

## **THE MUNDO AFRO PROJECT**

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## 1. INTRODUCTION

One of the best kept secrets of the last few centuries is that very large Afro populations exist throughout Latin America, i.e. Central America, South America and the Caribbean. According to industry data, approximately 150 million people of African descent live in Latin America.<sup>1</sup> This number represents roughly one-third of the total population of the region. Brazil has the second largest Afro population worldwide, approximately 70 million people, exceeded only by Nigeria with a population of 115 million. Colombia has the second largest Afro population in Latin America, with approximately 10 million people.<sup>2</sup> Significant Afro populations reside in Venezuela, Ecuador, Peru, Guyana, Panama, Costa Rica, Nicaragua, Honduras, Mexico, the Dominican Republic and Cuba. Smaller communities of Afro populations live in Argentina, Uruguay, and Paraguay.

For a variety of reasons including a complex system of color designation, institutional government neglect and denial, and a lack of accountability as to how these communities are treated, most Latin American countries have undercounted their Afro populations thereby rendering large numbers of blacks invisible and socially and economically underserved. One characteristic common to almost all Afro-Latino communities is that they suffer extreme poverty. In most cases, blacks are among the lowest income groups in their countries, and they consistently suffer from institutionalized social, political and economic discrimination. Although national and international development organizations

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<sup>1</sup> "The Denial of Black Rights in Latin America," Colombia Human Rights Committee Newsletter, Summer 1995.

<sup>2</sup> "Blacks in Brazil," *Ebony* (source: Brazilian Institute of Geography & Statistics), February 1991.

have made considerable efforts to foster lending as a strategy to alleviate poverty and unemployment in the region, there are very few organized efforts to improve conditions in Afro communities.

The Mundo Afro Project (MAP) was created in 1998 by the Chicago International Development Corporation (CIDC) to provide economic development assistance specifically targeting Afro communities in Central and South America. CIDC is a private international economic development consulting group. Prior to the creation of MAP, there were few efforts by international development agencies that addressed the economic development of Afro communities in Latin America, although development agencies have been actively involved in the region for decades. In fact some of the most successful development projects worldwide are found in Latin America, particularly in the field of microenterprise.

CIDC was engaged by a Chicago-based development bank to research and design an economic development project targeting Afro communities in Latin America. In 1998, after conducting research in Colombia and Ecuador, CIDC secured a \$2 million funding commitment from a private foundation to undertake MAP in Colombia. MAP's mission was to demonstrate that Afro communities can be economically viable if they have access to credit and investment opportunities, and that these resources should be provided on a non-subsidized, market rate basis.

This paper describes why Colombia was selected as MAP's initial site and details specific elements of MAP in Colombia. It also presents lessons learned in Colombia and future initiatives planned for other Afro Latino communities.

## **2. PROFILE of the AFRO POPULATION IN COLOMBIA**

Large concentrations of Afro-Colombians live along the Pacific coast of Colombia in an area extending from the Panama border in the North to Ecuador in the South. Significant Afro populations also live along the Atlantic coast in Cartagena, Barranquilla and Santa Marta in an area that extends from Panama in the West to Venezuela in the East.

Approximately 90 percent of the inhabitants of the Pacific coast, 60 percent of the inhabitants of the Atlantic coast, 60 percent of the southern Department of Valle and the northern Department of Cauca, and 65 percent of Uraba live in Afro communities.<sup>3</sup> Afro populations also exist in most major cities throughout the country. The following are demographics of the Afro population of Colombia.<sup>4</sup>

- The Afro-population in Colombia numbers approximately 10 million.
- Afro-Colombians register the highest incidence of unsatisfied basic needs relative to all public services and social conditions created by the state for the benefit of its citizens.

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<sup>3</sup> *Comunidades Negras y derechos Humanos en Colombia*, Proceso de Comunidades Negras, Mimeo, Buenaventura, 1996

<sup>4</sup> "The Denial of Black Rights in Colombia" Statement from AFRO-UNO, Colombia Human Rights Committee Newsletter, Summer 1995.

