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Small loans, big dreams

Emerging microlenders take separate paths to aid low-income residents in Greater Des Moines

BY JOE GARDYASZ, Senior Staff Writer

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Two distinct organizations, separate boards

Although they have similar names and similar missions, Solidarity Microfinance and Solidarity Foundation are two distinct entities that have independently developed microlending programs aimed at serving low-income residents of Greater Des Moines.

Eric Kinman, founder of Solidarity Foundation, who last year joined the board of Solidarity Microfinance, says the latter organization focuses primarily on small commercial loans, while Solidarity Foundation is primarily concerned with personal saving and lending.



A key difference between the groups is that Solidarity Foundation does not provide any capital to its groups; the members provide all of the funds themselves. By comparison, Solidarity Microfinance funds traditional microloans to members within its groups, using outside funding provided through foundation and corporate grants. Because their loans are for small businesses, the loan amounts begin at \$1,000, compared with loans that may be less than \$100 for Solidarity Foundation group members.

"We really didn't hear much about Solidarity Foundation until this last year," said Mark Edelman, director of the Community Vitality Center at Iowa State University and an organizer of Solidarity Microfinance. "I think there's a role for both. It's a little unfortunate that they selected the same name. But I think it's a creative approach that fills the gap, so I don't see any reason why the two shouldn't co-exist."

Both organizations meet unmet needs and have sound operating models, Kinman added. "There are just different ways to meet different needs."

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Solidarity Microfinance brings Grameen lending model to Des Moines

A microlending model aimed at helping low-income women throughout Greater Des Moines to start their own small businesses and become self-sufficient is proving to be successful.

Through small loans coordinated by Solidarity Microfinance, more than 160 low-income women have gained self-sustaining income from businesses they've formed over the past two years. Now, with proof that the model works well in Central Iowa, the organizers of the program are gearing up to increase that base to at least 300 borrowers by the end of this year.

Solidarity Microfinance, an initiative of Iowa Community Capital, is based on a lending model perfected over the past three decades by the Grameen Bank, which has planted active lending groups for poor women internationally as well as in the United States. Iowa Community Capital is a nonprofit organization led by Iowa State University's Community Vitality Center.

Since March 2015, Alomgir Hossain — a Bangladesh native who had worked directly with Grameen Bank founder and Nobel Peace Prize winner Muhammad Yunus — has been based out of a Forest Avenue office to develop the Des Moines program.

Since then, the microlending program has extended loans to 164 low-income residents — all women — each of whom has opened her own simple small business while maintaining an enviable 100 percent repayment rate of their loans, which start out at \$1,000 and can increase as they're successfully repaid.

Mark Edelman, an ISU professor of economics who leads Iowa Community Capital, worked with Alex Orozco, a banker with Bankers Trust Co. in Des Moines, along with other leaders in bringing the concept to Des Moines.

After visiting Grameen America's Omaha operation — one of just five cities in which Grameen Bank operates in the United States — Edelman and Orozco began to develop a relationship with Grameen America. Ultimately, they were successful in persuading Hossain, who at the time was leading Grameen America's program in Puerto Rico, to relocate to Des Moines to help launch a program in Des Moines modeled after Grameen's lending concepts.

"We wanted to see if we could do this in a smaller metro community," Edelman said. "So we kicked off a year of a year of fundraising, and we got a leadership grant from the Community Foundation of Greater Des Moines, along with funding from other investors. Capital Crossroads provided an endorsement, and that's how the program really developed."

The Community Foundation of Greater Des Moines provided some initial funding, along with support from the Warren Morrow Foundation Community Betterment Fund and the Northwest Area Foundation, Edelman said. "We're now transitioning from initial to sustaining funders," he said. Additionally, corporate sponsors locally have included Bankers Trust, Vision Bank and Wells Fargo.

