

INTRODUCTION

Benjamin Franklin and his Founding Father contemporaries sought to sustain the liberty of the young American nation through promotion of virtues such as 'thrift, industry, prudence, self-reliance, independence, and civic concern'.¹ Franklin exemplified such virtues in his own life, through his publications and through his efforts to manage debt, organize credit, and build capital. In this regard, he created self-sustaining trusts that would produce ever-increasing capital to be used by the industrious to live virtuously and improve the quality of their cities and communities.

Specifically, in 1789, Benjamin Franklin added a codicil to his last will and testament. He bequeathed £2,000 sterling (\$4,444) to Boston and Philadelphia and to the commonwealths of Massachusetts and Pennsylvania with explicit instructions as to how they should utilize and dispose of the sum over the course of two hundred years. The Franklin codicil funds were intended for loans to young married artisans (the class of manual workers who performed skilled trades)² in order to help establish small businesses. In addition, when certain milestones were obtained, funds reverted to the cities of Boston and Philadelphia for public works.

While many loans were successfully made with the codicil funding, the managers of the Franklin Funds in both Boston and Philadelphia failed to continuously make loans to individuals as intended by Franklin for a variety of reasons. In this sense, they failed to continuously promote the value of industry as Franklin had envisioned. Courts were forced to intercede in order to command adherence to Franklin's original intent.

As a result of departures from Franklin's clear instructions regarding use of the funds over time, the trusts failed to generate the \$36 million forecast by Franklin in the codicil. The 1991 combined value of the two Franklin Trusts was \$6.5 million of compounded capital. The impressive growth of the original funding, despite departure from the codicil's instructions, successfully demonstrates the virtue of frugality in the way that Franklin had envisaged. However, the Franklin Funds did not inspire politicians and leaders to retire large public debts in the manner Franklin had hoped. In the words of the late Bruce Yenawine, '...

the nation is still struggling with the management of capital and the economic, social, and political consequences of large public debt. The promise and prosperity of a saving people and a saving nation remains elusive.³

While the Franklin Funds touch on a wide universe of topics (politics, sinking funds, historical context, etc.), the programme also bears much in common with the contemporary microfinance and micro-lending movement. The term 'microfinance' refers to the provision of financial services (including credit products known as 'microloans', savings, insurance, fund transfers, and related services) to low-income clients who would not otherwise have access to financial services. Organizations that provide such services are referred to as microfinance institutions (MFIs) in the industry.

The modern microfinance movement gathered momentum in the 1960s and 70s through formation and growth of organizations such as Accion International, Opportunity International and Grameen Bank.⁴ Microfinance was popularized when Grameen Bank and founder Muhammad Yunus were awarded the Nobel Peace Prize in 2006. 'Yunus is recognized as a visionary in a movement that has spread globally...', and his microfinance institutions are '... providing small loans without collateral, collecting deposits, and, increasingly selling insurance, all to customers who have been written off by commercial banks as being unprofitable...'⁵ Typical microfinance clients include street vendors, service providers (hairdresser, rickshaw driver), artisans, blacksmiths and seamstresses.⁶ In addition to financial services, many microfinance institutions provide '...social intermediation services such as group formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group.'⁷

Loans made with the Franklin codicil funds can be considered 'microloans' in the broad sense because they provided capital to entrepreneurs who did not otherwise have access to the financial system. His programme targeted trained labourers, rather than the largely unskilled population targeted by modern microfinance, and therefore also bears resemblance to small or medium enterprise lending (sometimes referred to as the 'missing middle' in modern microfinance).⁸ Franklin was truly a pioneer with regard to use of small loans as a poverty alleviation and economic advancement strategy.

He also took his mission a step further by proclaiming that such advancement of the economically disadvantaged was important to the success of democracy. As Yenawine states in the Conclusion of this monograph, '... artisans without access to financial capital would be an "empty bag" and nothing less than America's unprecedented aspirations to be politically and economically free hung in the balance ... Franklin offered the cities [of Boston and Philadelphia] a formula for building a strong democracy based on individual empowerment, broad enfranchisement and collective responsibility.' There has also been recent dialogue

amongst microfinance industry practitioners with regard to the potential links between micro-loans and advancement of democracy. The Nobel Peace Prize awarded to Grameen Bank was partially predicated on the ability of micro-loans to sustain democracy and lasting peace through poverty alleviation.⁹

Themes raised in disbursement and monitoring of Franklin's 'micro-credit' programme are also relevant for practitioners today. The modern microfinance industry continues to grapple with issues such as appropriate interest rates, client risk evaluation and credit scoring in the absence of borrower credit history, collateral requirements, training or skill enhancement of borrowers, realization and measurement of desired social impact, and loan programme administration.

In the case of the codicil loans, predatory interest rate concerns were addressed by Franklin's clearly established fixed rate of 5 per cent.¹⁰ Microfinance organizations formed in the last 30 years have dealt with interest rates in a divergent manner. One segment of the industry has steadfastly maintained that interest rates should be below market or "subsidized" relative to rates dictated by traditional risk management theory. Such microfinance groups are organized under a non-profit or philanthropic type of management profile (for example, Grameen Bank and BRAC). Yunus has been particularly vocal in his criticism of MFIs which charge relatively high rates, arguing that the industry should avoid charging rates greater than 15 per cent above long-term operating costs.¹¹ Other MFIs have adopted a market-based philosophy, whereby higher interest rates are charged to reflect the full risk of the programme and thereby generate a profitable MFI enterprise.¹² Examples include Compartamos¹³ and SKS India.¹⁴ Some MFIs are also constrained by government imposed interest rate ceilings in their countries. Franklin's programme shows both benefits and limitations caused by interest rate caps (at least in a micro-loan enterprise with a very focused mission and finite goals). The fixed rate made the loans interesting to borrowers, but also limited the return on funds to be redeployed in new loans. However, there is insufficient data to draw any broader conclusion. Furthermore, many modern microfinance institutions do not have fixed interest rate caps in order to reach poorer segment of the population (outside of Franklin's intent) while covering operating costs.