- In Afro-Colombian municipalities, 86 percent basic needs go unsatisfied; in white municipalities, 45 percent of needs go unmet.
  - Ninety-eight percent of black communities lack basic public services (drinking water, sewers, electricity, etc.), while in white communities 94 percent of basic public services are provided.
  - The health care system covers 10 percent of Black municipalities compared to 40 percent of the white population. Some 3 percent of black workers receive social security benefits compared to 28 percent of workers in white communities.
  - Afro-Colombian communities face non-existent or weak coverage in national programs such as occupational training, educational improvement, entrepreneurial development and work opportunities.
  - Illiteracy in black communities is 45 percent compared to 14 percent in white communities.
  - For every 100 youths that graduate from secondary schools in black communities, only two from the urban centers enter college. Of the rural graduates, none enters college.
  - Mortality in the first year of life takes 120 children of every 1,000 in Afro-Colombian towns, while in white communities the figure is 20 per 1,000.
  - Life expectancy in black communities is 54 years compared to 70 years in white communities.
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Colombia was chosen as the site for the demonstration phase of MAP because it has a significant Afro population, a relatively strong regional economy and an established network of successful economic development programs and financial institutions.

Compared to Brazil, which has the largest Afro population in the region, or a country where the Afro-population is considerably smaller, Colombia's Afro population was considered an ideal size to implement the MAP concept on a demonstration basis.

Colombia's Afro population is experiencing a growing awareness of its racial identity and a need for change in the majority society. The Afro community is also developing a network of progressive NGOs . If MAP were successful in Colombia, the goal was to expand the project to other countries in Latin America.

### **3. Mundo Afro Project (MAP) Colombia Objectives**

MAP is an effort to focus economic development assistance directly toward communities in Latin America where large concentrations of Afro populations live. Access to credit and technical assistance are essential resources that enable communities to develop economically. MAP's goal is to provide credit and technical assistance to support microenterprise and small business activities in Afro communities as a strategy to alleviate poverty and unemployment and to build community assets. MAP utilizes a range of credit methodologies to promote economic development: loans to individual entrepreneurs, loans to women, group lending, or combinations of these methodologies that enable communities to build financial assets. The premise is that as communities expand their financial assets, they will be able to use them as collateral to finance further development.

MAP is based on the underlying principle that Afro communities can be economically viable communities if they have access to credit and investment opportunities, and that these resources should be provided on a non-subsidized, market rate basis. MAP assumes that long-term economic development will not be achieved solely through philanthropy from international donors. Long-term development will require the participation of the commercial financial sector and a commitment of private resources within the country together with international support. MAP intends to demonstrate to the commercial financial institutions within Latin communities that businesses in Afro communities owned and managed by Afro Latinos are viable according to standard business criteria; that economic assets and initiatives exist in Afro communities; and that Afro communities present new market opportunities for the formal sector. MAP aims to demonstrate that an effective way for the formal financial sector to tap into these opportunities is to work closely with community-based organizations possessing institutional capacity and an in-depth knowledge of the targeted populations in their communities.

MAP's most important goal is to demonstrate to the formal financial sector that Afro-Colombian communities can become a viable market, if the formal financial sector is willing to work with these communities by adopting the MAP methodology and lessons learned from its implementation. At the end of the demonstration phase, the formal financial sector will have exposure, understanding and experience working with community-based NGOs serving Afro communities. Ultimately, MAP's goal is to stimulate international development agencies, national governments and commercial financial



institutions to commit resources that will provide opportunities for Afro Latino communities to participate meaningfully in their country's economy.

#### **4. MAP Colombia DESIGN**

MAP Colombia was undertaken on a demonstration basis through an alliance between a U.S. development bank and a private foundation based in Cali, Colombia. The two institutions share a common mission and management principles as development institutions. Drawing on their background in applying private sector principles to social development work and from their experience as catalysts in the implementation of innovative programs that generate economic and social opportunities for marginalized communities, MAP incorporates the following elements: **loan funds** to support the existing credit programs of the participating NGOs and **operating grants** for the NGOs to implement the project.

Each participating NGOs has existing credit programs. Historically, resources used to fund NGO credit programs have been provided by international organizations and government programs in the form of grants. MAP, however, attempts to introduce market principles and discipline as its core development strategy, because MAP believes the formal financial sector will only be interested in development opportunities in the Afro community and partnerships with NGOs that operate on standard market principles. Therefore, resources provided as capital for credit programs must be repaid and are structured so that interest and principal are amortized over the term of the loan. MAP, however, provides grants to

support operating and administrative overhead during the demonstration phase as NGOs move toward operational sustainability. The goal is that through technical assistance and cross-training the NGOs will develop operating efficiencies enabling them to achieve operational sustainability.

