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Microfinancing the Poor of Honduras

Introduction

In 1502, Christopher Columbus made his fourth voyage to America. It was during this voyage that the Spanish first made contact with the Mayas of Central America. Columbus intercepted a canoe filled with trade goods, and was impressed with the wealth and civilization that the goods exhibited. He later named the region in which he encountered these people Honduras, which means 'depths' in Spanish. This name referred to the deep waters off the northern coast of Honduras. Today, unfortunately, the wealth of the Mayan civilization is long gone from the region. The name Honduras now more aptly describes the 'depths' of poverty that affect the nation.

Honduras is one of the poorest countries in Central America, second only to Haiti. Those living in poverty make up fifty-one percent of Honduras's population. About twenty-one percent of the population lives on less than one U.S. dollar a day. Seventy-four percent of the country's poor people live in rural areas, where they have little access to land, running water, sanitation, health care, or education. Most farmers barely have enough land to feed their families; some don't have land at all, relying instead on work as laborers or seasonal migrant workers (Rural Poverty Portal).

The peasants of Honduras are facing greater economic insecurity. Their average income has remained basically unchanged for the past thirty years. The inflation rate is now at 6.9 percent (World Factbook), which is down from 24.9 percent in 1996, but it is still very high (Encyclopedia). This combined with the high population growth rate at just over two percent annually and the commercialization of agriculture has made life increasingly difficult for many of the rural poor. Urbanization is increasing as more and more people leave the countryside in search of work, mostly in the *maquilas*, or factories.

Commercial agriculture interests have long had a major impact on Honduras, especially in bananas. The banana companies, Chiquita and Dole, have strongly influenced both the environment and the government of Honduras. Many of Honduras's past problems of governmental instability stem from the banana companies' efforts to influence the government in their favor; the term *banana republic* was first used to refer to Honduras. With the onset of Panama disease, a devastating fungal disease in bananas, the banana companies simply cleared more land and started new plantations instead of taking measures to prevent the spread of the disease. This caused deforestation while only assisting in the spread of the disease (Koepfel). Commercial interests in general have had a profound effect on subsistence farmers, making land more expensive and less available.

During the 1980s, Honduras had a central role in the United States' politics with Central America. This brought quite a bit of political and economic attention to the country, but after the political attentions came to a close, economic aid was also much diminished. The government of Honduras currently pays little attention to rural areas, focusing instead on attracting international money and interests (Adelante Foundation).

In October 1998, Hurricane Mitch caused devastation in Honduras. The storm killed over 7,000 people, destroyed eighty percent of crops, and left about twenty percent of the population homeless. It caused billions of dollars in damages and halted economic growth. The people of Honduras, especially the rural people, are still trying to recover from this overwhelming destruction (Adelante Foundation).

Even though the demand for food increases around the world, Honduran farmers cannot keep up with supply for themselves. Subsistence farmers face problems of low yields on their small land holdings and higher prices of just about everything. They don't have enough income to buy imported grain when their crops don't yield enough to feed their families.

Subsistence Farm Life

The typical subsistence farm family consists of a man, who is traditionally the head of the family; his wife; and their children, of which there is an average of seven. About nine percent of small farm families are headed by women, who must both take care of their families and work the land. Rural households headed by women earn about 30 percent less income than those headed by men. The Gross National Income (GNI) is between 530 and 1,250 U.S. dollars, though 20.7 percent of the population lives on less than a dollar a day (Rural Poverty Portal).

The four main subsistence crops are corn, beans, sorghum, and rice (Encyclopedia). Most small farmers have less than five hectares, or 12.4 acres, which is not usually enough to feed their families. As a result, most peasants must seek jobs as full- or part-time laborers. In addition to rising land prices due to commercialization of agriculture, one major reason for having such small farms is that inheritance of land is traditionally divided among all the sons of the landowner. With each generation, the plot each son receives to cultivate gets smaller (Merrill).

Most rural families live in one- or two-room huts called *bahareques*. They are built with adobe or sugarcane stalks and mud, and they have thatched roofs and dirt floors. The typical diet is corn made into tortillas, beans, cassava, plantains, rice, and coffee. Meat and fish are eaten only occasionally, though each rural household usually owns a few pigs or chickens. Malnutrition is widespread, causing thirty-four percent of children under five years old to experience stunting of growth (Merrill). There is limited access to running water and sanitation facilities. In 2000, only ninety percent of the population had access to safe drinking water and seventy-seven percent had adequate sanitation. These conditions are conducive to the spread of infectious and parasitic diseases, which are the leading causes of illness and death. In addition, Honduras has a very poor health system, especially in rural areas. It is estimated that there are only 0.8 physicians and 1.1 hospital bed for every 1,000 people (Encyclopedia of the Nations).

