

John Shemo
Testimony re: Travelers Group to acquire Citicorp
Federal Reserve Bank at New York
June 25, 1998

Good afternoon, [names or titles].

My name is John Shemo and I am here on behalf of the Connecticut Capitol Region Growth Council, which is the lead economic development organization for the 29-town MetroHartford region. I serve as the agency's Executive Vice President.

I am pleased to have this opportunity to testify before you in favor of the Travelers Group proposal to acquire Citicorp. There are two reasons that we at the Growth Council support this merger. The first is job preservation and growth. The second is Travelers' long history of — and, we believe, even stronger prospects for — being a good corporate citizen in our community.

The mission of the Growth Council is to boost the local economy by fostering job growth in MetroHartford. It is our opinion that the Travelers/Citicorp merger would not only preserve the thousands of jobs these companies currently provide in MetroHartford, but also would offer the potential of expanding the local employment bases of the two companies.

Travelers has always been a key employer for MetroHartford. Before the company's earlier merger with Primerica, about 6,000 Travelers' jobs were lost and thousands more were at serious risk. Since that merger, the company has reversed this situation, returned to profitability and begun to grow its workforce again. The Travelers Group now employs roughly 7,000 people in Hartford. Plus, another 2,000 jobs were saved by Travelers selling its health benefits operations to another insurer.

In effect, Travelers' practices of strategic acquisition and restructuring has preserved 9,000 jobs for MetroHartford residents.

Separately, the Growth Council recently completed successful negotiations to bring a Citicorp in-bound call center to MetroHartford. This customer service center will employ between 550 and 600 people. We believe that the Travelers/Citicorp merger will have a positive impact on this operation as well, as the two companies begin cross-selling their products through telemarketing efforts. As the company's customer base expands, so, too, should the call center.

The second reason that the Growth Council supports this merger is, as I said, because of Travelers' strong track record in our community. We believe that, as a larger company, its ability to promote the region's economic development will be enhanced.

Travelers was an original incorporator of and investor in the Growth Council. The company is again funding our efforts this year.

There are several other examples of Travelers' community support, of which I will cite just two.

Travelers currently provides the use of its Education Center to the University of Connecticut as a downtown campus. We view this as a first step in creating an even larger Downtown Hartford higher education center, combining course offerings from many of the local colleges and universities. The higher education center is high on our list of projects that would both draw more people downtown and benefit the city's current employers and workers.

Riverfront Recapture, which has revitalized recreational activities on the Connecticut River, also has been a recipient of Travelers' generosity. To date, the company has invested more than \$1.1 million in Riverfront programs, which give new life to the region and attract both residents and visitors to Hartford, East Hartford, and other towns along the river.

It is our opinion that the Travelers/Citicorp merger would serve the best interests of the MetroHartford region. We urge you to consider it favorably.

Thank you.

Statement By
F. Peter Libassi, President
Children's Fund of Connecticut, Inc.
Before the
Federal Reserve Bank of New York
Travelers Group and Citicorp
June 25, 1998

My name is F. Peter Libassi. I am a Travelers retiree and a Travelers shareholder.

I am here today in my capacity as President of the Children's Fund of Connecticut, Inc., a grant making foundation. The leadership role played by the Travelers Corporation in the establishment of this foundation and the public benefits which have followed are the subject of my statement.

What are the most important health needs facing Hartford's children?

In 1992, the Newington Children's Hospital, in Newington Connecticut, an orthopedic hospital, proposed that it close and reopen as a specialized children's hospital in the City of Hartford. In reviewing the health needs of children in the City of Hartford, the Travelers saw a serious need for primary and preventive health care services. The issues which appeared to be most in need of attention were teen age pregnancy, pre-natal care, low birth weight and premature babies, immunization, well baby check-ups, quality early child care and the prevention and identification of developmental delays and deficiencies. Travelers raised the question of whether in fact a high tech specialized hospital as proposed would actually address the health needs of city children.

Travelers launches study of children health needs.

With this question as its focus, Travelers announced that it would fund an independent study of child health needs. Thereafter, other corporations in the Greater Hartford area asked to join project. The study completed by Lewin/ICF and Associates concluded that a children's hospital was in fact needed, albeit a much smaller hospital than was originally proposed. However, in addition, the study concluded, as Travelers had argued, that the health needs of the children of Hartford would only be served if a serious campaign were launched focused on primary and preventive health care for children.

Addressing the need for primary and preventive health care services.

As a result, the Children's Fund of Connecticut was established with a leadership grant from the Travelers Corporation of \$1 million dollars. With gifts from other corporations and area hospitals this Fund has grown to \$17 million dollars. It is the mission of the Fund to support community-based primary and preventive health care initiatives in Connecticut, primarily focused on underserved children, in order to improve the quality of their lives.

The Children's Fund focus:

Early childhood development

Training for those who provide care for children

The Board of the Fund decided to focus its attention on early childhood development, the prevention of developmental delays and deficiencies, and on the linking of health and child care services. Before committing its resources to these issues, the Fund undertook an extensive information gathering effort.

This drive included a study by the Yale Bush Center, interviews with over 350 of the most knowledgeable representatives of public and private agencies, and five independent focus group sessions.

From this information, the Fund's Board reached several conclusions, one of which provided that: There is an immediate need for a statewide education, information and training capacity focused on primary and preventive care for children.

Based on this conclusion, the Board agreed to establish a statewide Training Academy which would help those who provide care and services for children to:

- Learn of recent research findings related to children's health, and to
- Accelerate the application of this knowledge and best practices in child care.

The Role of the Training Academy

As an example of the "catalyst" role made possible by the Travelers leadership, in 1997, the first assignment for the Training Academy was to initiate the formation of a consortium of four state agencies and three private organizations to launch a statewide training program in best practices for child care providers.

The Department of Social Services (DSS), the State Department of Education (SDE), the Connecticut Commission on Children (CCC), the University of Connecticut Health Center's AHEC Program, Wheeler Clinic, Connecticut Charts-A-Course (CCAC) and the Children's Fund joined forces and resources.

Within less than five months, in March of this year, twenty-one training sites were identified, and contracts were approved for the training of over 1600 home care providers following an approved curriculum to be delivered by approved faculty.

In addition, funds were set aside to finance 1800 voluntary onsite visits with home care providers by approved consultants.

This public-private partnership combined \$200,000 from the Children's Fund with \$620,000 in resources and talents from four state agencies to launch Connecticut's first large scale statewide training program for child care providers. In September, over 10,000 children will reap the benefit of being under the care of providers who are receiving the very finest in child care training.

There is no question that these activities would not now be underway if it had not been for the leadership and foresight of the Travelers Corporation.

Thank you.

Background:

The best known microenterprise peer lending program in the world is the Grameen Bank in Bangladesh. It was founded in 1976 by US trained economist, Dr. Muhammad Yunus, to offer access to credit to the poorest of the poor who had no collateral except their willingness to be self-employed. The extraordinary success of Grameen, which now has more than 2 million borrowers and creates a lending cycle in excess of 25 million U.S. dollars, has spawned replication efforts around the world.

In the United States, there are forty loan funds based on the Grameen model, the most successful of which is Working Capital, headquartered in Cambridge Massachusetts. In addition to Florida, Working Capital has office Hubs in Maine, Vermont, New Hampshire, Delaware, Massachusetts, Metropolitan Boston, Atlanta and Russia.

