The matching of two promises: microfinance and social responsibility. A new frontier in the "preferential option for the poor"

The goal of current socioeconomic action: tension and common consent among different perspectives

The dominant focus of international development institutions on economic growth, which appears to absorb most of their intellectual energies and to be the final goal of most of their normative suggestions, may not be easy to understand by those who are not strictly involved in these activities.
More specifically, from a religious perspective, there seems to be a stark difference between it and both the "common good" goal of the Christian social doctrine and the preferential option for the poor which is at the core of Ignitian spirituality.
In recent times, even the non Christian reflection on the goal of socioeconomic action inspired by the human rights doctrine advocates, not without reason, that the target of economic growth does not coincide with broader and more generally accepted ones such as those of human development and happiness, given that the latter depend not just on individual wealth but also and mainly on nonmonetary components such as individual capabilities and functionalities and the quality of human relationships.

In most recent times this focus on broader targets is becoming common in reports of international institutions (even though much less so in their current practices). To illustrate this, a simple scheme, included in the 2003 World Bank report, integrates the traditional "reductrionist" consumption-output channel fuelling individual well being with other channels in which the direct enjoyment of human, social and environmental resources is independent from productive considerations. This World Bank example witnesses also the partial but still not satisfactory reduction of the gap between the "reductionist" anthropological perspective of most contemporary social sciences and the goal of "common good" defined by Church social doctrine as the creation of those conditions which make easier individual self fulfillment.

However, a deeper inspection at the close relationships between these non immediately productive dimensions of individual flourishing and personal income clearly reveals that economic growth, or the creation of economic value at the aggregate level, is still important as being the source of resources to invest in education, health, leisure and preservation of environmental goods. Hence, economic growth remains a crucial factor also for the development of the other nonmonetary and spiritual dimensions of individual happiness mentioned above.

A possible further synthesis of the tension between these different goals is in the most recent growth theories showing that it is quite clear, at this stage of economic development, that equality (and above all equal opportunities) is beneficial for growth (Moav-Galor, 2004). More specifically, the full potential of one's country development is achieved when access to education and credit is available to everyone and therefore equal opportunities for the development of their talent are available to the overall population.

A common agreeable consent on the equal opportunity platform is therefore emerging as strategic goal for these different views on human well being. Recipes for the realization of equal opportunities and growth potential are well known. The research of the last decades clearly indicates that the fundamental ingredients are quality of institutions (from the minimum of absence of war to a maximum of a fully integrated and corruption free system of institutional check and balances), education, access to credit, access to IT technologies and good social capital, or high value of human relationships which fuels reciprocal trust being at the basis of all human transactions.

The role of microfinance

The question is therefore why, if recipes are broadly known, it is so difficult to apply them. The easy answer is that the willingness to apply them is deficient. Or, in the language of economists, a "global planner" (or global institutions) with full power and with the goal of fostering of economic development at world level does not exist. This is because globalization has been more rapid than our capacity to create global rules to govern it and because the various existing international institutions having the mission of fostering economic development are riddled by conflicts of interest, or by differences between the goal or mission of the institution itself and the personal ones of its representatives and organized beaurocracies.

In this framework what is emerging as an interesting remedy and as an element of stimulus is the capacity of the civil society and of the private sector of filling some of these governance gaps with its bottom up action. It is very important to interpret such action not as a demonstration of the uselessness of governance and rules, but as a subsidiary and vicarious action which creates awareness and international policy consensus for the creation of more equitable rules and is therefore a form of active advocacy.

One of the most promising examples in this field is microfinance.

The crucial role of microfinance is the extension of access to credit to uncollateralized poor borrowers which cannot obtain loans from the traditional banking system.

It is well known in fact that credit is available only to those which can provide a collateral of equal or larger amount than the demanded loan. Taking the words of what has to be considered the founder of Microfinance, Mohammad Junus, saying that the poor cannot get access to credit is like saying that those who have not wings, such as human beings, are unable to flight. Quite to the opposite, to remain in the metaphore, microfinance is the airplane which allows the poor to access credit markets.

