

July 8, 2003

## How a Seed-Money Loan of \$60 Turned Melanie Pico Into an Entrepreneur

By ANDRÉS MARTINEZ

**C**ALINAN, the Philippines

It is hard to imagine that there's anything cutting-edge about this hardscrabble town on the Philippine island of Mindanao, which is best known for the ferocity of its various antigovernment insurgencies. But just off the main road, down a dusty alleyway and past the naked children and the few stray dogs at play, Melanie Pico sits in her tidy, modest home acting out one of the hottest trends in global finance and development theory. She is an entrepreneurial client of a microfinancing organization.

She looked up from her sewing machine to rattle off the arithmetic of her life. She clears 1 peso and 80 centavos in profit — about 3 American pennies — for each market shopping bag she produces from recycled cement wrapping. If the back pain doesn't get to be too much and she can sit at her machine for 16 hours in a day, she can stitch together as many as 420 bags. Her hard work brings in, on average, 3,000 pesos a week, the equivalent of nearly \$60, a princely sum in a region where many farmers make do on a dollar a day.

Until recently, Ms. Pico, a 42-year-old mother of four whose husband works as a security guard, made less than half that amount. All it took to change her fortune was a \$60 loan from the **Mindanao Enterprise Development Foundation**, a local microfinancing organization that promises clients a "hand up, not a handout."

"Sixty dollars may not sound like much to us, but in a place like the Philippines it can be enough to get a family going, allowing them to buy a cow or goods to sell in the marketplace," said Nancy Barry, president of Women's World Banking, a New York-based network and resource center for microfinancing organizations around the world. "The hope over time is that the \$60 becomes \$100, then \$500, and before you know it, these clients are integrated into the mainstream economy."

The Mindanao development foundation is following the example of the famous Grameen Bank in Bangladesh by lending to groups of neighbors, who essentially guarantee one another's loans. It is focusing its group lending entirely on women clients, a trend in microfinancing.

"Women manage most household economies," Ms. Barry said. "Low-income women think long-term. They plan not only for their children, but for their children's children, making them the bridge to the future and a good investment proposition."

Ms. Pico is one of three in her group of borrowers. Once a week, they discuss their separate businesses and make payments on their six-month loan. "I keep a closer eye now on whether my neighbors work hard," Ms. Pico said with a laugh. The foundation says no group of borrowers has defaulted.

One of microfinancing's cardinal rules is that borrowers, though they may lack collateral, must be treated as serious business people, not charitable cases, so the Mindanao foundation charges 3 percent monthly interest. The rates reflect the fact that these organizations face high transaction costs.

Prospective Mindanao borrowers are required to sit through 10 hours of rudimentary business training. "We are learning about business, about how to become more productive, so that we can improve our lives," Ms. Pico said. "My daughter Maricel is in college and someday, together, we will buy new equipment, put up a factory and hire people."

Nearby, Priscilla Magarin, a 43-year-old widow, invested the 3,000 pesos she borrowed from the Mindanao foundation in a typical village "sari-sari" variety store attached to her home. She makes anywhere from \$4 to \$8 a day.

That's not counting the intangible dividends. "If you have a business like this and run it properly, your standing in the community improves, and suddenly people are looking at women in a different way," she explained.

Microfinancing is a grass-roots development tool that works best when run as a viable business, independent of government. While the emphasis once was solely on making loans, the latest trend is to offer clients a range of financial services. Governments are rightly being exhorted to regulate microfinancing institutions as a legitimate part of the financial sector. The Philippines has done so, and the Mindanao foundation's clients participate in a savings plan, too.

Remittances, the private flows of money sent home to developing nations by workers overseas, are fast becoming the cherished "El Dorado" for microfinancing promoters, as they are for plenty of other development schemes. It is estimated that last year the amount of money sent home by migrant workers — some \$80 billion — overshadowed for the first time the amount of total aid and credit (both private and public) extended to poor countries. In the case of the Philippines, long known for exporting labor, remittances are one of the few things the nation's economy has going for it these days, amounting to some \$7 billion a year.

Outfits like the Asian Development Bank and the Inter-American Development Bank see a natural fit between remittances and microfinancing. The challenge for them, and for policy makers from Manila to Bogotá, is to find ways to deliver on this promise, both by enabling microfinancing groups to help speed the transfer of funds to remote villages at a lower cost and by providing a pool of working capital for microfinancing.

If microfinancing can indeed tap into these flows of capital in a significant way, overseas workers sending money home will have given their communities a "hand up" in more ways than one.