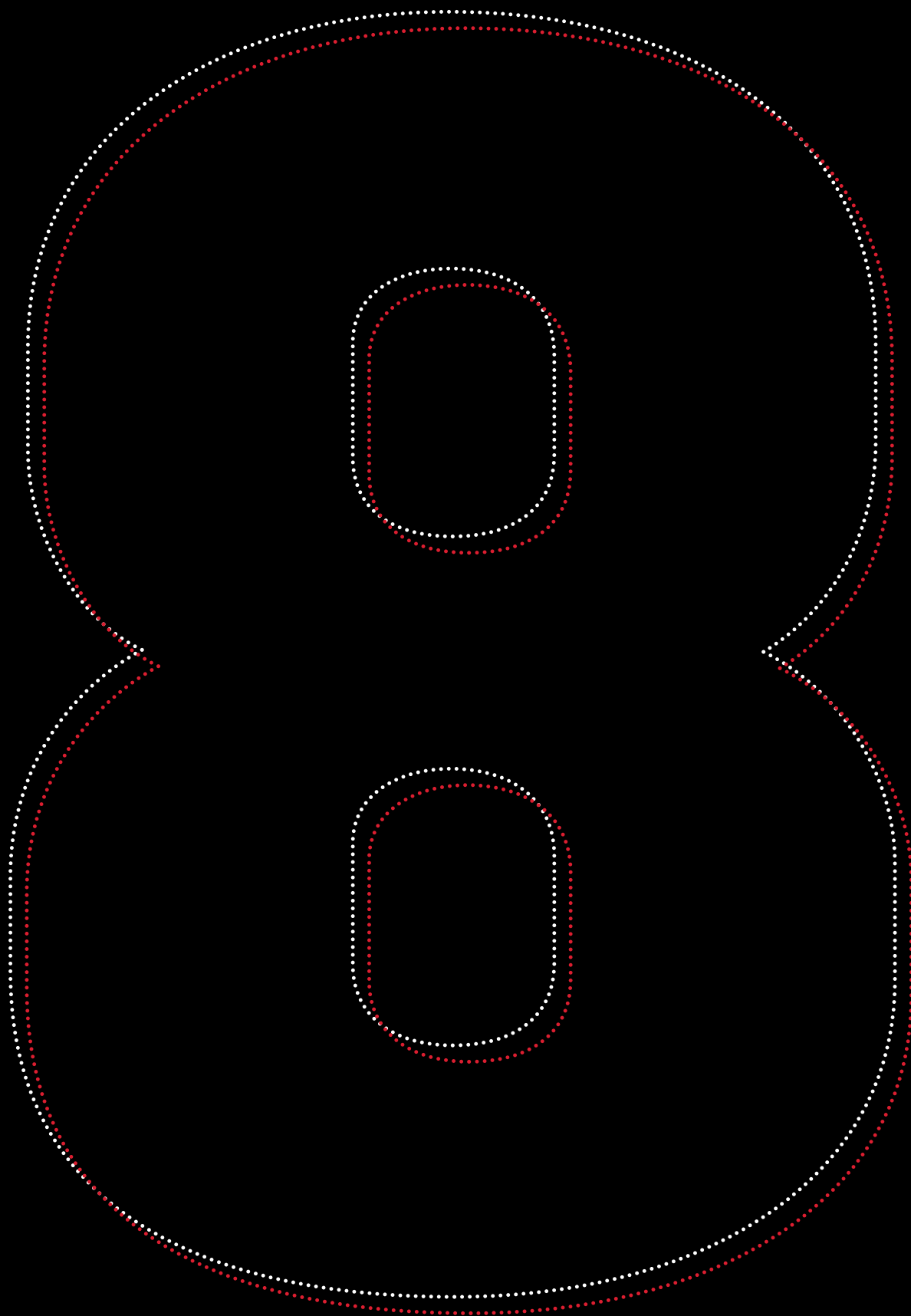


EXECUTIVE PAPERS

MEANS TO AN END: MICRO CREDIT IN THE FIGHT AGAINST POVERTY



Ten years have passed since the worldwide adoption of the Millennium Development Goals and, unsurprisingly, the international community still continues to fall short from the officially-binding commitments it took, regarding the reduction/elimination of many of the world's social and economic disparities

"Eradicate extreme poverty" was amongst the aforementioned objectives but despite slight improvements in certain areas of the globe, by 2008, the World Bank still estimated that 1.4 billion people lived at the poverty line or below. Taking Sub-Saharan Africa, for example, and although it witnessed a decline from 58% in 1996 to 50% in 2005, the region still ended up experiencing the largest increase in absolute terms, in the number of people living on less than \$1.25 a day, from nearly 200 million in 1981 to 388 million in 2005.