In December, Iowa Community Capital was certified as a Community Development Financial Institution by the U.S. Treasury, which makes it eligible to receive federal assistance to provide financial services to low-income populations.

Hossain, who initially worked with Yunus in the early 1980s in Bangladesh, has dedicated the past three decades to taking the concept to other countries through the Grameen Trust as its general manager. By 2005, when he left Grameen Trust, he had launched more than 150 projects for Grameen in 20 countries in Africa and Asia.

In 2006, when Whole Foods Market created the Whole Planet Foundation to bring microlending to more countries, Hossain developed programs for the foundation in Costa Rica and Guatemala. After starting microlending programs for Whole Planet in Colombia and Mexico, he joined Grameen America in New York City in 2013. Two years later, Edelman connected with Hossain while Hossain was living and working in Puerto Rico.

"We believe that all poor people have the knowledge and capacity to start a business; without that knowledge and capacity they couldn't maintain and manage their family," Hossain said. "The only problem is they have no capital, so they can't do anything. Our experience is that once they have the capital, they find a way to use the money."

In just two years, Solidarity Microfinance has established 17 microlending centers — each made up of about 20 women — across Greater Des Moines. Each of the centers, which consist of four to five groups of five women each, meet at the center leader's home to share ideas and experiences, make loans and deposit earnings. The meetings are facilitated by a staff member of the program.

Some of the most common businesses that the women have created with their loans are selling clothing, cosmetics and jewelry, as well as foods that they make in their homes and sell to their neighbors and at their children's schools. One woman who is from Mexico, for instance, makes bracelets and necklaces from materials she purchases from her home country, and sells them in her shop on East Grand Avenue.

The limited scale of the ventures virtually eliminates the risk of failure that American small businesses typically face, Hossain said, because they only make as much as they know they can sell, or have arrangements to return unused goods to their suppliers.

To be eligible for the program, each woman must have lived in the community for at least two years and have four other women who are willing to form a group with her. Each participant must decide on an income-generating activity she can do, which of course must be legally allowable.

"So these are business loans," Edelman said. "There has to be an activity that each person is interested in developing or expanding. And the other members of each group are the first lines of underwriting, because we don't require conventional guarantors."

The program also has a required savings component, as each participant is required to open a savings account and establish savings. Additionally, as each woman makes weekly loan payments over the course of the six-month term, she has the capacity to build a credit history.

Edelman said the program has already surpassed its initial goal of increasing the annual income of each participant by \$2,400. The organization hopes to nearly double its number of borrowers to 300 by the end of this

year.

Having personally visited each of the participating women's homes over the past two years, Hossain can attest to the poverty that they're living in. Many don't even own a television set, and others couldn't afford to send their toddlers to preschool.

"Our goal is to reduce the poverty so that low-income people can improve their living level, and by doing that they can better take care of their family's health and education," he said. "Money is the most important instrument to being able to improve their lives."

Solidarity Microfinance

Borrowers served: 164
 Loans provided: 327
 Amount loaned: \$442,700
 Repayment rate (since January 2015): 100 percent
 Website: solidaritymicrofinance.org

Solidarity Foundation's savings groups address needs of underbanked immigrants

Where does a Burundi farmer who lives in Des Moines turn when he needs to borrow \$100 so he can buy seeds and supplies for his small produce business? Or where does a Sudanese refugee in Des Moines go when she needs money to send back to her relatives in South Sudan?

For Eric Kinman, founder of Solidarity Foundation in Des Moines, the needs of underbanked immigrant groups in Greater Des Moines are strikingly similar to those that the nonprofit has addressed for the past year and a half in Mexico, Honduras, Guatemala and other Latin American countries. Its mission is to create pathways out of poverty by teaching money management behaviors to communities in need.

Solidarity Foundation — which is not affiliated with Solidarity Microfinance — has helped several refugee communities in Des Moines to establish internally funded savings groups of 10 to 20 people, in which members extend loans to each other. Kinman has used the model to make more than 150 loans in the past 18 months. Also known as savings-based microfinance, the lending group concept provides a great deal of scalability to expand it to more populations because it's not dependent on external capital to grow, Kinman noted.

