

Microcredit as a way of giving people more dignity

Manuel Brandão Alves*

Abstract Microcredit in the form that we know it today has been in existence for just 25 years, yet it has already attained extraordinary recognition as an instrument that facilitates the transformation of people's lives, of communities and even of some countries. It has a deep philosophical basis and, in relation to citizenship, a wide reach, as it is both simple and intuitive. With regard to the fundamentals of microcredit, the principal idea is that people can have a new and more dignified life if, through their own will and their own initiative, they wish to achieve self-employment instead of remaining dependent on employed work, social welfare benefits or private charity.

This new way of life is more dignified for them as human beings, and provides added value to the entire society. More wealth is created, the volume of revenue increases, and public and private funds can be used for purposes other than social welfare benefits. There are also demonstrable multiplier effects in that entrepreneurship promotes a denser and more robust society, both in economic and in social terms.

For this idea to become a reality, one of the basic conditions to be fulfilled is that those who desire a different life have access to credit - which is normally denied to them. Access to credit should be recognised as a right, even if these people do not have the ability to provide the real guarantees that are required by the financial market. The right to credit should be promoted to a status equivalent to that of the rights to housing, education, work, and so on.

It is with a view to the recognition of this right becoming a reality - namely for those who live the most disadvantaged lives - that we work at ANDC and within the great international movement for microcredit and microfinance. Immigrants, due to their condition of being migrants, the knowledge that they bring and the capacity for taking the initiative that they demonstrate, are a group who are inclined to be successful candidates for microcredit. We will see in this article how all of this has been possible.

Keywords microcredit, entrepreneurship, right to credit.

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Microcredit is not simply a small loan, but is, above all, a new life project for those who believe that, through their will and their capacities, they can construct a better life for themselves, for their families, for the community in which they settle and for society as a whole.

I propose to present in this small summary the origin of microcredit, its relevance in terms of micro- and macro-economics, the relationship between microcredit and microfinance, the work undertaken by the National Association for the Right to Credit (ANDC) in the promotion of microcredit in Portugal and the specificity of microcredit in relation to immigrants.

Introduction

The granting of credit in small sums and/or for social purposes is something that has been part of the development of today's modern societies for at least five centuries. In Portugal, in the form of money or in specie, our *Misericórdias* (Order of Mercy) always provided some form of support to those who needed donations or loans for carrying out their initiatives. Still today, the most varied forms of charity and of solidarity are part of the social commitment of the *Misericórdias*.

As a financial product, however, microcredit is quite recent. It emerged around 32 years ago (1976) in Bangladesh, in the enlightened hands and mind of Prof. Muhammad Yunus, today a Nobel Peace Prize winner, who was working with completely destitute women in the rural areas of his country.

From the beginning, microcredit showed itself to be a motor of transformation in people's lives, gaining an importance far beyond the small sum of money that was loaned. Microcredit as a financial product is simply a necessary instrument in the process of change in people's lives. Living in situations of extreme economic, social and financial dependency, these are people who want to transform themselves into the owners of their own destiny. One of its financial characteristics is that those who need microcredit do not generally have the economic capacity to provide guarantees for credit granted, as is traditionally required by financial institutions.

How to resolve this incapacity? We do what Muhammad Yunus did, that is, to believe that the commitment assumed by those who access microcredit that they will reimburse the capital that has been loaned is much more important than the

real guarantees that could be offered. Yunus demonstrated that this was the reality in more than 99 per cent of cases. In any case, the risk of insolvency that can potentially be run is much smaller than the benefit obtained with the transformation of people's lives from situations of misery to situations of success that they themselves have created.

Without small credit this step would not have been possible; those women would have been lost and we would all have been lost. It is therefore not out of turn to say that credit should be considered a fundamental right of human beings, placed at the same level as the right to bread, education, health, housing, and so on.

In Portugal, for the past ten years, the National Association for the Right to Credit (ANDC) has been promoting and practicing a microcredit project that seeks to be compatible with the principles stated above. The incorporation in its name of the 'Right to Credit' is a signal of these aims, and represents the focus of its activities.

Diversity of configurations of microcredit models

Despite the existence of some common principles (that is, the credit is destined for the most impoverished and excluded, the absence of real guarantees, a project of life-changing investment), there are many organisational forms of microcredit around the world. In particular, the models applied in the majority of third-world countries are quite different from those applied in developed countries.

One of the principal distinctive elements is the fact that in third-world countries, microcredit is principally aimed at people and populations who are economically marginalised, but who are not necessarily so in social terms. In economic terms, people can be poor, but they are not necessarily excluded in social terms; they live in communities characterised by high levels of social inclusion, at least in rural areas, where a substantial part of the population still live.

