

The Financial Savvy of a Bank & the Social Mandate of a Foundation: Poverty Reduction & Community Development in Coffee Communities.

Although traditionally one of Honduras' largest exports, the coffee sector has been devastated in recent years by the continuing fall of prices as well as the aftereffects of Hurricane Mitch. Coffee prices have now reached an eight-year low, with prices falling below US\$.50/lb. The sector that generated over US\$350 million of revenue in 1995 brought in only US\$89 million in 2001. This has had a tremendously negative effect on the overall economy, and is felt most strongly by the country's small coffee farmers. One financial institution, Banhcafe, is working to revive the industry by increasing the well being of its smallest suppliers.

The Partners.

BanhCafe. The eighth largest private bank in Honduras, BanhCafe is a coffee bank that was created in 1981, partially as a result of the coffee boom on the late 1970's and early 80's. Shareholders of the Bank included coffee producers and exporters. In fact, 60% of the Bank's capital came from producers, which has helped to define BanhCafe as a financial institution with a democratic capital base. In Honduras, 70% of the coffee sector is composed of small farmers who produce less than 10,000 pounds of coffee each. Of these, 40% produce less than 2,000 pounds each per year. BanhCafe was designed to fulfill the specific needs of producers and exporters in the coffee industry. It is the only bank in the country that provides industry specific services including branch offices in the remote, hard to reach communities where coffee is grown; direct access to financial services; and the punctual credit needed by producers and exporters.

Fundación BanhCafe. By the mid-80s it was evident that the services offered by the Bank were not reaching the smallest and poorest of the farmers. These farmers were not profitable customers from the Bank's perspective yet they constituted the majority of the coffee industry in Honduras. The Bank considered reaching these farmers through not-for-profit projects but could not undertake social programs due to financial industry regulations as well as institutional capacity. In response, BanhCafe created a foundation, the Fundación Banhcafe with a mission "to contribute to bettering the conditions in which men and women with low income levels in coffee farming communities live, facilitating a process of development that is sustainable, ecological, and equitable with a participatory and cooperative focus." Though its mission statement is unchanged, the Foundation's programmatic emphasis has shifted. It is no longer interested solely in ways to make the coffee industry work better for poor farmers but has placed greater emphasis on social progress.

Fundación Banhcafe

Between 1997 and 2002 the Inter-American Foundation committed US\$847,459 to Fundación Banhcafe. Counterpart funding from various sources including Banhcafe, USAID, Care International and the Honduran Social Investment fund totaled US\$1,069,371.

*The scope of Fundación Banhcafe's activities go beyond IAF funded projects.

One reason for the effectiveness of the Foundation and its appeal to the IAF as a development partner is its firm ties to the coffee bank. This relationship has strengthened the work of both the Foundation and the Bank in several ways. Strategically, for the shareholders in the Bank the concept of creating value is important. Part of that value is the ability to reach all members of the coffee industry who may be future customers. The Foundation is a vehicle to reach a broader portion of the target market, regardless of income. Another component is the reputation and image of the Bank. Honduras has 22 banks, some of which have failed in recent years. That Banhcafe was able to avoid this financial instability has earned it the trust of the general public. Fundación Banhcafe is strongly associated with Banhcafe, which provides funding and has a stake in ensuring that once projects are identified and begun they are carried out. With this credibility and commitment, an alliance with the Bank can lead to strategic partnerships with other institutions, both national and international. Fundación Banhcafe has undertaken joint projects with the European Union Bank Fund and the Honduran Government. Finally, the Bank has already developed physical and human infrastructure in coffee communities which the Foundation can take advantage of. The Foundation's micro-credit program benefits from staff who formerly worked for the Bank. Some of the bank's branch offices are in remote areas; and while the two organizations do not normally share office space, support services such as telephone, fax, or vehicles may be accessed by Foundation staff.

Inter-American Foundation. The IAF by its very mission looks for ways to reach the poorest of the poor in Latin American countries. Ideally, the IAF seeks cross-sector partnerships that tap expertise in three broad areas: community development methodology, organizational capacity to carry out projects in low-income locales, and strategic planning capabilities. The former two are traits integral to the operations of civil society organizations while the latter is more characteristic of business organizations. Because of its institutional ties, history and mission, Fundación Banhcafe is a hybrid of all three areas. The merit of partnering with this type of organization is evidenced by the partnership's response to the Hurricane Mitch crisis. After Mitch, the IAF-Fundación Banhcafe alliance allowed for rapid and responsive funding to communities most in need as the Foundation was prepared operationally and strategically to receive and implement an emergency program. Just as importantly, in the long run it allowed for the continued development of sustainable programs, which attests to the versatility of the partnership.

The Project.

Though FunBanhcafe manages a variety of programs across many thematic areas, the IAF participation is focused on providing funding for the micro-credit and educational credit programs. Access to credit continues to be a challenge for small farmers in the agricultural sector and coffee farmers are no exception. Indeed, given the current coffee crisis the need for credit is greater than ever. Groups of twelve people, each representing one family, are formed to receive micro-loan disbursements. The group comes together to elect officers and to receive training; however, each individual is responsible for his or her own loans and the performance of each individual also affects the credit worthiness of the group as a whole. Part of the way in which the micro-lending program adds value for the community is a savings component whereby whole families open savings

accounts with Banhcafe. The savings component of the program has a 10% savings requirement with accounts for each person opened at the local Banhcafe offices. There are no restrictions on how the money is used. Some members choose to continue their traditional farming activities that are more sustainable with regular access to credit, while others try new income generating endeavors such as small shops. Besides developing customers for the Bank, the program is teaching financial literacy and practical personal financial management involved in managing debt.

Another challenge faced by poor Hondurans is access to education. Most of the coffee community families do not have the financial resources to allow their children to participate in higher education, whether it is vocational, technical training or college/university studies. In response to this, Fundación Banhcafe developed a type of student loan program available to the young people of coffee producing communities. The “Educational Credit Program” loans money to students pursuing studies in two areas – vocational training and university studies. Courses of study in technical areas include automotive mechanics, sewing & textiles, carpentry and nursing. At the university level students pursue degrees in tourism, international business, systems engineering and pharmacy. One of the secondary benefits of this program is that it is encouraging economic diversification among the younger generation of communities dependent upon coffee. Loans are made at below market interest rates. Upon graduation, students commit to two things. First, they return to their communities to apply their new skills. Second, upon finding employment they begin to repay the loans. A few have even found careers with Fundación BanhCafe!

Lessons Learned:

- A strong and synergistic relationship with the community, and not just a presence in the community, is both a prerequisite and co-requisite for socially responsible initiatives;
- In a Foundation created by a bank, many of the most successful programs are those that take advantage of the core business strengths found within a financial institution;
- Low-income populations can be both customers and beneficiaries of corporate programs. Corporations can successfully create enough program autonomy as to not confuse profit-making and non-profit activities without losing important cross-purpose fertilization.

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