The diffusion and coverage of microfinance of the world poor is impressive and growing. A recent World Bank report estimates that in Asia 30% of the poor have now access to credit thanks to microfinance institutions and that, overall, almost 100 millions of those below the 1 dollar per day (in purchasing power parity) threshold have a chance to exit from poverty thanks to microfinance institutions. In this perspective microfinance is realizing part of the fundamental mission of financial system (matching those with productive ideas and those with the financial resources needed to operate them) which traditional banks were not able to realize. By helping each individual to realize its productive potential (and to invest in education of the new generation) microfinance is today playing an important role in the promotion of equal opportunities.The key determinants of success have generally been identified in i) dynamic incentives of progressive loans, ii) group lending schemes with or without joint liability and iii) microfinance institutions' ability to monitor borrowers.

The rationale of point i) is the provision of small progressive loans which reduces the borrower incentive not to repay in order to avoid the penalty of not having the following loan tranche. The rationale of point ii) is that, by providing credit only to self selected groups of borrowers which are joint responsible for each other, the bank overcomes the informational gap and exploits the capacity of the borrowers to choose good companions. Furthermore, it also creates among the borrowers the incentive to help and monitor each other in order to avoid the cost of repaying the loan of the unsolvent groupmate, The rationale of point iii) is that the microfinance institution has a quite different attitude with respect to traditional bank (covered by the collateral) as it invests in the growth of entrepereneurial capacity of borrowers providing them in many cases consultancy and "business angels" services.

The historical performance of microfinance institutions has been generally excellent (average solvency rate are higher than 90 percent) but heterogeneous depending on: i) the different capacity of local microfinance institutions in monitoring groups of lenders, ii) differences in competitive and geographic scenarios which may affect alternative credit choices and the incentive to repay, iii) different levels of "peer pressure" and "social capital" which fix the amount of social sanctions and the level of deterrence for borrowers violating their debt obligations.

Microfinance and social responsibility in savings as a magis in the preferential option for the poor

One of microfinance outreach limits is that the activity of providing training and business support services and that of monitoring investment projects is extremely costly for the bank. As a consequence, lending rates of microfinance institutions are remarkably high and many potential projects which would be otherwise profitable cannot be supported because of the too high cost of loans. A recent promising channel which is going to reduce the problem is the matching between microfinance and socially responsible savings. More and more investors in the North are choosing to deposit their money into "ethical banks" accepting a return on their deposit below the market rate (up to zero) in return for the possibility of channeling their funds to support microfinance projects. In this way microfinance institutions, financed by the voluntary bottom-up action of the civil society, have the opportunity to lower loan rates thereby extending their outreach to the poorest.

The matching of microfinance and social responsibility in savings is today a magis in the preferential option for the poor in several respects.

First, it is probably the most efficient way of using monetary resources since the amount deposited fuels a multiplied amount of loans (banks can take as reserves up to only 10 % according to different country regulatory environment of their loans) and conjugate an efficient use of solidarity with the responsibility of who receives the money. Furthermore, if the poor which can potentially stand on their feet are correctly identified by the microfinance institutions, the success of their projects may create resources needed to support their neighbours or relatives which are in those categories (elderly, disabled, etc.) which cannot stand on their feet and can live only on solidarity.

Second, social responsibility in savings involves personal choices, the use of money and individual lifestyles and is therefore a concrete way of expressing one's own solidarity and support for the poor in everyday choices.