In Honduras, primary school lasts for six years followed by five years of secondary school. Education is required by law for children aged seven to twelve. Many children, however, do not go to school for the required time, and there are not enough schools, especially in rural areas (Euraque). Honduras's literacy rate is about eighty percent, though in rural areas it is lower. Up to seventy percent of women in some areas are illiterate, with only about twenty percent receiving a secondary education (Rural Poverty Portal).

The transportation system in Honduras is lacking, especially in rural areas. There are few roads and most are unpaved. About five percent of the population owns an automobile. The main methods of transportation are by bus, mule, or horse. What few railroads Honduras has are operated by the banana companies and serve only that region. Even the capital city, Tegucigalpa, does not have a railroad (Euraque). Telephone lines are available only in the cities, but cell phones are becoming more and more popular; in 2006, thirty out of 100 people subscribed to a cellular service (World Factbook).

Many environmental issues are also attached to agriculture in Honduras. The soil in Honduras is not very fertile and much of the land is mountainous, making erosion a serious problem. Because of this, yields decrease from year to year. Instead of implementing better farming practices, farmers clear more

land from the rainforests in the slash-and-burn technique, which leads to deforestation and more erosion (Merrill).

Commercialization of agriculture in Honduras is especially hard on the poor. One may think that it is a good thing to expand and diversify agricultural exports, but it is not beneficial to everyone. Using more land for export crops means there is less land being devoted to food production for the country and less land for the subsistence farmers as larger landowners increase their holdings and land prices go up. The current pace of food production in Honduras is not enough to keep up with the growing population. As this trend increases, Honduras has had to import increasing quantities of grain. The people with the shortest end of the stick are the rural poor, who cannot afford to buy the imported grain that they should be able to grow for themselves (Brockett).

In the end, small farmers do not have enough money to cope with their many problems. They don't have the money to buy land, fertilizer, or seed, nor can they afford health care and other necessities for their families. They cannot compete with larger commercial farms for resources. If small farmers had sustainable access to financial services such as savings and credit, they could work their way out of poverty.

Microfinance

Microfinance is a viable solution to the many problems facing small farmers today. Microfinance provides low-income people with financial services such as savings and credit. Many microfinance institutions also provide social services, such as forming groups and training in financial management. It is something like a bank for the poor that acts not only as a bank but also as a means of development for the people and communities that are its clients. Most importantly, it is far more sustainable than handouts or subsidized credit (Ledgerwood).

Microfinance arose in response to the problems with subsidized credit systems employed by governments and international donors. Subsidized credit is credit with a low interest rate that is not enough to cover the cost of making and collecting the loan. Therefore, these programs cannot become self-sufficient and rely heavily on donations and government spending (Ledgerwood).

Formal financial institutions do not like loaning to the poor. The first reason is that the loans they need are too small. It costs about the same for a bank to process a loan for a large amount of money or a small amount, so banks would not be making much money by giving small loans. Secondly, poor people do not usually have sufficient collateral to secure the loan. Another reason may be the misconception that poor people will not or cannot pay back the loans.

Dr. Muhammad Yunus led the way in microfinance by creating one of the first successful lending systems for landless people in Bangladesh. His creation, now called the Grameen Bank, has been a model adopted by many organizations around the world including the Adelante Foundation, a microfinance organization serving poor women in Honduras. His original model had one bank unit covering fifteen to twenty-two villages. Lending groups of about five people are formed that will jointly take out a loan. Though each individual has their own portion of the loan, it is the group that is responsible for paying back the loan, so if one person cannot repay, the others must make up for that person. In this case there is a substantial sense of responsibility to the group to keep one's record clear and pay back loans, which takes the place of collateral (Adelante Foundation).

A flood in Bangladesh in 1998 caused many borrowers to be unable to pay back their loans, and the original Grameen Bank system did not allow the people to easily get back on track with their payments. Therefore, Grameen Bank's original system has recently been revised to take care of these

issues along with others. The new system is now more flexible when clients are having difficulty paying back their loans. The new system has only one main type of loan called the basic loan which covers most of the client's credit needs. However, if the client has trouble paying back the loan he or she can move into a flexible loan, where they can renegotiate the payment schedule to fit the needs of that person. The new system was extremely popular with both the clients and the staff. Many borrowers who had stopped payments came back and agreed to pay off the rest of their old loans, even though the new system did not offer any reduction of their debt (Yunus).

Many microfinance institutions also provide social services in addition to financial services. They help small farmers form cooperatives, provide training in managing their finances and businesses, and help them with marketing their products. Microfinance institutions can be much more than just a bank — they can be a tool for the development of the microenterprises to which they grant loans (Ledgerwood).

Microfinancing Honduras

Honduras already has several microfinance organizations in operation today, but there is still room for growth. About twelve percent of microenterprises in Honduras use microfinance, which is a relatively high rate of penetration. However, rural and poorer areas have been neglected (Grameen Foundation). The U.S. Agency for International Development (USAID), Foundation for International Community Assistance (FINCA International), ACCIÓN International and its affiliate Fundación para el Desarrollo de Honduras (FUNADEH), and the Fundación Adelante are some organizations that are currently working in Honduras.

