, instead they are buying into a business opportunity. No one can walk away with money or a loom. Interest rates should only be 2-3% higher than commercial bank loan rates (could be indexed to this for consistency).

Long-Run

Ideally, over time the \$40,000 grant will grow back to its initial size and possibly larger. The larger this fund grows, the longer the microfinance project can go on, the larger it can become (purchase more looms and rent/buy a larger space) and the more refugee women it can help. I want this project to give the refugee women the economic independence they desire. They can use the money to aid their families, further their education, buy essentials or just enjoy the possibilities available to them living in the United States. Their poverty and lack of access to traditional banking services will limit and segregate them from the Utica community no more.

Eventually the grant should be transferred from where it will be held when first given to the MVCRC to a real bank account at a local bank. The coordinator will be in

charge of working between the bank and the loans will essentially be given under the table by this coordinator.

In addition to helping the refugee women gain economic independence, I also want to further the potential of microfinance in the United States and I believe this is the ideal setting to do that in. These women bring with them cultural habits and characteristics of third-world countries, but are placed in the United States, a highly developed country. To me, this is the ideal group to be working with. Over the semester I have been studying microfinance in third-world settings and exploring the possibilities of its implementation in the United States and determined that many of the cultural and political characteristics of the country would prevent microfinance from flourishing. Although policy changes would help to promote microfinance, the culture of the United States is not ideal and much more difficult to influence (and therefore microfinance methods would have to be changed for this specific culture). But with the group of refugee women, there is real opportunity for microfinance to succeed in a specific setting within the United States. Not only will this project hopefully be helpful to the Utica refugees and other refugee groups throughout the country, but also it will teach the U.S. about reactions of the system to microfinance. If projects with refugees can succeed, the jump from undeveloped to developed countries is made significantly smaller, and we will be one step closer to creating the ideal poverty relief system for developed countries.