Working Capital Florida was one of seven national agencies who received the first Presidential Award for Excellence in Microenterprise Development, presented by President and Mrs. Clinton.

Economic Impact:

Even the smallest businesses can become increasingly productive with access to those advantages enjoyed by larger companies, namely, access to capital, sales leads and business connections, practical business education and support from peers. At the \$500 loan level, microenterprise borrowers in the United States report an increase in monthly sales between 50% and 100%. Microenterprise peer lending has demonstrated that increased sales for member-owned businesses recycles for greater economic growth, employment and community revitalization.

Funding:

Working Capital / Partners for Self-Employment obtains loan funds from local and regional banks. Initial funding for program operations came from the state of Florida Hurricane Andrew Trust Fund Metropolitan Dade County's Department of Business and Economic Development Metro Miami Action Plan (MMAP). Other funding comes from private foundations, corporations and individuals.

WORKING CAPITAL FLORIDA

Partners for Self-Employment

Business Credit and Training for the Self-Employed

Working Capital Florida is a nonprofit corporation dedicated to providing the self-employed with access to credit, loans, business training and peer support. Through the program participants can:

- obtain a business loan of \$500 to \$5,000
- build a credit record
- develop stronger business skills
- meet and share ideas with other business owners

Small Business Owners:

- join a Business Loan Group of 6 to 10 persons
- apply directly to their Group for loans (The Group reviews loan applications and decides which to approve.)
- repay their loans to Working Capital Florida
- participate regularly in business training and networking events

Types of Businesses:

Members can use loans to start and operate a variety of businesses including: arts and crafts, beauty and hair care; business services; clothing; education; entertainment; food services; health services; home services, import/export; etc.

Who can Join:

Any US citizen or resident alien who owns a business or intends to start a business may join Working Capital Florida. Minority groups are welcome.

How to Join:

Interested borrowers can contact participating community organizations, business associations, social agencies and universities, as well as civic and religious groups in Dade County.

Working Capital Florida

(305) 670-7411 (phone)

(305) 670-7419 (fax)

9200 South Dadeland Boulevard Suite 103 Miami, FL 33156

Working Capital Florida

A Few Facts As of June 1, 1998

Program Founded: 1994

Communities Served: Dade County: Allapattah, Carol City, Little Haiti, Little Havana, North Miami, North Miami Beach, Model City, Opa-Locka, Overtown, Perrine, Kendall, Coconut Grove, Princeon, Florida City, Goulds, Homestead, Richmond Heights and South Miami Heights.

Total Number of Members: 348
Total Number of Borrowers: 274
Number of Loan Groups Formed: 57
Total Number of Loans: 397
\$ Value of Loans Disbursed: \$289,600
Average Loan Size: \$729.47
Average Loan Term: 7.76 Months

Working Capital Florida Loan Fund Participants

Central Bank
Chase Manhattan Bank
Citicorp Foundation
City National Bank of Florida
Commercebank, N.A.
First National Bank of Homestead
First National Bank of South Miami
Helm Bank
Sun Trust Bank, Miami, N.A.
United National Bank

Working Capital's name says it all

National program offers start-up loans as small as \$500

By FRAN BRENNAN
 Herald Staff Writer

For James Rowells, a growing family meant growing bills — bills he found more and more difficult to cover with his weekly paycheck.

Moonlighting as a house painter gave him extra income, and a taste for self-employment. But with little credit and less hope of getting a small-business loan, Rowells knew it would be years before he might become his own boss.

Elisa Crespo had no choice. After losing her job to corporate downsizing, the single mother of two in Westchester turned her sideline, teaching CPR and other safety classes, into a home-based business.

Both Rowells and Crespo got a leg up in their struggle for financial independence from Working Capital, a national program that offers very small loans (\$500 to \$5,000) to very small businesses — loans and businesses that most banks wouldn't bother with. Borrowers pay 12 percent interest on their loans, a rate comparable to those charged by banks.

Working Capital, which got its

start in Massachusetts in 1990, now helps businesses in 10 states. The Dade County chapter began loaning money in 1994 and has already helped about 300 people work their way toward a better future.

"And we're just scratching the surface," said Betty Meyer, executive director of the Dade group. "We really hope to reach thousands of borrowers, not just a few."

For people like Rowells and Crespo, Working Capital provides just that, working capital.

Initial loans are \$500, enough for Crespo to buy her own demonstration dummies rather than pay to rent them. Enough for Rowells to buy costly brushes, put a down payment on a pressure cleaner and do more than just word-of-mouth advertising. He now hopes to become his own boss much sooner than he had expected.

"I never had a loan to start my business," said Rowells, 46, who joined Working Capital with several other men from his Coconut Grove church. "This has helped my business tremendously. What I'm looking at now is long-range goals. I'm looking to buy a bigger truck later on, after I make bigger loans. Now, I'm really looking to the future."

The idea for such loans began in Bangladesh in the 1970s, where a similar program has helped millions

WHERE TO CALL

For more information about Working Capital and loans for start-up businesses, call Betty Meyer at (305) 670-7411.

of poor people — most of them women — reach secure financial footing. Jeffrey Ashe, a veteran of the Peace Corps, founded Working Capital in the United States.

President and Mrs. Clinton are big fans and consider microcredit one of the country's best means for helping Americans to get off welfare and into business. At the first Microcredit Summit, last month in Washington, Ashe received one of the first Presidential Awards for Excellence in Microenterprise.

In Dade, money for the loans comes from a consortium that includes Citibank, SunTrust Bank and Commercebank, among others. Money to run the program comes from another group, whose members include the Beacon Council and the MacArthur Foundation.

Although individuals get loans for their own businesses, borrowers must belong to a borrowing group. These groups meet regularly to trade business tips, offer advice and ensure that everyone can make their loan payments.

If one person defaults, the entire group pays. So far, Working Capital's repayment rate is 98 percent.

"The reason this works is because people are entrusted to review the paperwork of their peers," said Elaine Black, executive director of Dade's Tools for Change. Her office is one of several affiliates of Working Capital. The affiliates — mostly agencies helping inner-city and low-income communities — identify possible borrowers, help organize groups, provide technical training and administer the loans.

Tools for Change, an affiliate since 1995, targets South Dade. The agency has 122 loans outstanding and has paid back 20.

In its 19 borrowing groups, there are people running lawn services, house-cleaning services, medical-billing and hair-care businesses.

About 80 percent are women.

"We target very low-income people," Black said. "They're generally women who want to get a break and make some money for themselves and take care of their families. It's just a fantastic program. It makes a huge difference."

Elisa Crespo can attest to that.

"Now I have the flexibility to make a living for my family and spend time with my children," she said. "I couldn't have done this without it."

This has helped my business tremendously. What I'm looking at now is long-range goals. I'm looking to buy a bigger truck later on, after I make bigger loans. Now, I'm really looking to the future.'

JAMES ROWELLS, partner



RANDY BAZEMORE / Herald Staff



'Now I have the flexibility to make a living for my family and spend time with my children. I couldn't have done this without [Working Capital].'

ELISA CRESPO, safety instructor

C.W. GRIFFIN / Herald Staff

The Miami Herald

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Small loans, big results

Collapsing Asian economies and their domino effect have caused alarm lately. Much to blame is "crony capitalism," which not only thrived on bad loans to friends of those in power, but made the rich richer while further mirroring the poor in poverty.

