COLOMBIA – CASE 6

Issue: A good program off to a poor start

Shortly after arriving at his site, PCV Andrew identified an ideal candidate to administer a micro-loan program. She was already working with vendors in the market to provide workshops and various kinds of support to help them improve their earnings. Loans for those who completed the workshop seemed a good fit.

She was a successful business owner. Many market vendors bought from her warehouse. There was frequent activity at her cashier's window and nothing to distinguish a borrower from regular customers and nothing to create a security concern. Borrowers received loans from the cashier and make payments to the cashier. This was convenient for all concerned since the borrowers worked in the same market and it did not create any security concerns.

The problem was that she gave her first loans to those she thought needed them most with inadequate consideration to their willingness to repay. This partner had a big heart and trusted her borrowers to do the right thing but had failed to make sure they understood and agreed to the rules.

TCP Global recognizes that most of our partners are already providing various types of training to their borrowers – financial literacy, health, etc. The only training we ask that our partners do is to help borrowers understand that, with their cooperation, their community will have a permanent loan pool for affordable loans well into the future. TCP Global offers them an opportunity and if they repay their initial loans, we will send more funds to expand the program. If they do not repay, their existing loan pool will
disappear, we will send no more funds and they will again be left with only the daily lenders and their exorbitant rates.

Of the first nine borrowers, three repaid in full within eight months. Of the remaining six, all stopped after repaying 20% to 80% of their $100-$150 loans. Shortly before Andrew left, he worked with the leader to help her behind the scenes to launch an all-out campaign (PCVs do not get directly involved in collection activities or financial transactions) to get the loans repaid and three made payments of $2.50 to $7.50, just enough to get her repayment rate over 95% and qualify for an additional $1500. None of those borrowers made any additional payments and the repayment rate returned to well below the 95% threshold to qualify for additional funds.

Meanwhile 27 of 28 subsequent loans were in good standing. It appeared the organization had learned from early mistakes. However, TCP Global policies require a 95% repayment rate and require that all previous funds have been loaned out twice in order for earnings to be withdrawn or for new funds to be sent. In reality, however, if a partner wanted to withdraw earnings, there is nothing TCP could do to stop them. If they chose to take all their loan funds and book a trip to Paris, we could not stop that either. Once the funds enter their bank account, we recommend and suggest but have no actual control of the money. Given the kind of partners we attract, however, no one has taken advantage of the situation. We often have to encourage partners to withdraw earnings for special projects.
At any rate, we were stuck. The relationship of the NGO with the PCVs seemed strained since most interactions focused on urging her to do the impossible and collect the uncollectible.

WHAT WOULD YOU DO?

WHY?
THIS IS WHAT TCP GLOBAL DID:

We had never done this before and hope to never do it again, but in light of the fact that this site had learned a lesson and had a good plan for going forward, even though their earnings were frozen, TCP Global asked permission to use a portion of the non-profit's earnings to pay off those bad debts from the first round, and mark those borrowers as disqualified from future loans until they repaid their debt plus interest. Initially, most administrators are mystified by the ‘earnings,’ as they never see a separate pile of money called ‘earnings’. Everything is in the loan pool until earnings are withdrawn and the withdrawal replaced by new funds from the U.S. The non-profit was reluctant to agree to the accounting fix since she didn’t understand it. The situation was resolved only when until Joshua, the new PCV, discussed it on the phone with me and then explained it to her in person.

Shortly after she agreed, we held a SKYPE call and the difference in her was remarkable. She seemed relaxed. There was a good rapport with Joshua, and with the delinquencies behind us, we were able to discuss her plans for the future. She thought of using earnings to buy a machine to make brooms, which two to three women could then sell. She told us that one of the borrowers, Ester, is helping her find new borrowers in her displaced settlement. The cloud of the delinquencies is removed and we can all focus on plans for the future.