### **Technical Assistance to provide training for the institutional strengthening of NGOs**

Technical Assistance is a critical element of MAP and is provided through a series of technical workshops and quarterly on-site visits by the project management to improve the efficiency of the NGO staff. Examples of areas covered in the training include strategic planning, governance, portfolio management, financial management, information systems, product development, and fundraising strategy.

### **Cross-training among NGO staff and their board members**

Cross-training is a process whereby NGOs teach and learn from each other's experience. During its assessment of microcredit programs in Colombia, the project management recognized the limited interaction among NGOs serving Afro communities and that they were at different stages of institutional development. In order to obtain support from the financial sector, it is important to strengthen the institutional capacity of each NGO and to adopt standards of operations generally accepted by financial institutions. A critical element of MAP, therefore, is providing a mechanism whereby participants exchange program experiences with each other and with other successful economic development

practitioners. Throughout MAP, management organized a series of workshops designed to strengthen the NGOs and to facilitate interaction. The goal of cross-training is to establish a network of economic development organizations that can serve as a resource for the targeted communities.

The **Forum** consists of representatives from the formal financial sector, the NGO community and other development organizations. The forum was created because there is very little interaction between formal financial institutions and NGOs serving Afro communities. The purpose of the forum is to facilitate a dialogue between the formal financial sector and Afro community in order to achieve the following goals:

- to provide the formal sector exposure to business opportunities in Afro communities and to help them recognize the viability of Afro-owned businesses;
- to promote an understanding of the culture of Afro communities and to better understand the issues facing Afro entrepreneurs;
- to build confidence within the formal sector that Afro entrepreneurs can own and manage economically viable businesses under market principles;
- to provide community-based NGOs technical assistance in operating systems and credit procedures practiced by the formal sector;
- to encourage the formal sector to expand its financial resources to the Afro communities by demonstrating the success of MAP.

## **5. MAP Participating NGOs**

The project management identified four NGOs that were currently managing microcredit programs. The four NGOs are located on Colombia's Pacific and Atlantic coasts where the largest concentrations of Afro-Colombians live. Each NGO agreed to accept MAP's goals and objectives and to achieve a set of specific, jointly-developed annual outcomes..

The NGOs' existing credit programs, though limited, represented a cross section of the credit products available to Afro communities. In order to expand the project beyond the initial communities, each NGO agreed to assist the project management in identifying other NGOs with the potential to achieve MAP's goals. The four original NGOs would form the nucleus of a national NGO network capable of providing credit and technical assistance resources to Afro-Colombian communities. The following selection criteria were adopted:

- an existing community-based organization that works with or is interested in working with Afro populations, and whose management and staff reside in the community and play a central role in planning and implementing their communities' development projects;
- leadership skills and organizational capacity to manage the existing program.
- operation of a form of credit and/or savings program for income-generating activities.
- program experience that can be shared among the NGO participants through *cross-training*, with each group at a different stage of development as an

organization but possessing the organizational capacity to manage a credit/technical assistance program;

- institutional capacity to become a more efficient development organization;
- an interest in networking with the formal financial sector.

The four NGOs are Fundacion Para El Desarrollo Economico Del Litoral Pacifico (FUNDELPA); Asociacion General para Asesorar Pequeñas Empresas (AGAPE); Cooperativa Multiactiva Ser Mujeres de Tumaco (CSMT); and Grupo de Integracion Rural (GIR).

### **FUNDELPA**

FUNDELPA is a nonprofit, nongovernmental organization (NGO) dedicated to the economic and social development of small family enterprises in Buenaventura, the largest port on the of Colombia's Pacific coast. It offers access to credit, training, group purchasing and technical assistance to its clients, owners of small-scale businesses who work in production, commerce and other services. FUNDELPA provides credit through the solidarity group methodology and also direct loans to individual entrepreneurs.