Yet another financial philosophy from Asia promises just the opposite, an antidote to savage capitalism. Microcredit programs, in which tiny amounts are lent to nontraditional borrowers, have proved to be an exceptionally sound lending practice while encouraging the poor to build businesses and income.

A year ago a Microcredit Summit in Washington, D.C., rallied 3,000 people from 137 countries toward the goal of reaching 100 million people, especially women, with these tiny loans for self-employment by 2005. That's an ambitious stretch from the eight million to 10 million people worldwide now in microcredit programs.

Pioneered by Muhammad Yunus and his Grameen Bank in Bangladesh, the microcredit concept has spread and adapted — even to urban South Florida. Working Capital Florida, a local nonprofit group patterned on the Grameen model, serves some 350 businesses in Miami-Dade. Loans average \$725 (internationally it's \$150) and are paid back in less than a year. Borrowers are organized into groups, each with a business adviser. The entire group must approve every microloan to individual members. Default rates are extraordinarily low, because no group member gets more credit should another default

MICROCREDIT PROGRAMS

Loans as little as \$500 spawn entrepreneurs and an alternative to poverty.

on a loan.

Many borrowers are single mothers, mostly blacks and Hispanics. Typical is Vickie Lucas, who leveraged a \$500 loan in 1994 into Alvi's Take Out and

Catering in Naranja. She now is expanding with a \$50,000 loan through the U.S. Small Business Administration. The beauty of microcredit, Ms. Lucas says, "is not just the loans but the education about business."

A new three-year, \$450,000 grant from the Mott Foundation will allow Working Capital Florida to expand its good work into Broward and Palm Beach, says Kathleen Gordon, its president. Support from other private sources, commercial banks, and state and federal governments would help the group grow further.

Certainly the goal is worthy. Working Capital Florida and other microcredit programs push economic opportunity toward the people who need it most. As Ms. Gordon aptly suggests: "The real economic engine will be from the bottom up, not from the top down."

Man behind microcredit revolution visits S. Fla.

MICROCREDIT, FROM 7B

United States have little in common economically, Yunus says the underlying principles that make the Grameen model a success still apply here.

"A tiny success in the first round [resulting from the first small loan] gives you the energy to take bigger challenges," Yunus said. "You get a boost in self-esteem."

For example, the bamboo weaver was making just 2 cents a day when Yunus met her in 1976. But she used her tiny loan to go into business for herself and her income jumped to \$1.25 daily. When Yunus returned to visit her years later, he found she had built a house and educated her children.

That same model has real potential in the United States, Yunus says. He first saw it in action in Arkansas. President Clinton, then the state's governor, invited him to Arkansas to start a Grameen model in the 1980s.

The resulting Good Faith Fund continues to this day. "I've seen how little towns accepted it in neighborhood after neighborhood," Yunus said. "When the money comes, creative minds start to tick."

In Bangladesh, 94 percent of Grameen's borrowers are women, and poor women now are the target of most microcredit programs around the world. But that wasn't Yunus' original idea.

Initially, he set about assuring that 50 percent of Grameen's borrowers were women. It took six years to achieve that goal. "Women said, 'Don't give us money; give it to our husbands,'" he says.

But then Yunus started to notice an interesting phenomenon: Money that went to the family through the woman was much more beneficial to the family unit. Nutrition improved; the children went to school; shelter improved.

"The women demonstrated long-term vision, and were more cautious with the money," he says. "The men were more interested in having a good time in the present."

At that point, Grameen switched emphasis, giving more priority to loans to women. "We lent to women with no experience with money, with no experience in business," Yunus says. "They were scared, but over time they became good businesswomen."

That's why he's hopeful for microcredit's application to the welfare reform process. But, he says, in the United States myriad licensing requirements and other regulations act as barriers for small-scale entrepreneurs.

He suggests that welfare recipients starting small businesses be given a one- or two-year waiver that frees them from regulatory requirements. "Allow this bridging time until they come up to a

certain level," he proposes, "and then have them come into the mainstream. Government's role should be creating an enabling environment."

The microcredit movement is gaining steam in Florida.

Kathleen Gordon led a Miami group to Bangladesh in 1994 to observe Grameen Bank's operations. The group was so inspired that it formed Working Capital Florida on its return.

"He's won awards from around the world for his work, yet he's so

unpretentious and absolutely committed to helping the poor," says Gordon, the organization's chairwoman.

Working Capital Florida, which now operates in Miami-Dade County, is in the process of expanding its reach to Broward and Palm Beach counties. It hopes to have its first loans out in those counties by late August.

Enterprise Florida, the state's public/private economic development agency, is holding a conference June 2 on microenterprise

development at the Radisson Plaza Hotel in Orlando.

MicroEnterprise, an Enterprise Florida program, has granted \$800,000 to 17 community organizations that will enable them to make loans and provide training and technical assistance to micro-entrepreneurs.

"This is the richest country in the world," Yunus says. "I don't see why anyone should remain poor here. You can create your own job and your own business."

WEDNESDAY, MAY 27, 1998

The Herald

Very small loans to start very small businesses

Man behind microcredit revolution visits South Florida

By MIMI WHITEFIELD
Herald Business Writer

When economist Muhammad Yunus lent \$3 to a bamboo weaver in his native Bangladesh some two decades ago, he had no inkling he was starting the microcredit revolution.

But that loan grew into a lending program to the poorest of the poor, spawned the Grameen Bank, which now operates in 38,000 Bangladeshi villages, and eventually led to an international movement built on the idea that the poor can create their own jobs if given access to credit.

Yunus, the father of the so-called Grameen Movement, arrives in South Florida today for a series of speaking engagements and meetings with bankers, foundations, politicians, university professors and the media.

This evening he'll speak at a dinner organized by Working Capital Florida, which has made more than \$300,000 in very small loans (average size: \$725) to South Florida entrepreneurs with very small businesses.

Working Capital Florida borrows a page from the Grameen

Bank, which Yunus founded in October 1983. The bank sought out borrowers whom traditional banks shunned because they were too poor and had no credit history or collateral.

Now some 2.3 million borrowers later, Grameen Bank has a loan repayment rate of 98 percent and turns a profit.

Yunus visits South Florida at a time when job creation in Miami-Dade is sluggish and the

area is struggling to find jobs for thousands of welfare recipients who are making the transition from welfare to work.

Microcredit, Yunus says, can be part of the solution to the challenges of welfare reform.

Though Bangladesh, one of the poorest countries in the world with a per capita annual income of just \$250, and the

PLEASE SEE MICROCREDIT, 9B

Yunus comes to South Florida at a time when the area is struggling to find jobs for thousands of welfare recipients who are making the transition from welfare to work. Microcredit, Yunus says, can be part of the solution to the challenges of welfare reform.



PAVEL RATHMAN/AP

As part of his plans to help the Bangladeshi poor, Yunus has launched a project to distribute cellular phones to thousands of remote villages.

FACTS ABOUT GRAMEEN BANK

- Loans to the poorest of the poor.
- Reaches 38,000 of Bangladesh's 68,000 villages.
- 2.3 million borrowers.
- Lends about \$1.5 million per day to the people of Bangladesh.
- 13,000 employees.
- 98 percent repayment rate.
- 94 percent of loans are to women.



WORKING CAPITAL FLORIDA DINNER

When: Today Reception at 6:30 p.m., dinner at 7:30 p.m.

Where: Wyndham Hotel Ballroom, 1601 Biscayne Blvd., Miami

Highlights: Muhammad Yunus will speak. Former Rep. Dante Fascell, an early supporter of microcredit, will be honored. Tickets: \$125 a plate (\$50 for non-profit organizations). Call Working Capital Florida, (305) 670-7411.

