



Beyond Mission

Father Charlie talks about Microfinance

Our microfinance program was originally designed to help mothers raise money to care for their children.

More than 10 years ago, an American company, CRS, gave us Rp 15.000.000 (US\$20,000) as did another company, Mercy Corp. Since then, we have given out loans equivalent to US\$3.18 million and have funds of more than US\$450,000.

There are more than 2,500 women participating in the program at present. The program helps a group of women to get together, study the basics on how co-operatives work, book keeping and how to start saving small sums of money together. Typically, the loans they apply for are five times the amount they have saved – in extraordinary situations, the ratio can be bigger.

The loan is taken out by the group and it is the group who decide the individual amounts to be given to each person, as well as what the interest rate should be and it is the responsibility of the whole group to repay the loan. They can then decide on what type of income-generating activity would be best for each member and the different amounts of money needed for each of these particular ideas. The group also support each other by buying the goods sold by fellow members.

Each month, the groups are charged 2% interest. After the loans are repaid, the groups can loan more money if needed—usually starting at US\$60 multiplied by the number of members in the group. The group must agree to meet monthly and there is a fine imposed on members if they do not attend. A strong sense of community is built up over time and ‘struggling’ members are helped along. Until now, all interest raised is



put back into the fund and therefore increases the amount of funds available. Approximately 80% of the available funds are owned by the NGO and 20% by the members.

While a 2% interest rate per month may seem high by Western standards (western rates are more like 7% per year), a person buying and selling chickens for a living may buy the chickens in the village and pay US\$15 for five chickens. He could cycle into the town and sell them at the market for a total of US\$20. If they do this for 25 days a month, they can earn around US\$75 which is equivalent to the wage a factory worker or a farm labourer would make where the average wage is around US\$3.00 per day. This equates to more than a 500% profit over the month.

The program is earning enough now that we can help poorer children to pay school fees and costs by taking 1% of our funds per month from the program to pay their school expenses. We run 26 schools and students pay US\$10 per month. For each US\$120, we can educate a child for a year. We want to make this a student loan that can be paid back when they get a job. This way, we can use the repaid funds to support more children.

The program can handle an increase of US\$17,000 which will enable existing loans to be increased, opportunities for more very poor women to participate and send up to 80 children to school every year for well into the future.

Fr Charlie Burrows OMI



DEFINITIONS

Microfinance

As the name suggests, microfinance is all about lending very small amounts of money to people so they can start their own businesses or grow the business they already have. Most banks are unwilling to lend money to poor people because of the high risk and low returns they get. Borrowing money to make more money is a very normal part of any business, large or small.

NGO – Non Government Organisation

An NGO is a non-profit group that is not owned by a government. While they operate like businesses, they usually work for the benefit of society.

ACTIVITIES

- 1 Discuss the difference between good debt and bad debt.
- 2 List three reasons why microfinance is better than direct handouts.
- 3 Explain how this program increases human dignity.
- 4 Determine whether this program is a sustainable development. Give reasons for your answer.