It is no wonder that, faced with these discouraging numbers, practitioners and activists actively search for new options that could finally turn this tide around. Indeed, for the past 30 years, the African continent in particular was subjected to various cooperation and development models, frequently labelled as 'donations' and which, at the end of the day, proved for the most part, incapable of stimulating concrete and vigorous progress in the local economies, either at a macro or microeconomic level.

In that context, micro credit has increasingly surged as an internationally-backed alternative, seeking to provide individual citizens the ways and means to contribute to their own country's development and economic growth. Generally considered to have originated in the work of the 2006 Nobel Peace Prize Muhammad Yunus with his Grameen Bank in Bangladesh, micro credit has since the 1970s, gradually won the praises of the development community for its individual approach to credit-lending, aiming to help the impoverished and the ones with no access to traditional financing, with a self-proclaimed social inclusion concern in its daily course of action – for example, giving women more status in a socioeconomic way and

changing the conservative relationship between gender and class in traditional societies.

This so-called "banking the unbankables" approach thus favours and enables local entrepreneurs – too poor, chronically unemployed or just not entitled to the same opportunities as in developed societies – to start their own business or sustain a steady income, which often leads to a build up of wealth and consequent – although in most cases, non-immediate – exit of poverty.

Over time, the financing industry recognized that the poor who lack access to traditional formal financial services required not only micro credit, but also a variety of financial products to meet their daily needs. In that order, micro credit eventually evolved into microfinance, a concept which now includes a broader range of services, such as loans, savings, insurance and transfer services (remittances) targeted at low-income clients.

But if microfinance is to have a sustainable impact on poverty eradication, it must eventually be able to create and promote a private sector of entrepreneurs who function in the formal economy. In other words, microfinance has the potential of formalizing the informal sector – in some cases, comprising as much as 70% of a national undeveloped economy – and empowering micro-entrepreneurs to participate and truly benefit from the formal economy. It can support direct initiatives and linkages to small and medium businesses while targeting promising micro-entrepreneurs focused on non-traditional and innovative products, in potential niche growth areas of the local economy. Such an approach could also reach existing micro-entrepreneurs who are seeking to evolve from the survivalist profile of micro enterprises into a more secure and productive position within the formal sector of the economy.

However, it is crucial to understand that microfinance is not a panacea for every development issue that the developing world faces nor does it provide any groundbreaking immediate solution to global poverty. These multi-layered problems, embedded in a complex and interconnected political, economic, cultural system, pos-

sess no simple 'magical' solution in sight and therefore, micro credit ought to be essentially understood as rather a means to an end, and not the ultimate end itself.

Additionally, microfinance and micro credit's merits should be assessed carefully, since as in every development approach, several risks are naturally implied and the process on the ground frequently witnesses various obstacles that, at the end of day, can eventually compromise the aforementioned purposes.

If on one hand, enthusiasm for micro credit among government officials regarding an anti-poverty program can, in some cases, motivate cuts in public spending – including health, welfare, and education – on the other, the success of the micro credit model is extremely dependant of the borrowers' ability to actually come through with the due payments and inevitably relies on trust relationships between the intermediaries and the individuals. Unsurprisingly, the gloomy results may sometimes overshadow the good intentions underscored, as in Mozambique for example, where only 3% loans of a nationwide micro credit program have been repaid.¹ Although such numbers vary from country to country – for instances, Yunus's Grameen Bank claims a 97% recovery rate – and from a governmental initiative to a privately-led one, the constant exposure remains and should be always properly taken into account.

Additionally, much of the money used by local entrepreneurs, while invested in supposedly innovative enterprises, is fragilely connected to their own country's economic, social and political context, which can inadvertently derail any previous planning. Political clientelism, especially in statelily-sponsored micro credit programs, also bears considerable liabilities for effectiveness and success.

All things considered, it is currently obvious that ignoring poverty-stricken populations is costly, in the short

and the long run, for any economy. In that order, socioeconomic developments are required to be combined with macroeconomic and financial sector stability, as important components in ensuring a propitious environment for continued growth of the overall economy. Therefore, supporting micro credit and microfinance – as a necessary policy, both socially and economically – can provide a significant contribution to the country's micro enterprise sector as well as a severe, albeit not definite, blow to any society's growing and worrisome poverty rates.

¹ See Aslak Orre, "President Guebuza's own micro-credit: Development failure and political success" (IPRIS Lusophone Countries Bulletin, No. 7, May 2010): 3-4.