Herald file art

The Miami Herald

For poor: Opportunity to thrive

Re Julianne Malveaux's excellent May 11 Viewpoints Page column, *Who'll fight for the poor?*, I have an answer — Muhammad Yunus, founder of the Grameen Bank in Bangladesh. Dr. Yunus has received innumerable awards from monarchs and other heads of state for his outstanding achievements in creating opportunities for the poor to pull themselves out of poverty.

Dr. Yunus is not just a Bangladeshi hero. He does not belong to one country but is a world persona who has the caliber of the greatest world leaders. Yet he is a simple man with a simple message: Give the poor — especially women — access to credit for their own businesses, and they will show the same creativity, ingenuity, and dedication as the rest of the world's entrepreneurs.

Lending only to the most destitute, the Grameen Bank is being replicated worldwide. Some 10 million borrowers are repaying their loans, setting aside savings, sending their children to school, and providing nourishing meals for their families. A recent study of a Grameen replication in Malaysia shows that after completing a second lending cycle, two-thirds of the women borrowers successfully had led their families out of poverty. This is remarkable.

No, Ms. Malveaux, the baton carried by Martin Luther King Jr. and others has not been dropped. This "Poor People's March" is resounding to the chorus of "We're doing it ourselves."

GAIL E. NEUMANN
Miami

[Editor's Note: Locally, the group Working Capital Florida has made loans to about 400 poor people in South Florida. It aspires to have 3,000 borrowers by the year 2000. For more information, call (305) 438-1407.]

LOANS



Muhammad Yunus

The Miami Herald

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Credit where it's due

MUHAMMAD YUNUS



**Replacing
poverty with
self-
sufficiency.**

The only question is, Should he get the Nobel Prize for economics or peace? That "he," of course, is Muhammad Yunus, whose idea of lending tiny amounts to the most destitute of folks has lifted untold millions from poverty and its hopelessness.

South Florida is fortunate to have him visiting again. After speaking at yesterday's fund-raising dinner for Working Capital Florida, a nonprofit group that ably applies his microcredit model, Dr. Yunus this morning is to talk with those trying to spur economic development in South Florida. Would that all are inspired by his story.

With a doctorate in theoretical economics from Vanderbilt University in hand, Dr. Yunus was unprepared for what he saw when he returned to his native Bangladesh, among Earth's poorest nations. Entire villages were living on the edge of starvation, despite peasants working 16 hours a day. In 1976 he lent a few dollars to a woman who was weaving bamboo stools. Once in business for herself, she prospered, and he founded the Grameen Bank on the novel concept of lending money to those who have none.

Today this bank lends half a billion dollars to more than 2.3 million borrowers, 96 percent of them illiterate women borrowing an average of \$150. Grameen is 90-percent owned by its borrowers, has a 98-percent repayment rate that rivals any commercial bank, and is making a profit.

Worldwide, another six million people now borrow under the microcredit models popularized by Dr. Yunus.

Poverty, he believes, is among today's biggest threats to peace. The antidote is to create financial and other institutions that remove social and economic barriers keeping the poor from prosperity.

"We can build a poverty-free world at a fraction of what we spend on war preparations," Dr. Yunus has said. "As long as one single human being in this vast world dies of hunger or fails to take care of the minimum human needs for survival with dignity, our society will be less than the society mankind deserves." Well said, sir.

GIVING CREDIT

WHERE CREDIT'S DUE

by Robert E. Graham

I think everyone's heart skips a beat when meeting a celebrity or a hero. Last fall I met someone who is both of these to me—Muhammad Yunus. Along with 20 members from the board, staff and major donor rolls of the Katalysis North/South Development Partnership—the nonprofit my wife, Wendy, and I founded—I listened with fascination as the gentle, scholarly Yunus talked about the passion of his life: microcredit. “Microcredit is not about money,” he said. “It’s about dignity. It’s about opening doors.”

Yunus, now 57, was deeply influenced by the civil rights movement while studying for a Ph.D. in economics at Vanderbilt University. Confident that young people could change society, he returned to his native Bangladesh in 1972. There, he challenged his students at Chittagong University to close their textbooks and learn about economics by getting involved with the villagers who comprise 90 percent of Bangladesh's population.

After four years of interviewing people in the field, Yunus identified what he believed was his country's central problem: Its people had no access to working capital at a reasonable cost. As an experiment, he made his first loan, in the amount of \$25, to a group of 42 people—which gave them 59 cents apiece, a small first step out of poverty.

Now, Yunus's Grameen Bank lends \$1.5 million each working day at market interest rates. Grameen's 2.3 million borrowers are the poorest of the poor—landless, without credit history or banking collateral. Yet the payback rate of these customers is astounding: In the past 20 years, 97 percent of the \$2.1 billion loans have been repaid—on time.

More impressive are the social returns. One-third of Grameen borrowers have moved out of poverty, another one-third are nearing that point. Four hundred thousand new

FROM FLORIDA TO BANGLADESH, MICROCREDIT IS PROVING TO BE A POTENT ANTIPOVERTY TOOL, ENRICHING THE LIVES OF BOTH BORROWERS AND LENDERS.

homes (costing from \$300 to \$600 each) have been built with Grameen loans. Infant mortality among borrowers is less than the national average and their voluntary family planning occurs at twice the national rate. Yunus insists that these positive changes have happened not because of Grameen, but because 94 percent of the bank's borrowers are women. “When women get in the driver's seat, they look around to see what else they can do to improve their lives,” he told me. “They are the drivers for change in the family.” I couldn't suppress an appreciative chuckle, because this had been my experience as well: Not only are women good at business, but they also spend the profits on their families, not on themselves.

A couple of years before I turned 50, I made the decision to begin devoting half my time and resources to service. My business partner dubbed it the “50–50 at 50” plan. In 1988, inspired by reports of Muhammad Yunus and the Grameen Bank, Wendy and I began experimenting in Honduras with microloans of less than \$100. We quickly saw firsthand why microcredit is considered to be the most effective development methodology since the Marshall Plan. By 1997, Katalysis was focused exclusively on microcredit. We developed a partnership network with local community development organizations, and now have loaned approximately \$3 million to

V

KATHLEEN
GORDON

Vickie Lucas couldn't imagine ever being committed to a job. For years, just barely squeaking by, she drifted—working construction, repairing refrigerators and doing several stints at what she calls the food factories (McDonald's and Burger King). These days, the single mother of four has a new attitude: She loves to get up in the morning, amazed to find herself totally committed to growing her Naranja, Florida, business, Alvi's Take Out & Catering. Not that it's been easy. "I used to think business owners were the richest people in the world," she says. "Now I know that if they are, it's because they worked for it."

Vickie Lucas is a client of Working Capital Florida, a microlending organization started by Kathleen Gordon, a Miami entrepreneur. Like Doña Ofelia, Lucas willingly recites the exact amount of each loan she's received: \$500 in 1994 to prepare her legal papers and buy a fax machine; then \$1,000 for supplies; then \$1,500 to rent a storefront to move the business out of her house. "Tomorrow, I get a loan of three thousand dollars to stock up on inventory for the holidays," she says, excited about the money she'll save by buying in bulk. Gordon tells all of her clients that credit is like medicine. "Small amounts over time make you well," she says. "Overdose on it and you'll kill your credit rating and your business."

