

**Micro-credit
A Step-by-Step System
On How to Get It Done**

by

**Bill Cadwallader, PRID
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The basic concept for a micro-credit community bank is that described by Nobel Prize Laureate Dr. Muhammad Yunus of Bangladesh. There are many innovations to this basic design. The writer will explain the basic program and then describe several popular variations being used by Rotarians.

A given amount of money is provided to establish a “community bank” (Revolving Loan Fund). A small group of women who are close friends are gathered. Each one of the group is able to decide who will be a member of the group. It is noted that 98% of these groups are women. Women are considered much better risks than men for revolving loan funds. Groups usually consist of 6-8 individuals.

The women are told the purpose of the group. They discuss the size of the loans that they will need. They also decide the rate of interest that they will be charged to cover the costs of providing loans. One half of the repayment is to be placed in a savings fund. No woman will be able to receive another loan until the entire woman of the group has paid their present loan in full.

The loan is to be repaid in equal portions at the groups weekly meetings so that the full amount, plus interest, is repaid in six weeks. All loans to the women in the groups must be repaid before anyone in the group can receive another loan. The second loan is 50% larger than the first. It too must be repaid in the same manner as the first loan, with the same interest charge, and with the same amount being invested in a savings account. A cycle of six loans is made to this group of women, after which they are considered able to receive loans from a commercial bank, should they need further loans.

Using an initial loan of \$100 as the amount of the first loan, at an interest rate of 5%, the following example is given.

Loan 1.	\$100 + \$5 int. to pay over 6 m. at \$8.75 every 2 wks.		
	\$ 50 in savings		
Loan 2.	\$150 +\$7.50 int.	\$13.12	\$ 75
Loan 3.	\$225 +\$11.25 int.	\$19.68	
	\$112.50		
Loan 4.	\$337.50+16.88 int.	\$29.56	

\$168.75		
Loan 5. \$506.25+25.31 int.		\$44.30
\$253.13		
Loan 6. \$759.38+37.97 int.		\$66.48
\$379.69		
Total	\$2075.13 loans+103.91int.earned	
	\$1039.07 savings	

One can see from the above chart that one lady could be loaned \$2075.13 over a period of six loans. The revolving loan fund will have earned \$103.91 in interest to pay costs and each lady should have placed \$1039.07 in a savings account to provide for the needs of her family.

If one multiplies the figure of \$2075.13 times 8, for the number of women in the “bank”, they will find the calculation to equal \$16,501.04. In other words, for a grant of \$20,000 a Rotary Club can provide for a revolving loan fund of eight (8) women every six months.

The six loan cycle will last for three years. The good part of this revolving loan fund technique is that it can go on working indefinitely.

The weakness of the program is that the women with whom the revolving loan funds work are not well educated. Most Rotary clubs stipulate that the women must first be able to sign their own name before they are eligible for their first loan. This is often called the “signature of empowerment”. A revolving loan fund that consists of this type of population of women requires close supervision. As the women repay their loans at their bi-weekly meetings they become more literate and learn more effective management of their money. Many will become better able to read and to write. Few Rotary Clubs have the membership that has the time, inclination nor trust by the loan recipients to be this supervisor. It is for this reason that many Rotary clubs and districts have been willing to grant this money to other organizations, such as Finca, and so many others. Ideally, it is this writer’s opinion that this should not be done because Rotary loses all contact with the money and the funds are immediately gone from Rotary identity and supervision.

The Rotary Club of Santiago Gurabito, of District 406, has formed Rotary Community Corp (RCC) to supervise the loans. They assign one Rotarian to each RCC to guide them at their weekly meetings. They have one RCC that consists of men and the other that consists of women, each RCC making loans to individual women. This has been successful for the past 14 years. This Rotary Club received the \$20,000 Matching Grant 14 years ago and divided it between these RCCs to make the loans.

Another method that has been used in Uganda is that the Rotary district received a larger grant so that the interest payments could be used to pay a person trained to visit the clubs’ RCCs in the district on a bi-weekly rotating manner to teach the women and to be certain that all of the loans were paid. The size of the grant would

need to be commensurate with the costs of the supervisor. In many such developing nations a total grant of \$100,000 could be enough to pay such a “bank supervisor”.

In Central America’s districts 4240 and 4250 one single Rotarian is responsible for many revolving loan funds and visits them regularly.

This Rotarian is one in a million and does an amazing job with the women of many villages in Guatemala. The Rotary Clubs of Costa Rica have also been active with this same grant.

Rotary Revolving Loan Funds are wonderful instruments to empower women through loans for new businesses needed for their villages. The involvement of the women in bi-weekly meetings with their peers also is empowering because of the enhanced literacy that the experience brings. These weekly meetings teach leadership skills as the women serve as presidents, secretaries and treasures of the bank. Most important of all, it brings women together to discuss matters that are important to them which include maternal health, child care and aspirations for their children.

A revolving loan fund that does not lend money is one used by the Rotary Clubs of D4060 in the Dominican Republic. This club lends sewing machines. Women who have graduated from classes that teach sewing are given a sewing machine with which they can sew at home and earn outside funds. The women are expected to repay the loan fund within one year so more machines can be bought for future women who will graduate from these classes.

Revolving Loan Funds for micro-credit are great tools for the empowerment of women. There are many variations in their use. It is the writer’s opinion that these funds should be kept by the interested Rotary Clubs and not given to other organizations who will not give Rotary credit for their use beyond the first cycle of loans.

Revolving Loan Funds should last indefinitely.