### **AGAPE**

Based on the Atlantic coast in Barranquilla, AGAPE is a private nonprofit organization whose mission is to promote microenterprise by providing access to credit and basic

business training. AGAPE works with the lowest income sector in Barranquilla, utilizing a credit methodology of both group (solidarity and trust banks) and individual loans and requiring its clients to establish savings accounts in commercial banks. Typical beneficiaries of AGAPE's credit program are market women who sell vegetables or fish from tiny stalls, street vendors, carpenters, seamstresses and tailors, who borrow working capital on a weekly basis.

## **CSMT**

CSMT is a women's cooperative founded in Tumaco, the second largest port on Colombia's Pacific coast and a predominantly Afro-Colombian community. CSMT's mission is to provide its members and their families with savings and credit services for health, housing, education and business support in order to improve the quality of their lives.

## **GIR**

GIR is an NGO serving grassroots farmers in the community of La Balsa in the region of North Cauca and South Valle. It was established for the purpose of reversing migration and the disintegration of black families in the Department of Cauca by educating communities in the value of their land as a productive asset and to preserve their cultural and historical traditions as a way of life. GIR's objective is to increase agricultural

productivity, promote reforestation and diversify the agriculture-based economy by promoting microenterprise activities.

### **Institutional Needs of the Four NGOs:**

- I. secure new funding sources to expand outreach;
  - A. technical assistance in portfolio management, including the establishment of an effective interest rate policy;
- II. staff training in credit analysis and assistance in managing savings program;
- III. strategic planning for organizational growth and sustainability;
- IV. expand array of loan products that can accommodate “graduates” whose need for capital in loan size and loan terms may be different from typical microentrepreneurs;
- V. establish relations with the formal financial sector as an alternative source of funding and also as a source of staff training for both NGOs and formal sector;
- VI. permanent facilities to house organizational activities.

## **6. MAP Accomplishments**

During the first year and a half of its operation, MAP Colombia disbursed US\$1.5 million in loan capital to four NGOs that financed a total of 930 individual and group loans. MAP also provided US\$165,000 in the form of grants to four NGOs for operating expenses.

The NGOs provided technical assistance to more than 1,200 microenterprises. MAP

Colombia was able to strengthen the institutional capacity of the NGOs. The NGOs instituted credit policies consistent with MAP objectives and improved staff technical skills in accounting, financial management and information systems.

A key to the success of MAP was reaching consensus among the NGOs on the goals, objectives and design of the project. Initially, there was reluctance among the groups to accept the MAP's market rate credit terms, because they were not accustomed to repaying capital and interest on loan funds supporting their credit programs. Consensus involved reaching an agreement with each of the four NGO boards and management that MAP's goals were consistent with their objectives and that MAP satisfied the particular interests of their respective communities as well as national goals for the country. Each NGO was required to develop and submit a strategic plan of operation. Separate legal agreements were drafted and signed by the participating NGOs before the MAP was officially launched and funds were disbursed.

An integral element of MAP was the development of Afro-Latino professionals to work in the daily management of MAP and also as subcontractors providing necessary support to the NGOs in accounting and basic business skills. Identifying qualified Afro-Latino professionals was challenging because the pool of Afro-Latino professionals is so small due to the historical factors MAP was attempting to overcome.

Attitudes, skills and availability varied widely among Afro-Latino professionals and few Afro-Latinos had formal credit experience. MAP sensitized its local partner, who



employed few Afro professional staff, to actively recruit Afro professionals to work on the Mundo Afro Project. During the program period, MAP placed 15 Afro professionals in staff positions and as subcontractors to the project.

## **7. Current Status**

The Colombian partner in MAP was a subsidiary of one of the largest financial institutions in Colombia. Because of economic conditions during the period, the Colombian government required financial institutions increase their equity to guarantee liquidity for depositors. The Colombian partner's shareholders did not satisfy the financial regulatory agency's equity requirement and were unwilling to commit new equity capital. As a consequence, the Colombian government nationalized the local partner and froze its assets, including funds designated for MAP. This occurred in the second year of MAP. The U.S. foundation that funded MAP was unwilling to commit additional funds to the Project after the government froze the MAP fund. Under the circumstances, MAP discontinued its credit operation in year 2000.