Gordon, 57, developed a complex of art galleries and a wholesale art business while in her 20s. She then married, moved to Miami, and turned her boundless energy to lobbying politicians on hunger, poverty and children's issues. She ultimately became one of the founders of a grassroots organization with the unwieldy name of Responsibility for Ending Starvation Using Legislation, Trim-Tabbing, & Support (RESULTS), which now has chapters and affiliates around the world.

In August of 1992, Gordon went to Bangladesh to meet Muhammad Yunus and learn about Grameen Bank. Just days after she returned, Hurricane Andrew hit, and she was faced with the kind of death and destruction that had previously seemed to happen only in places far away: "Some of us decided we needed a Grameen Bank right here," she says.

There was initial concern that the microcredit methodology, developed by Grameen in Bangladesh and ACCION in Latin America, would not translate in the U.S. The loans would have to be much bigger and borrowers would compete in a more competitive market with many more regulations, which would negatively affect the repayment rate. But there is now



\$126 million loaned out in the U.S. (through more than 300 programs). Although it's too early for statistical studies, the anecdotal evidence to date indicates a healthy repayment rate of approximately 90 percent.

One of the leaders in adapting Grameen-type microcredit to U.S. conditions is Working Capital, the Massachusetts-based organization founded by Jeff Ashe. Gordon decided to become one of its affiliates so she "didn't have to reinvent the wheel," and got a jump start with money from the Hurricane Andrew Recovery Fund and a \$50,000 grant from the local community foundation. Five years later, Working Capital Florida has \$300,000 in outstanding loans and about 400 borrowers, all with household incomes of less than \$15,000. Almost half the borrowers live in south Dade County, which was hardest hit by the hurricane, but all told they come from

20,000 borrowers in Honduras, Guatemala and El Salvador.

When I'm asked what our borrowers are like, I tell Doña Ofelia's story. Doña Ofelia (who is probably in her early 40s, although like many of the women in this area, she looks 15 years older) owns a small restaurant in San Esteban, high in the scruffy hills above San Pedro Sula, Honduras. When we met there recently, I asked how business was. "With the loans from Nuestro Triunfo Community Bank and the training it provides, I've built this business," she said. In rapid-fire Spanish, she recited the exact amount of each loan: \$37, \$65, \$102 and \$190. "Each time I paid one back, I borrowed more and improved this place." She looked around at the restaurant: rough-hewn tables, walls made of white-painted boards, candles on each table not for ambience but to defend against the village's power failures. Smiling with pride, she told me of her plans to expand because she has so many customers. Doña Ofelia is a widow with six children—her business success means that the two still at home will be better clothed and bet-

they earn only one-tenth its income. And in the Majority World—the nonindustrialized countries where 80 percent of the world's population resides—those are typical wages and hours for women. The proliferation of large-scale plantation-grown crops and the increasing population pressures on the environment mean that women must walk miles farther to find safe water, firewood and land suitable for farming. And worldwide cuts in spending on health, family planning and education continue to make the lives of women more difficult.

Yet, as Yunus explains, "The basic question these poor people respond to is, 'Can I take care of myself?'" Doña Ofelia, like millions of Grameen borrowers, is able to answer with confidence: "Yes, if I have a chance, I can take care of myself."

It is this sense of yes, plus the solid results posted by Grameen, Katalysis, ACCION, Working Capital and several thousand other nonprofit microcredit lenders around the world, that makes microcredit the most promising antipoverty methodology. There are now 8 to 10 million microcredit bor-

rowers worldwide, and the goal of the 1997 Microcredit Summit Campaign is to provide credit to 100 million of the world's poorest families by the year 2005. Increasing numbers of private and public foundations are rising to the challenge. Corporations, led by Monsanto, and banks, including Citicorp, Bankers Trust and J.P. Morgan, recognize the great benefits (humanitarian and financial) associated with microlending.

Critics, of course, carefully point out that microcredit is not a panacea. There are many problems, such as literacy, population, health and environmental issues, that small loans may help but are certainly not designed to solve. Thus, it's important for funding to those areas to be maintained.

A number of individuals from the private sector have devoted significant working hours and financial resources to making loans available. Recently I interviewed Kathleen Gordon, Bill Clapp and Rosalind Copisarow to learn what motivated them to undertake service to others through microcredit.

MUHAMMAD YUNUS told his students that if they wished to understand the economics of Bangladesh, they should close their textbooks and study the lives of the villagers.

ter fed and will stay in school longer than their older siblings. "I need another employee, though," she tells me.

When I asked what the hours would be, Ofelia said, "The same as mine. Four in the morning until nine at night, every day, no days off." The pay? "Fifteen *lempiras* a day [\$2.17] and something to eat."

Although women perform two-thirds of the world's work,

W

BILL
CLAPP

With his striking blue eyes, Bill Clapp has the appearance of a man who has given himself, and the world he lives in, a lot of thought. And he has. As chairman of Matthew G. Norton Co., a family holding company in Seattle, Clapp has spent much of his life in corporate boardrooms. In 1989, for reasons hard to explain, he decided to take a six-month sabbatical, during which he read extensively. He was especially influenced by Peter Russell's book *The Global Brain*, which prompted him to reflect on how to best use his personal abilities and his wealth to serve a broader purpose in life. Clapp stretched his sabbatical from 6 to 18 months, so that he could do even more thinking.

"I saw that I'm best as an experiential learner," he reports. "If I wanted to be of service, the thing for me to do was get involved." A descendant of a distinguished pioneer family in the Seattle area (his great-grandfather was one of the founders of Weyerhaeuser, one of the largest timber companies in the world), Clapp began his service career at a men's shelter—not as chairman of its board, but as a volunteer. "That opened my eyes to a lot of things," he says.

Clapp's interest in microcredit turned into action when RESULTS offered him a free plane ticket to one of their projects in El Salvador. When he told his wife, Paula, where he was headed, she announced that he wasn't going without her. "So I had to pay some money after all," he quips.

Clapp found microcredit to be "entrepreneurially exciting and challenging," and he and his wife continued visiting different projects in other nonindustrialized countries. "In those travels we saw a richness of human spirit in circumstances that I would have thought to be completely devastating." They thought they were prepared for Bangladesh but were shaken by what they saw. "It was hard to anticipate the chaos of masses of humanity, the extreme poverty, the sickness and the heat in Dhaka," says Clapp. "But we experienced people's bravery and ingenuity, especially in the villages where Grameen was operating."

Inspired, the Clapps started their own nonprofit in 1994. Global Partnerships (GP) may be the only microcredit program in the U.S. entirely funded from private sources (mostly donations from the Seattle business community). In partnership with the Foundation for International Community Assistance (FINCA), a U.S.-based microlending organization started in the early '80s by John Hatch, GP set up a program that



reached 4,000 women borrowers in Guatemala. "The loans enable the women to increase their income, save money and get their families out of poverty," says Clapp. GP now assists other microlenders in Central America as well.

Like everyone involved in microcredit, Clapp has experienced setbacks. But he perseveres because it works. "It's not like welfare. It's a loan, and it enhances the self-esteem of the borrowers." Not surprisingly, it's enriched his own life as well, which he says has become infinitely more rewarding. "Every single day thirty-five thousand children die from poverty-related diseases," Clapp says. "That's the devastating equivalent of a 747 airplane crash every twenty minutes." And yet he estimates that it would take only \$25 billion per year for the next decade to eliminate the worst aspects of severe poverty worldwide. "Expensive? We'll spend more than that on weight-loss programs in the U.S. alone in the same period," he says. "This is not an insurmountable task; we just lack leadership."



