

# Microfinanciers in Training

## Teaching Students to Become Entrepreneurs of Social and Material Capital

BONNIE L. ORCUTT

The United Nations declared 2005 the “International Year of Microcredit.” That same year, eBay founder Pierre Omidyar and his wife created a \$100 million endowment at Tufts University to support a range of international micro-lending initiatives. In 2006, Muhammad Yunus was awarded the Nobel Peace Prize in recognition of three decades of making low-interest microloans to poor rural Bangladeshis, mostly women. Before long, microfinance was, if not a household word, at least a popular term among economists and aid workers denoting a strategy of trying to improve the circumstances of disadvantaged populations by making loans as small as \$25 to support microenterprise.

At the same time, globalization, diversification and civic engagement were gaining prominence as stated goals of higher education institutions. The question we asked at Worcester State College was: Could experiments in microfinance be used as tools not only to help disadvantaged borrowers but also to enlarge the sensibilities and worldly perspectives of a student body eager to learn, though not widely traveled? Our answer was an undergraduate course called *Microfinance: Prospects for Prosperity*.

The course features traditional academic components including exploration of the historical development of microfinance and various models ranging from Yunus’s Grameen model to village and community banking structures, group lending and individual loans, among others. Additionally, consideration is given to criticisms voiced about whether microfinance is an effective tool for poverty alleviation and whether, as some skeptics have wondered, microfinance generates any lasting impact on economic growth and development. But the course is also uncommonly hands-on. Students build upon the outreach of the college through the development and implementation of real microfinance projects, initially abroad, but more recently in the Worcester community.

Students have become entrepreneurs of both social and material capital. Called upon to envision and implement their own microfinance programs to improve the lives of the disadvantaged at home and abroad, they created a WSC-based organization called “MEET: Microfinance, Empowerment, Education and Training.”

Initially, the focus of MEET was a community in Nicaragua called Cedro Galan. Currently, the activities of MEET are overseen on a daily basis by Manna Project International Inc. (MPI), a nonprofit organization founded by Vanderbilt University graduates, which serves as MEET’s local partner. The intent of MEET was to provide individuals with access to financial capital for entrepreneurial endeavors. Having established the mission of MEET, its goals and bylaws, students traveled to Nicaragua during spring break to implement their project. They spent a significant percentage of their time working through the organizational structure with MPI staff volunteers. The students held informational sessions, distributed loan applications and helped individuals complete the applications. Loan amounts ranged from a maximum of \$225 for a group of three to \$450 for a group of six, with repayment terms ranging from six to 18 months.

Activities in Nicaragua have led to parallel activity in Worcester, where many people are unable to access small loans for business startups due to poor credit history or lack of collateral. The project presents students with new understanding of the elements of similarity and difference that exist between a community in Nicaragua and a recovering industrial city in Massachusetts. Designing and implementing a microfinance program in such diverse communities challenges students to explore the common ground and significant divergence between the two places, though the intent is the same—reducing poverty, empowering the poor, promoting self-agency, among other goals.

MEET’s mission and goals reflect the students’ views that access to financial capital, education and training and health care are equal and critical components of a successful pathway out of poverty. Their mission statement reflects their belief in the market system but recognizes that for individuals to benefit from the market process they must be able to participate effectively. Hence, the organization’s bylaws require microloan recipients to attend training seminars on topics such as business plan development, personal and business budgeting, investment and growth, marketing principles, basic accounting topics including seminars on cash flow and inventory control and a seminar on health and nutrition. As part of the course of study, the students created these seminars to be delivered to clients in Nicaragua.

Early challenges were many. Securing funding to cover travel expenses and finance the organization’s

lending activities was a major obstacle. Students raised more than \$5,000 during the first year of the project and more than \$7,500 the second year. These funds, combined with a WSC faculty mini-grant of \$4,100, enabled 10 students over the two years combined to travel to Nicaragua free of cost. An additional \$3,600 was allocated to fund the microfinance lending activities in Nicaragua, and \$3,100 remains available to finance the anticipated startup of the Worcester branch during the 2007-08 academic year. An additional \$850 was allocated to the creation of a forthcoming cable documentary on the Nicaragua microfinance project.