Stewards of the Franklin programme addressed lack of borrower credit history through the codicil's borrower screening criteria and guarantors to reduce repayment risk¹⁵ (including age, gender, marital status, ability to obtain character witnesses, and apprenticeship training requirement to ensure relevant skills for entrepreneurial venture).¹⁶ Contemporary microfinance institutions use similar screening criteria, such as gender, age, and number of family members, to achieve appropriate client selection in the absence of formal credit history.¹⁷ Both Franklin codicil fund administrators and modern MFIs have achieved successful risk mitigation through appropriate screening criteria for clients.

The Franklin Funds also mitigated risk through collateral from guarantors.¹⁸ However, the modern microfinance movement aims to enhance financial access by removing collateral requirements. In order to target the poor, most microloan programmes recognize that collateral is simply not feasible amongst borrowers. Instead, these organizations rely solely on appropriate borrower screening. In some cases, microfinance organizations also use cross-guarantor structures amongst groups of borrowers (called 'group' or 'solidarity' loans)¹⁹ and education and support programmes to enhance the potential of loan repayment.

The Franklin programme did not offer skills enhancement or training as part of their loan programme, contrary to certain modern MFIs, due to the borrower requirement of acceptable apprenticeship or technical training. Today, some MFIs also require a baseline level of skills to access the programme as a way to enhance probability of a successful borrower experience and loan repayment.²⁰ For example, Fonkoze, a well known microfinance institution in Haiti, requires borrowers to graduate from basic literacy and assistance programmes before becoming eligible as potential borrowers.²¹ In other cases, entrepreneurs can access training relevant to their venture. For example, Actuar of Columbia offers borrowers a screening and consultation program for their venture as well as ongoing support in the form of computer workshops or technical training.²²

Regarding social impact, the Franklin codicil specified a very clear target cohort and desired social impact goals for the loans. Despite explicit instructions from the founder, the codicil loan programme suffered from 'mission drift', or deviation from its stated purpose, throughout the years. Microloan programmes today also grapple with 'mission drift'.²³ Some MFIs have drafted clear social impact goals and policies, such as Grameen's Sixteen Principles²⁴ and Progress out of Poverty Index,²⁵ to ensure consistent application of goals and mission. However, systematic enforcement and measurement of mission amongst MFIs remains elusive due to cost and infrastructure challenges. The Franklin Funds experience highlights the need for clearly outlined social impact goals and a mechanism for enforcement beyond the tenure of a visionary founder or leader.

In a related topic, the Franklin Funds experience also highlights concerns regarding administration of philanthropic loan funds which can be instructive for practitioners today. Deviation from Franklin's intent was exacerbated by the absence of a professional full time management team and by individual volunteers whose goals were not always aligned with the social mission of the fund. Examples include the temporary shift in fund usage to medical student loans²⁶ or to investments in the Massachusetts Hospital Life Insurance Company.²⁷ At the time, such investments were justified as a way to ensure safety of the funds or to address a need that was unforeseen by the founder. Such usages were clearly outside of the original mandate of the codicil and failed to generate Franklin's intended social impact. Modern MFIs with philanthropic funding also aim to

keep overhead as low as possible in order to deploy maximum funding and social benefit to the target client audience. There is limited research on modern MFI staffing impact, but it is clear from observation that many MFIs rely on significant volunteer forces which can have a high turnover. Leadership positions amongst MFIs tend to be filled by visionary founders or are paid positions sought out by applicants who are committed to the vision and mission of the organization. In this way, issues of conflicting interests or departure from mission as seen in the Franklin funds are muted. As MFIs mature and original founders and leadership move on, we may begin to see some of the same problems faced in the Franklin Funds due to leadership with divergent visions or agendas for the microloan capital.

The topics mentioned are only a few of the interesting facets of the Franklin codicil legacy. Without fully realizing it, Franklin invented an idea that would come to fruition some two centuries later in the global microfinance movement. This monograph aims to trace the development of Franklin's important programme, which is absent from the existing scholarship. Both the significant achievements of the Franklin Funds and their shortcomings are explored, and key themes which remain relevant today are drawn out.

I am honoured as editor of the monograph to help bring this important body of work to the public forum, and thereby share the meaningful contribution Bruce Yenwaine made to the existing Franklin scholarship during his life. I would also like to thank organizations such as Women Advancing Microfinance (where I serve as a board member), the Microfinance Club of New York (member), Accion USA (member, microfinance council), the NYU Microfinance Initiative, the UN Year of Microfinance training programme and staff (2005 trainee), and professional contacts in the industry for developing my knowledge of microfinance and forwarding the mission of poverty alleviation through financial access.

As an administrative matter, please note that quotations are transcribed verbatim from the original manuscript. In addition, general historical background information and use of related material which is not specific to the codicil were retained from the original manuscript in this edited version of the monograph.