KATHLEEN GORDON (above, and left) in the kitchen of Alvi's Take Out & Catering. Owner Vickie Lucas started Alvi's with a \$500 loan from Gordon's Working Capital Florida. "I've learned that I'm stronger than I thought I was," says Lucas.

Working Capital has a 97 percent rate; the Florida affiliate is somewhere in the 80s. Gordon partly blames the culture: "Accountability has not been a strong suit of our social-service environment." But she suggests another reason: 40 percent of her borrowers are men. Although Gordon doesn't break out repayment rate statistics by gender, she's certain it's better for women. However, in the U.S., she explains, you can't discriminate against any group if you receive public money (such as Working Capital Florida's grant from the

Hurricane Andrew Recovery Fund). Nevertheless, Gordon is determined to collect delinquent loans. "You know, charity makes the giver feel good, but it can demean the receiver. It can create codependency."

There is certainly nothing about Vickie Lucas that suggests codependency. When I asked what she'd learned from this experience, she said, "That I am stronger than I thought I was." Lucas says that the greatest thing Working Capital did for her was to open her eyes to what was possible. She and her mother, Albertha Notice (who is also her business partner), have been busy strategizing. With their stellar credit history, they've put together a business plan in preparation for making an application to the Small Business Association for "a big loan," Lucas says. "Fifty thousand dollars. Big enough for us to rent the space next door and turn it into a real sit-down restaurant."

17 communities, including Little Haiti and Little Havana.

The challenge for most microlending organizations is to make enough money from the interest charged on loans to finance operating expenses. A consortium of local banks makes loans to Working Capital Florida at 7 to 8 percent—which they then lend at 12 percent. The point spread funds some of Working Capital Florida's operating expenses, but the majority still comes from donations. Gordon is determined to become self-sustaining, which she figures will take a loan portfolio of \$5 million loaned to 5,000 borrowers at a five-point spread. "Our program is not charity for our participants; we don't want the organization to be on the charitable end of things either," she says.

When I asked about her repayment rate, Gordon was characteristically blunt: "Our rate is unacceptable." Nationally,



ROSALIND COPISAROW (right, and above) visits with her client Danuta Trzeciak, who embroiders banners for the army and the fire squads. Trzeciak currently employs 12 other women.

couldn't get it. Suddenly, I had a clear vision of those entrepreneurs getting the loans they needed."

Copisarow admits that she had no clue as to how she might do this, but she was struck by the novelty of being directly involved with the people and businesses that she loaned to. "Here I was, making loans in units of one hundred million—some deals for chemical plants and oil fields were for a billion—and I never actually saw where the money went, let alone the people who put it to use."

A few weeks later, J.P. Morgan hosted a dinner party for Polish government officials and Copisarow found herself seated beside Leszek Balcerowicz, then finance minister. Curious, she asked Balcerowicz if he had heard of the Grameen Bank. He replied that he thought it was an extraordinary financial innovation.

"Well, then, what would you think of a crazy foreign woman bringing the Grameen concept of microcredit to Poland?" Copisarow asked, not quite believing the words she heard herself speaking.

He replied, "Rosalind, if you are willing to give up your career to do that, I promise you I'll give you my support in every way possible. I'll make introductions, write articles . . ."

"My stomach fell to the floor," Copisarow remembers, "and I moaned inwardly, 'Please don't say that.'"

That Christmas, she took a holiday at her family's cottage on



the English coast to consider the microcredit possibility. One blustery day as she walked the beach, two images came to her. "I saw myself on my deathbed. In the first image, I had always taken the safe option and despised myself for it. In the second, I had gone ahead with the microcredit project and it had failed. It had been a risky venture and the money was lost. But I felt good, because I had given it my best and been stretched to the limits of my capabilities."

On July 7, 1994, President Bill Clinton announced to the Polish Parliament that the Polish-American Enterprise Fund (established under President Bush in 1990) was donating \$24 million to Fundusz Mikro to launch a microlending institution in Poland. The founder, chairwoman, and chief executive officer of Fundusz Mikro was, and is, Rosalind Copisarow.

"We started with freedom, lots of money and complete ignorance about what would work," she says. With a small staff, she examined 200 different lending methodologies—including goat loans, where the first two female kids to be born were re-lent to others. "Our object was to discover what

models resonated with the traditions of the country." They tested nine pilot models for about a year before deciding on a program design.

"In addition to individuals, we also lend to small groups of four to seven people. It's important for borrowers to feel they have a choice," says Copisarow. "And we don't make ideological speeches to them—in Poland, the disillusionment with ideology runs very deep."

Fundusz Mikro now has 20 branches lending to 4,000 clients, with a repayment rate that rivals Grameen's: 98.5 percent of \$10 million in loans has been repaid on time. In addition, 2,000 new jobs have been created and 3,000 former clients have graduated to the formal economy.

By 2002, Copisarow wants Fundusz Mikro to be self-supporting, with a full banking license. Given what she's accomplished so far, there's little doubt that she will make it happen. "When I reflect on my previous banking career, it seems so two-dimensional," Copisarow says. "It lacked soul. What I do now has put real meaning in my work—and therefore in my life." ■



BILL CLAPP (above, and left) takes time off during one of his frequent trips to Central America to visit with children in an orphanage in Salvador City, El Salvador.

He tells the story of Muhammad Yunus's visit with the Clapp family in Seattle. At breakfast one day, he asked Yunus if he had any advice for his 17-year-old son, who was just about to go to college. "Yunus looked at my son thoughtfully and said, 'Well, Ned, I suggest you think about how you want the world to be . . . and then set out to make it that way.'"

T ROSALIND COPISAROW

This was the scenario in 1993: Rosalind Copisarow was 36, with a bachelor's degree from Oxford and an MBA from Wharton. She spoke four languages (English, French, Spanish and Polish), had a dozen years of investment-banking experience, and had singlehandedly developed J.P. Mor-

gan's business in Poland, where her position was vice president and country officer for Poland. In the previous three years, she hadn't made a loan for less than \$100 million, and Morgan was talking about a promotion to China or India. Then, in a life-changing about-face, Copisarow gave it all up for a scratch-start, nonprofit microcredit operation in Poland, which meant living in a Warsaw flat that frequently lacked heat and hot water, and rising at 4:30 A.M. to take hours-long train rides out of the city almost every day of the week.

It all began one day while Copisarow was on her regular British Airways commute from London to Warsaw. "I always sat in a middle seat, in order to double the amount of market information I obtained from my neighbors," she explains. "Usually I wore more 'arty' clothes and carried women's magazines, which made it easier for men to talk to me, to tell me about their business deals." But on that fateful day, Copisarow was dressed in a business suit. She was sitting between two banking competitors, which meant she couldn't safely take work material out of her briefcase. Instead, she began to read the *Financial Times*, which happened to include a supplement on Bangladesh—with a story on Grameen Bank. "I read that more than a million of the country's poorest women had proven themselves to be more creditworthy than the rich, with a repayment rate of ninety-six percent on unsecured loans," she says. "Meanwhile, in Poland, there were more than one million microbusinesses that needed money to expand and

BUSINESS

A FRIDAY, MARCH 6, 1998

The Herald

World Bank's message to lenders: Think small

By GLENN GARVIN
Herald Staff Writer

MANAGUA — Instead of the mega-loans of bygone big-government eras, multilateral lenders need to concentrate on getting sums as small as a few hundred dollars out into ramshackle little towns where they may pay a big peace dividend, World Bank President James Wolfensohn said Thursday.