This is not so in the vast majority of developed countries, characterised by high levels of urbanisation and also by the great anonymity of inter-personal relations. Together with economic exclusion, which results from the functioning of their economies, there is also, in the great majority of cases, social exclusion. Therefore, in contrast to what happens in third-world countries, in developed countries people rarely develop group forms of credit, in which the various members of the group constitute a solidarity guarantee for the initiatives of the others. In these countries, micro-credit has assumed forms that are essentially characterised by individual contacts between each of the applicants and the financial institution.

It should equally be underlined that the models applied in various developed countries are far from being uniform. This differentiation relates to, above all, the cultural frameworks prevalent in each of these and with the legislation that has been adopted concerning the financial sector.

In Portugal, for example, the existing financial legislation prevents the creation of ethical financial institutions, which would have to obey the same requirements as the other financial institutions. This is despite the fact that it could not under any circumstances be expected that they would acquire the capacity to fulfil these requirements. It is therefore strongly doubtful that this could be considered as a guarantee of the solidity of ethical financial institutions.

Benefits for each of the candidates and for society as a whole

The great majority of analyses of microcredit tend to present the micro-entrepreneurs as the principal, if not exclusive, beneficiaries of microcredit. This is not my point of view. Of course it is true that micro-entrepreneurs benefit from microcredit. Microcredit permits them to have a better life and to feel proud that they have gained both material and more intangible advantages.

We cannot, however, forget that if microcredit was the instrument necessary for start-up, equally or even more important was the determination that each of the micro-entrepreneurs had in believing in their strengths and capacities to change their lives. It must be accepted that the psychological energy that they mobilised is infinitely greater than that which has to be mobilised by any successful entrepreneur who takes the initiative to add a new business to the wide portfolio that they already possess.

Equally or more important than the individual benefits are the benefits that society as a whole can gain from the expansion of the microcredit movement in general, and from each individual microcredit process in particular.

Contrary to what its excessively enthusiastic proponents sometimes express, microcredit is not a solution to the problems of poverty and exclusion. It is, certainly, an efficient and effective solution to some of these problems, but the great majority will continue to be dealt with through traditional methods.

It would be a mistake not to use microcredit in situations where it can create greater benefits than other solutions. Combating poverty becomes, in these cases, more expensive and less effective.

In cases where the solution of microcredit is an adequate one, it brings enormous macroeconomic and social benefits:

1. Microcredit transfers micro-entrepreneurs from the framework of a dependent economy to that of an autonomous one, in which each person becomes the active creator of their own destiny;
2. Micro-entrepreneurs stop receiving benefits, donations or other loans provided by individual or collective solidarity and themselves become active contributors to the tax and social welfare system;
3. Instead of remaining consumers of wealth, they become its active creators;
4. They create employment - their own and, depending on the development of the business, that of other people, who become indispensable to the sustainability of the business;
5. They create synergies that mean that others who may not be motivated to create their own business decide that after all for them it would also be worth making the effort; and
6. The expansion of microcredit means that, little by little, we make our way to a more inclusive and denser society, in economic and social terms, and therefore a more competitive society. Competitiveness cannot thrive without these small contributions.

Recognition of the validity of these arguments has been growing, both at the level of individual people and at the level of administrations, governments and international institutions. This justifies the growing interest that microcredit has elicited and indeed the ease with which legal frameworks and institutional mechanisms that facilitate the use of microcredit by those who need it can be created (see the declaration by the United Nations of 2005 as the "International Year of Micro-Credit" and the Communication of the European Commission, designated as "A European initiative for the development of micro-credit in support of growth and employment."

It is therefore no surprise that governments and international institutions, on recognising that:

- Poverty has shown resistance to sustainable reduction;
- The traditional solutions for combating poverty have revealed themselves to consume increasing volumes of resources, both in absolute and relative terms; and
- Microcredit can reveal itself to be a solution for the promotion of inclusion that is more economical in terms of resources than other alternative solutions;

have decided to pay more attention to the microcredit movement and, consequently, to attribute to it greater volumes of resources. This increased interest on the part of state actors has also been matched by private, particularly financial, institutions.

Microcredit and microfinance

Microcredit, which, as referred to above, was introduced around thirty years ago, has little by little been making its way, retaining its original name. Even when associated with microcredit, institutions that promote it complement it with other financial products that are considered necessary for the development of the businesses of micro-entrepreneurs.

The movement began to expand and become internationalised, and an increasing number of classical financial institutions began to take part in it. More-or-less simultaneously, the idea began to be spread that microcredit was, as a financial product, a sub-product of the more general product that was microfinance. This was during the mid-1990s.

The designation “microfinance” came, therefore, at least at the great majority of international forums, to cover microcredit and other financial products, such as personal insurance, activities insurance, credit cards, telephone cards, scholarships, and so on. It was argued that these products were all equally indispensable for the development of the activities of micro-entrepreneurs. Dealing only with microcredit meant leaving the necessities of the micro-entrepreneurs in the hands of operators with aims less compatible with the development of microcredit.