The Colombian political situation became increasingly unstable throughout the project period and continues to be unstable today. Afro communities are particularly vulnerable to this instability because they have little power to defend themselves against destabilizing forces. They have little presence in elected government, few positions in the government bureaucracy and no significant leadership in the military or the local police. They also possess land valued by private interest groups that do not hesitate to intimidate the Afro

owners. In this environment, it is extremely difficult to implement economic development initiatives because legitimate economic activity requires stability. Although project managers did not encounter problems themselves, staff felt increasingly vulnerable. Project managers from the U.S. foundation were reluctant to visit program sites in Colombia due to security concerns. It became apparent that Colombia was too violent and unsafe a place to conduct business as long as the civil strife continued.

## **8 . Lessons learned from the MAP Colombia**

MAP-Colombia served as an important laboratory to draw empirical data and lessons that allowed us to re-evaluate the original project concept and methodology. The following are the major lessons we learned and plan to incorporate in our future projects:

During the first year of the project, interest rates in Colombia reached record highs. The country's benchmark interest, known as the DTF rate (the financial system's average 90-day CD interest rate), fluctuated between 23 percent to 40 percent per annum. For loan capital, MAP charged NGOs a floating rate based on the DTF. During the same period the financial system was experiencing extraordinary high interest rates, the Colombian government devalued the peso several times. The combination of these events created a hardship on business activity nationwide, particularly in the informal sector. Businesses

throughout the country became insolvent and Colombia experienced a recession. As a consequence, MAP had to modify its market rate policies and make temporary adjustments in its interest rates on loan funds. MAP adjusted from a floating rate to a fixed rate until the DTF rate stabilized.

Program participants should be community-based and currently implement economic development programs that provide credit to Afro communities on a market rate basis. It is essential to identify institutions that have in-depth knowledge of the needs of their communities and also that embrace the concept of sustainable development based on market principles.

Investment in institutional strengthening is a prerequisite for successful implementation of a credit program. Disbursing additional credit funds to institutions before their staff is properly trained can undermine the credit program. Providing funds to ill-prepared institutions may exacerbate, rather than strengthen, their underlying institutional weaknesses.

Designing a technical assistance program for an institution must be based on a thorough assessment of the institution and be customized to address its specific needs, such as skills of the program staff, characteristics of the clients, strengths of the existing program, etc.

Participating NGOs should share common goals, experiences and preferably be at a similar level of institutional development. Partnering with groups that are members of a network

that addresses the economic development needs of Afro communities in the region can be an effective strategy to increase the impact of the program.

The search for future MAP participants must be conducted continuously. When selecting an NGO, the NGO should be evaluated in the context of the organization's capacity to contribute to achieving MAP's objectives and to the extent MAP resources can impact its target population. Geographic characteristics of the area where an NGO operates must demonstrate that it has infrastructure that connects to other parts of the country. If an area is too isolated, the community needs investments in infrastructure to improve basic conditions. The MAP, whose limited resources have to be allocated strategically, cannot tackle the problems of such communities.

MAP's ultimate objective is to develop linkages between microcredit organizations and the financial sector by demonstrating MAP results and experiences through cross-training and the forum. To achieve this goal, MAP needs to target communities where financial intermediaries, i.e., commercial banks, cooperatives, savings institutions, and federal and regional development projects have a presence, although they may not currently serve MAP target populations. MAP cannot achieve its goals in communities where financial institutions do not exist, because these communities require greater resources than MAP has available.

## **9. Future of MAP**

CIDC has been engaged by the Center for African and African American Studies at the University of Texas at Austin (UT) to develop economic development initiatives within Latin America. CIDC and UT are collaborating on designing and implementing economic development programs in Nicaragua and Panama, working with NGOs, based on the MAP concept.

In Nicaragua, we are working with an established community-based NGO and local universities to strengthen the NGO's existing credit program and to transform it into a regional economic and social development institution with a long-term, multi-year strategic plan. In Panama, we are working with an established credit union that serves a disadvantaged Afro community to expand its products and services. We are working with the credit union to develop new products and programs that benefit employees and members such as loans for businesses, insurance and pension plans.

MAP is continually exploring program sites and partners in Latin America in an effort to provide resources for Afro-Latino communities and to strengthen institutions that work with Afro populations. For additional information, please contact:

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