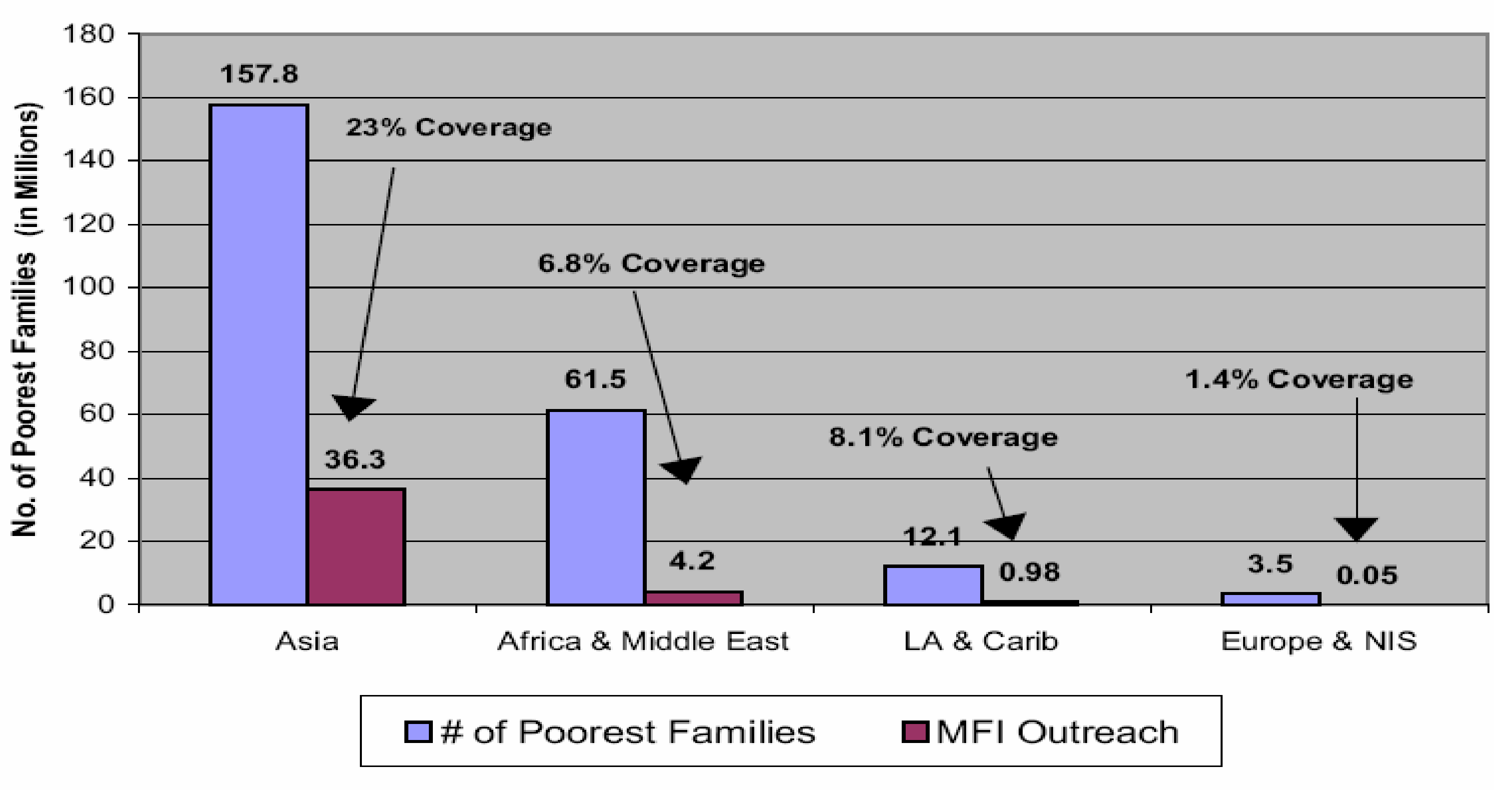
Third, this solution is capable of generating important imitative action on behalf of other financial institutions. Once the traditional banking system realizes that even a minimal share of savers makes their choices on the basis of solidarity and social values, it will try to conquer these savers by imitating in part the social responsibility of microfinance institutions. This leverage effect of socially responsible savings has been already demonstrated by scientific models and by the evidence of several traditional banking institutions which start developing their own microfinance divisions.

As Christians and CLC members our support to microfinance institutions by investing part of our deposits in banks which provide resources to microfinance institutions is therefore not just a valuable action but also a significant political gesture with which we can be "salt" and lievito ??

contributing to the direct success of the capacity of the microfinance institution in reaching the poor and to the indirect imitative action of other financial intermediaries.

The recent compendium of church social doctrine outlines as desirable and consciously chosen poverty the feeling of dependency and creaturality which leads the man to love and thank Gods for what He gave as a gift to him. We are all aware that economic development may sometime be in contrast with this feeling of gratefulness and creaturality which is at the basis of the richness of man's spirituality and at the root of its full happiness.
We nonetheless know that material poverty still leads to starvation a consistent part of mankind, that prevent many more from having a decent life and deciding their own life style. We therefore find that social responsibility is a crucial instrument with which the civil society with its bottom up action may address the existing inequality and promote social justice.

Leonardo Becchetti


No. of Poorest Families (in Millions)
180
160
140
120
100
80
60
40
20
0
157.8
36.3
23% Coverage
61.5
4.2
6.8% Coverage
12.1
0.98
8.1% Coverage
3.5
0.05
1.4% Coverage
Asia
Africa & Middle East
LA & Carib
Europe & NIS
# of Poorest Families
MFI Outreach