"People in these tiny rural communities don't care how their market compares to the rest of the world," Wolfensohn said. "They want to get some dollars to buy a few extra cows and pigs and some machinery to collect their crops. They want a road so they can trade with the next village. . . ."

"You must deal with the issues of rural poverty, and — depend-

ing on the country — the rights of indigenous people, to have peace," he said. "You don't just have to make international bankers more effective. You need to help the people who don't have enough food."

Wolfensohn, a former Wall Street investment banker, made his comments in an interview with *The Herald* during an overnight stop in Nicaragua, halfway through a week-long tour of six Central American countries.

Wolfensohn is meeting with local leaders as well as getting an up-close look at some World Bank-funded projects in the region. There also has been some unplanned excitement: In Nicara-

PLEASE SEE BANK, 3C

World Bank's message to lenders: Think small

BANK, FROM 1C

gua alone, he had to dodge a tornado, fly in a helicopter with a broken fuel tank, and endure an hour-long blackout at his hotel in sweltering 95-degree heat.

The tornado and broken fuel tank were part of a visit to a rural zone in northwestern Nicaragua where the World Bank is providing small loans of up to \$600 to

local agricultural producers, precisely the kind of small-scale project Wolfensohn said the bank needs to do more of.

"There are 1.3 billion people in the world living on less than \$1 a day," he said. "And there are 3 billion people living on less than \$2 a day. . . . Obviously a single big project doesn't get to a billion people. You've got to spread it out; you've got to distribute the

lending."

That wasn't always the way the World Bank looked at things, Wolfensohn acknowledged. For years, the philosophy was the more loans the better, no matter how much red ink got splashed around on the ledger sheets of small developing countries with dubious ability to repay. More money didn't necessarily mean better.

Nicaragua — with a foreign debt of \$6 billion, one of the highest per-capita debts in the world — is a prime example of what sometimes resulted.

"The bank has been changing a lot in terms of recognizing that there needs to be a balance between large infrastructure projects, which you still have to do and small things targeted on communities," he said.

EDITORIALS/OPINION

Herald INTERNATIONAL Tribune

PUBLISHED WITH THE NEW YORK TIMES AND THE WASHINGTON POST

For Europe's Jobless, Self-Employment Might Work

By Flora Lewis

PARIS — Muhammad Yunus — the Bangladeshi professor who, 21 years ago, launched an effective worldwide movement to reduce poverty by handing out \$27 in loans — has a certain disdain for the way industrial states, especially those in Europe, are dealing with their chronic massive unemployment.

"The world has forgotten the human tradition of self-employment," he says. "When people lived in caves they went out to help themselves. There was no state to ask for help."

His Grameen Bank, now copied by 458 programs serving nearly 15 million borrowers on all continents, is deliberately aimed at helping the very poorest climb onto the economic ladder. The thesis is microcredit: very small loans to

people who have nothing to start with but who want to help themselves.

It has proved self-sustaining. They pay back at the rate of 98 percent, which any commercial banker would envy, and go on from there.

There has been little effort to adapt the idea to the very different circumstances in industrial countries, where the answer to unemployment has become benefits until jobs are created. But it is an idea well suited to changing modern economies, as well as to the fight against endemic poverty.

The notion of jobs, after all, is a direct consequence of the Industrial Revolution. People have always labored, but it was not until production began to be

organized around the machine that they needed a job, someone to assign them a place in the organization and someone to pay them for it.

The new economic revolution reopens the question. Big factories and offices are laying off workers, but the possibilities for self-employment have been little explored. The assumption is that someone must hire you.

Great pools of skill and knowledge are left untapped when people are told they must look for a job but cannot find one. Mr. Yunus is convinced that the magic breakthrough tool is credit — microcredit — at commercial rates but without the commercial requirement of collateral or existing earnings.

Two more elements would be

needed to bring broad-scale results in industrial countries.

One would be the provision of advice on how to do business, set prices and so on. The U.S. Small Business Administration gives some successful examples, but a big new bureaucracy is not necessary. With earlier retirements and longer life spans, there are many people who would be glad to volunteer as a kind of commercial godparent to the would-be self-employed.

Mr. Yunus thinks the beneficiaries should pay for the advice, even a tiny amount, so that they value it.

The second requirement would be an important reform of the huge jumble of regulations, licenses, permits and so on that countries impose on new small businesses.

It is worth serious consideration. France is an example of a country where growth has resumed, with good economic indicators, but where job offers have not. Unemployment remains stuck at more than 12 percent.

The distress has brought a new kind of confrontation. The unemployed have organized to demand more benefits, in effect seeking recognition of their plight as a new kind of social status.

It is a striking contrast with the slogan of the 1848 revolution, recalled now on the 150th anniversary of the founding of

France's short-lived Second Republic. The demand at the barricades then was "the right to work instead of to charity."

The government has promised to provide 150,000 new jobs for unemployed youth and proclaims that its legislation to impose a 35-hour workweek will lead to a large number of new hires. The response has been highly skeptical. Meanwhile, it is not doing anything to encourage self-employment.

Of course, there exists a category of self-employment on a large scale in many countries: the black market.

"It should be called the golden market," says Mr. Yunus. Governments do not like it because it escapes taxes and regulation. He suggests that under a certain maximum, self-employed people who do not hire others should be freed from taxes. It would cost less than paying unemployment benefits and supporting make-work.

Microcredit has proved its worth among the poorest. It should be given a chance to break the unemployment impasse in countries obliged to shift to postindustrial economic structures. The capacity to do useful work is there. That is not necessarily synonymous with having a job. The alternative is self-employment, and this form of credit is needed to make that possible for a lot more people.

Flora Lewis

The Miami Herald

JOHN S. KNIGHT (1894-1981)

JAMES L. KNIGHT (1909-1991)

DAVID LAWRENCE JR., *Publisher and Chairman*JOE NATOLI
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*Editor*DOUGLAS C. CLIFTON
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*Associate Editors*LARRY OLMSTEAD
Managing Editor

Small loans, big results

Collapsing Asian economies and their domino effect have caused alarm lately. Much to blame is "crony capitalism," which not only thrived on bad

loans to friends of those in power, but made the rich richer while further mirroring the poor in poverty.

Yet another financial philosophy from Asia promises just the opposite, an antidote to savage capitalism. Microcredit programs, in which tiny amounts are lent to nontraditional borrowers, have proved to be an exceptionally sound lending practice while encouraging the poor to build businesses and income.

A year ago a Microcredit Summit in Washington, D.C., rallied 3,000 people from 137 countries toward the goal of reaching 100 million people, especially women, with these tiny loans for self-employment by 2005. That's an ambitious stretch from the eight million to 10 million people worldwide now in microcredit programs.

Pioneered by Muhammad Yunus and his Grameen Bank in Bangladesh, the microcredit concept has spread and adapted — even to urban South Florida. Working Capital Florida, a local nonprofit group patterned on the Grameen model, serves some 350 businesses in Miami-Dade. Loans average \$725 (internationally it's \$150) and are paid back in less than a year. Borrowers are organized into groups, each with a business adviser. The entire group must approve every microloan to individual members. Default rates are extraordinarily low, because no group member gets more credit should another default

MICROCREDIT PROGRAMS

Loans as little as \$500 spawn entrepreneurs and an alternative to poverty.

on a loan.