Remember that the creation of the *Microfinance Center* dates back to 1997 and the creation of the European Network of *Microfinance* (ENM) to 1999. The issue of microfinance, as can be seen, has been strongly present since the moment of its creation, in the names of the two principal European networks of microcredit (microfinance).

The activities of the ANDC¹

The National Association for the Right to Credit (ANDC) was founded in late 1998 and began its activities during mid-1999. It is not a financial institution, but a private non-profit association, today recognised as of public utility. Even though initially the possibility of creating a financial institution had been considered, this possibility was rapidly excluded, given the high amount of resources that would have been required for that aim.

At the time of the foundation of the ANDC, the banks did not promote microcredit as they did not consider it to be a sufficiently profitable activity: the amounts involved were not at a sufficient level to compensate for the costs of the transaction, and applicants for microcredit were not in conditions to be able to provide real guarantees for the amounts loaned.

The ANDC positioned itself therefore as an institution of intermediation between the beneficiaries and the banks, incorporating in its activities the costs that the banks were not willing to assume: the development of the investment projects and assistance to micro-entrepreneurs during the phase of development of the business. The quality of the projects to be financed and the subsequent assistance constituted guarantees that the businesses would be sustainable. This is the guarantee that adequately substituted the real guarantees that are required in other circumstances.

The ANDC gradually developed its functioning structure, based initially, essentially, on voluntary assistance, but today it has grown substantially and already has a reasonable level of staff, whose work continues to be supported by the benevolent cooperation of many people. From the beginning of its activities and until today, the ANDC has assisted in the creation of over 860 businesses, involving a sum of credit of approximately €3.8 million and the creation of approximately 1,100 jobs listed at the launch of the businesses. The survival rate of the companies is approximately 85 per cent and the insolvency rate of the capital is around seven per cent

We would like to have achieved a greater level of activity - the necessities of the poor and the excluded require this. We recognise, however, that the idea of microcredit still has not been sufficiently disseminated in Portugal and those active in the field do not always look to this tool for the promotion of people as sufficiently credible. It must also be mentioned that, contrary to the norm, times of economic recession are not favourable climates for the expansion of microcredit.

We are not, however, pessimistic. We have received signals that the interest being attributed to microcredit is increasing among people, institutions and social communication media. We expect that the coming years will permit us to receive an increasingly numerous group of candidates for microcredit.

Microcredit and immigrants in Portugal

The vulnerabilities normally associated with labour market insertion among immigrants in receiving countries are well known: lack of stable residence, communication difficulties, cultural frameworks that are not always compatible with those of the destination countries; the aggression demonstrated by some receiving communities, exploitation by employers, and so on.

These are people, however, who may lack everything, but do not lack one thing: initiative. The first great sign of this initiative was the decision to emigrate from their countries of origin. We may be dealing with low-skilled labour, but in many cases these are people with qualifications substantially higher than those required for the employment opportunities that are offered to them.

These are certainly people whose potential and determination to change their lives are enormous. They are, however, people with many vulnerabilities in institutional relationships, namely with financial institutions. In particular, the difficulty of being able to offer real guarantees in return for credit contracts that they wish to undertake is great.

The ANDC does not have any particular specific line for providing microcredit to immigrants, nor does it believe that, despite the specificities outlined above, this would be justified. The ANDC is conscious of these specificities, but it is in the phase of service provision and of setting out the structure of the development of the business plan that it seeks to take these into consideration.

We seek to construct privileged partnerships with immigrant organisations or institutions that have a special vocation for working with immigrants. This was the case, with very positive results, in the relationships that have been established with ACIDI (the High Commission for Immigration and Intercultural Dialogue) and with JRS (the Jesuit Refugee Service). We are conscious that the work that has already been undertaken justifies the continuation of our organisation.

In operational terms, it is very rewarding to see the importance that the granting of microcredit to immigrants has had in the totality of the activities of the ANDC, approximately fifteen per cent of the total number of projects and a little over sixteen per cent of all credit granted. The percentage of insolvency of capital is only very slightly higher than that of the total of loans received (7.8 per cent vs. 7.6 per cent).

Traditionally there has been a concentration of origin of immigrants from countries that had been colonised by Portugal, but recently there has been a greater diversity of origins, including immigrants from Eastern European countries. There is no particular specificity related to the economic activities that have been promoted. The greatest concentration, as in the case of financing for Portuguese nationals, has been in 'wholesale and retail' (40.0 per cent), in 'other service activities' (16.4 per cent) and in 'industry' (13.3 per cent). In geographical terms the great majority of micro-entrepreneurs have located their businesses in Lisbon and Setúbal (72 per cent) and in Porto (7 per cent).

By conviction but also by experience, we can be sure that microcredit can continue to be an effective instrument in the process of the achievement of autonomy and inclusion by immigrants.

Notes

¹ The data provided in this article date back to April 2008.