"It's all their own money. And they're generating value from their own funds when they pay their money back (with interest)," he said. Each group sets its own minimum savings amount that members must contribute at each meeting, and they also decide how much interest will be charged on loans. Most of the groups charge 10 percent for simplicity of calculations, though one Bhutanese group charges its members just 2 percent.

Kinman, a consultant who works with United Way of Central Iowa as project manager of the OpportUNITY Plan, a five-year poverty reduction strategy, first became interested in ways to meet the needs of unbanked or underbanked people while he was chief innovation officer for Veridian Credit Union. "There's a reason that there are a large number of folks who are unbanked," he said. "Their products don't mesh with the needs of that population."

Kinman's involvement in humanitarian trips to Mexico spurred him to create a way to help low-income residents there climb out of poverty.

"We were digging toilets and foundations for small homes for people working in the dumps around Puerto Vallarta," he said. "Like a lot of nonprofits in those areas, we were working with a church providing different programs, and they had just launched an income generation program." Kinman observed that although participants were making three to four times more income than in the past, their savings and assets weren't increasing.

The savings and lending program evolved out of an independent study program Kinman undertook as part of his MBA program at Drake University. He organized his first savings group in Mexico in October 2015, and soon had inquiries from people in Honduras and Guatemala to help them establish savings groups there.

"The big lesson that I took from the savings groups is, when you're in survival mode you work on short-term time horizons," he said. "So by having them put money into a box for six months at a time, you're teaching delayed gratification. And then (by making loans) that's further extending that risk assessment into the future. The savings group methodology teaches that long-term decision-making."

Then last spring a friend of his said, "Why don't you do these savings groups here?" An initial group of South Sudanese refugees in Des Moines proved the model could work as effectively in Iowa as in Latin America.

Initially, Kinman believed that traditional microlending groups would be the answer to capital needs for the women he was working with in Mexico. However, in a series of three focus groups he conducted, he found that only about 20 percent of the women wanted to start their own businesses, "and if you're at the bottom of the socioeconomic pyramid, you're less likely to open your own business," he said. "They just want steady income and would rather work for someone else."

Additionally, Latin American cultures tend to be very communal-minded as are the refugee groups living in Des Moines, and the group savings model works well for them, he said. Although each group is different, on average it

takes a group about 12 months to become self-sufficient.

In January, Solidarity Foundation received a \$10,000 grant from the Principal Financial Group Foundation, which will help the organization to form additional savings groups. In addition to working with refugees in the Oakridge Neighborhood, Solidarity has developed relationships with groups that are served by Lutheran Services in Iowa.

It's not clear yet whether groups that use the model will eventually migrate to using banks or credit unions, or if they'll continue to use their savings groups for their borrowing needs. Some groups, like a group of Burundi farmers working with LSI's Global Greens farming project, may have more of a need for banking relationships than groups that are not doing business.

"These are some of the first savings groups in the U.S., so there's a lot that we're learning just in the past six months," Kinman said. "One of the things we're learning is that many of the people are already banked. So some participants may get banked or become better banked. Another option is if they simply don't want to use a bank, the savings groups can always exist."

How Solidarity Foundation's savings groups work

Each group of 10 to 20 people elects four officers: a president, treasurer, secretary and key holder. The group maintains a box to hold the group savings. Each box has two locks, with a unique key held by the president and key holder. The treasurer does not own a key, but is responsible for the box between meetings. A trained facilitator meets with each group to guide their activities, but as the groups mature, the facilitator reduces her presence at the meetings. Currently 84 percent of participants in the Des Moines savings groups are women.

For more information, contact: Eric Kinman, solidarityfn@gmail.com, 515-979-9442, solidarityfoundation.org

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