Many borrowers are single mothers, mostly blacks and Hispanics. Typical is Vickie Lucas, who leveraged a \$500 loan in 1994 into Alvi's Take Out and

Catering in Naranja. She now is expanding with a \$50,000 loan through the U.S. Small Business Administration. The beauty of microcredit, Ms. Lucas says, "is not just the loans but the education about business."

A new three-year, \$450,000 grant from the Mott Foundation will allow Working Capital Florida to expand its good work into Broward and Palm Beach, says Kathleen Gordon, its president. Support from other private sources, commercial banks, and state and federal governments would help the group grow further.

Certainly the goal is worthy. Working Capital Florida and other microcredit programs push economic opportunity toward the people who need it most. As Ms. Gordon aptly suggests: "The real economic engine will be from the bottom up, not from the top down."

The Miami Herald

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Managing Editor

THE READERS' FORUM

Microcredit bill to stress under-\$300 loans

Thank you for your excellent Feb. 21 editorial *Small loans, big results* about bottom-up economic development through microcredit for self-employment. Millions of the world's poor have pulled themselves out of poverty with such small loans.

Congress has been increasingly impressed with the positive results of microcredit, and foreign-aid dollars have been channeled into microcredit programs in developing countries since 1987.

However, the U.S. Agency for International Development recently reported that microcredit spending

has declined since 1994. The latest figures available (1996) show that scarcely 38 percent of total micro-enterprise funding went to anti-poverty lending programs.

The only way to ensure that foreign-aid dollars go where Congress recommends is to require it by law. A new bill to be introduced soon in Congress will specify that half of total microcredit funding go to programs making loans of less than \$300. This is not a call for increased-foreign aid dollars, but for aid more wisely spent.

STEPHANIE NEUMANN
Miami

Miami RESULTS Partner

CENTER CITY CHURCHES

Programs that Change Lives

Center for Youth
after school tutoring at
Betances & Sanchez Schools
Readers Club
Camp Center City

Peter's Retreat
supportive AIDS residence
scattered site housing

248 Laurel Street
transitional living for those
with severe mental illness

Social Services
emergency food and fuel
for families in crisis

WESP
on site and home delivered
meals to seniors
on the weekend

Center for Hope
breakfast, lunch five days
a week for homeless

Federal Reserve Board Federal Reserve Bank of New York Public Meeting Regarding Citicorp and Travelers Group June 25, 1998

Members of the Federal Reserve Board panel, my name is Paul Christie. I am the Executive Director of Center City Churches, Inc.

Center City Churches is a not for profit, non-sectarian, human services agency in Hartford, CT. Started in 1967, we are now comprised of twelve congregations, representing ten religious traditions.

Our mission is to be a partnership of congregations, institutions and individuals which cares for the city by finding innovative and effective ways to help Hartford's neediest residents work toward self-sufficiency.

Since our beginning, we have relied on active partnerships to fulfill our mission. Today, with the help of over 400 volunteers annually, dozens of corporate, foundation, public and private commitments, we operate six programs. Among them:

Peter's Retreat, the first and largest AIDS housing program in CT.

Laurel Street, the only state licensed group home for the chronically mentally ill in Hartford.

Center for Hope, offspring of the first soup kitchen in the city.

Center for Youth, the most comprehensive school tutoring and arts enrichment program in Hartford, serving over 400 children weekly.

The Travelers Group, Inc. plays a pivotal role in helping us fulfill our mission. Here are some of the ways Travelers puts energy into being a community partner with Center City Churches:

Travelers is providing a three year grant for the Center for Youth which enables us to double the number of children we serve by adding a second school to our program.

Travelers purchased a van so we can transport our program participants safely.

Travelers donates staff time to find office space for our agency and secures furnishings for the space; consultations to revise our personnel policies and upgrade our pension plan, excluding themselves from being considered as a vendor.

Celebrating Three Decades

100 Constitution Plaza, Suite 721, Hartford, Connecticut 06103-1721
Phone: 860-728-3201 Fax: 860-549-8550

**Federal Reserve Board
Federal Reserve Bank of New York
Public Meeting Regarding Citicorp and Travelers Group
June 25, 1998
Center City Churches, Inc. Testimony, page two**

Travelers recruits board members and school tutors.

This Spring, Travelers developed an ongoing art gallery in their offices to display our students' work and that of their employees and other community groups; building bridges between the neighborhood and the Board room. Already, Travelers personnel have purchased some of the students' work and underwritten an Artist's Residency at both Betances and Sanchez Schools.

My daughters' crew experiences in college illustrate what I am trying to say about Travelers as a community partner. Every seat has a name and a task in crew. The "Stroke" is the team member who sets the pace for the boat. By example, all the other rowers align themselves with him or her. The "Stroke" sets the standard. In Center City Churches' experience, Travelers is the corporate "Stroke" for community involvement.

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Statement by

Carol Aranjó

**Chairperson, Board of Directors
National Federation of
Community Development Credit Unions**

**on the Proposed Acquisition
of Citicorp by Travelers Group Inc.**

June 25, 1998

My name is Carol Aranja and I represent the National Federation of Community Development Credit Unions. The National Federation of CDCUs represents 170 credit unions that specialize in serving low-income and minority communities in 40 states. Our members are located both in urban and rural areas. Many of our member credit unions have served their communities for decades -- in some cases, for as long as fifty years.

Our credit unions serve people and communities who have often been ignored or neglected by banks. For the most part, the members of CDCUs have small savings and need small loans. Sometimes they have credit histories that would make them unacceptable to banks. Serving this market is not very profitable, which is why many banks have retreated from our communities.

Our community development credit unions, or "CDCUs," have decades of experience in trying to fill the banking gap, and bringing services to the underserved. But it's not an easy job, by any means. It

can take many years and enormous sacrifice for CDCUs to achieve the levels of assets and capital they need to serve their members adequately. Often, our credit unions need help getting to those levels.

Citibank has provided that kind of help to the CDCU movement. It's not always easy to convince a bank that it should help institutions which some bankers call "competitors" — namely, credit unions. But Citibank looked beyond this, to the needs of low-income communities. They decided that if their bank's presence wasn't sufficient in a community, it would be important for low-income people to have access to a CDCU, an accessible, nonprofit financial institution owned by the community itself.

So, in 1996, Citibank made a contribution of more than \$1 million to the CDCU movement, to help our credit unions carry out their work of serving low-income people. Through the National Federation's Capitalization program, these grant funds have helped build the net worth, or equity capital, of our CDCUs, which is crucial since our credit unions are government-regulated financial institutions. Citicorp's grant

was the largest of its kind by any bank. Citicorp helped us help CDCUs in New York, but also in all the other cities and rural areas where Citibank had a presence. The program was bold, innovative, and most helpful to us.

In many other ways, large and small, Citibank has helped CDCUs and the National Federation with our work. Whether it was producing marketing material, providing consultants, developing training programs, or thinking through strategies to better serve low-income people, Citibank and its staff helped. Sometimes they didn't even wait to be asked, but freely volunteered their assistance.

We **hope** that this kind of assistance will continue in the future. We **expect** that it will. Citibank's continuing investment and involvement are going to be very important in our work of bringing community-owned financial services to increasing numbers of low-income communities and consumers.

Thank you for your attention. I would be pleased to answer any questions.