Fundraising projects have included an annual walkathon and silent auction, a wine tasting event and a spaghetti dinner. Students secured donations from local businesses to offset the various costs of the fundraising events. In addition, the students worked for the WSC Development Office on its Annual Golf Tournament Fundraiser in return for a percentage of the donations raised through their efforts, and each year applied for and received a WSC Alumni Association Scholarship. Shaws Inc. provided both cash and in-kind contributions to fund the students' microfinance project and to help cover the costs of the fundraisers. Students also received numerous donations of clinic supplies, books and other items, which they brought with them to Nicaragua and donated to a health clinic in Cedro Galan.

Students have also faced tough questions. Women traditionally have less access to financial capital and economic opportunity than men, have greater domestic responsibilities, tend to use the loans for their designed purpose, have higher repayment rates and are among the poorest of the poor. So should microfinance loans be targeted to women only? Or should both men and women have equal opportunity to access loans? What should the mission and goals of the organization encompass? Should savings be required in order to receive a loan? Should the group continue with the individual loan structure established by the first-year project team or should a group model be adopted? These and other questions are addressed by each year's students and will likely be revised, massaged or discarded as the organization grows and matures and the students' visions evolve.

There are other challenges as well. Research documents microloan repayment rates of 95 percent to 98 percent—astonishingly high given the high interest rates associated with microfinance (justified on the basis of significantly higher transaction costs and, in many cases, the absence of collateral). Our initial experience did not meet that standard, but recovery of the first year's loans did reach 70 percent, and the balance due was written-off after client interviews.

In the first year, loans were made to individuals. During the second year, as a result of the first year's repayment rate and an interest in encouraging social

interaction, an effort was made to introduce a group model, wherein several applicants assume joint obligation for diligence and repayment. Conditions for obtaining a loan were tightened and prospective recipients were required to attend educational seminars, to meet as a group with a designated facilitator and to participate in a mandatory savings program. Interestingly, the Cedro Galan community does not appear to be especially receptive to assuming group responsibility. Next year's cadre of students will need to reassess the format as they take this opportunity to understand cultural nuances and differences.

Meanwhile, in establishing a Worcester branch, the students will need to find a partner not only to provide day-to-day oversight as Manna does so well in Nicaragua, but also to work through the labyrinth of regulations governing lending in the United States. Then there is the matter of seed capital to fund lending activities. Where and how to raise it? How to employ it with consequence?

Finally, the students must address the skepticism about microfinance in general. The embrace of microfinance as a means by which to alleviate poverty among the world's most disadvantaged is not unanimous, and criticisms are being levied at microfinance schemes. Assessment is at the forefront; how and by whom are microfinance initiatives to be assessed and how are the economic and social impacts to be estimated? Is microfinance the best way to help the poor? Are resources being diverted away from other basic services—health care, education, potable water projects—because of the popularity of microfinance programs rather than demonstrated returns to the activity? Can the microfinance revolution that has thus far been fueled by subsidies eventually operate free of subsidization? Will microfinance be able to serve the poorest poor in light of the relatively new focus of institutions on self-sufficiency and profitability?

Through this applied, service-learning-based project, students are learning to tackle problems they are likely to face as engaged citizens in an increasingly global economy. Their understanding of the importance of language, culture and history will be heightened and broadened. Their educational experience, no longer confined to the classroom, will force them to face head-on the difficulties of applying theory to real-world problems. The knowledge they have acquired in the classroom will be strengthened and deepened through its application. Maybe most importantly, their exposure to the plight of others and the rewarding feeling of being able to help, even in a small way, will spark a lasting passion in these students to use their knowledge in ways that improve the lives of the people around them.

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**Bonnie L. Orcutt** is an associate professor of economics at Worcester State College.  
Email: [bonnie.orcutt@worcester.edu](mailto:bonnie.orcutt@worcester.edu).