Some institutions, such as the Adelante Foundation, specifically target women for loans because they are traditionally underprivileged and affected more by poverty. The Adelante Foundation provides poor women in Honduras with credit and also provides business, health, and human rights education. The education provided by Adelante is important in helping their clients improve their businesses and also their quality of life (Adelante Foundation).

Most of Honduras's microfinance institutions are based in the cities and therefore people in the cities tend to receive more attention than rural people. Microfinance institutions should work more on reaching out to small farmers and providing them with loans and education. Helping small farmers increase their business opportunities will greatly enhance life in rural areas and Honduras's economy. Small farmers that increase their businesses will earn more income that they can use to provide proper nutrition, health care, education, and other services for their families. As their businesses expand, they can market their products to more places, perhaps with the help of cooperatives.

Cooperatives would greatly help small farmers in Honduras. There are two main benefits to forming cooperatives: greater buying power and greater selling power. By pooling their resources, small farmers can buy what they need in mass quantities, which is cheaper than buying just enough for themselves. They also have access to more markets for their products by selling together. Microfinance institutions are in the perfect position to help get these cooperatives started.

Small farmers can also benefit by selling their products to wholesalers. For example, Hortifruti is a Costa Rica-based buyer and distributor of horticultural products to supermarkets that also operates in Nicaragua and Honduras. Farmers that have a close business relationship with such buyers improve their likelihood of obtaining credit from formal financial institutions. Also, the farmers selling to Hortifruti have a guaranteed purchase of their products, which allows them to plan ahead and reduces their vulnerability to shocks and changes in the market (Chalmers). Cooperatives or single growers can sell to these buyers, and microfinance institutions can introduce their clients to them once they have reached the level where they can produce enough to meet the buyer's standards.

Ron Prescott is the Program Coordinator of the Community Vitality Center at Iowa State University and has worked in microfinance institutions in Eastern Europe. In an interview with him I learned much about how microfinance works and about different microfinance programs. I also learned about the social aspect of microfinance. He told me that microfinance institutions often need to deal with the culture and preconceived ideas that people have about credit. Many poor, self-employed people do not think of themselves as being small business owners. They are unused to dealing with banks. Some people are afraid that if they cannot pay back a loan the bank will seize their possessions. Microfinance institutions must do their best to make these people feel comfortable borrowing money. Therefore, outreach programs are very important, as are benefits that are attractive to borrowers.

Another aspect that must not be forgotten is the children of the borrowers. I recommend that the microfinance institutions include the children of their clients when designing their education programs. Getting the youth involved is important so they know what options they have when they grow up and hopefully start businesses of their own or take over their parents' enterprises. The Grameen Bank even has scholarships available for the children of their borrowers.

Microfinancing institutions should work at providing service to rural and poorer areas and providing their borrowers with opportunities to learn and grow as businesspeople. While that is happening, such organizations as the World Bank should work with Honduras's government to implement plans for building roads and bridges where they are needed so food can be transported before it spoils. The Honduran government should also design new policies that shift more emphasis onto creating local markets where farmers can sell their products instead of shipping them overseas and then having to rely heavily on imported grain to feed the population.

Building up the local economy is important for many reasons. As rural communities become wealthier, they can build their own schools and hire their own teachers and doctors. Improving rural life will influence young people to stay in the community instead of migrating to the cities.

Conclusion

Honduran farmers face the problems of poverty, low crop yields, erosion, poor health, limited education, inadequate transportation, and the inability to compete with commercial interests. In spite of all this, microfinance has taken the first steps to empowering poor people in Honduras. Microfinance institutions, such as USAID, FINCA, ACCIÓN, FUNADEH, and the Fundación Adelante, should work to provide credit to rural and poorer people. They should also continue to provide their borrowers with access to education in business and financial management, health, human rights, and other relevant topics. Microfinance institutions should also provide some benefits for the children of their clients to begin including them in the program. They will also benefit farmers by helping them form cooperatives and introducing them to potential buyers. The government of Honduras can do its part by building much-needed infrastructure and making more small-farm-friendly policies.

Building up the local economy will have a profound positive impact on poverty-stricken rural communities. It will allow them to access services they had inadequate access to before. People will be more likely to stay in these communities instead of moving to the cities, thereby decreasing urbanization. Less urbanization will allow cities to manage their populations better instead of having a population explosion that leads to overcrowding. As Honduran farmers begin producing more food, the nation will become less dependent on imported food and become more self-sufficient in providing food for its population.

Microfinance is not the only thing that will be needed to combat poverty in Honduras. It is only one piece of the puzzle. If it can be used effectively and sustainably, though, it will go a long way in reducing poverty in the long term. Though Honduras's 'depths' of poverty are serious, there is definitely hope for the future.

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