

MICRO-FINANCE

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INTRODUCTION

Micro-finance is defined as a set of financial services such as savings, micro-credit, insurance, money transfer, adapted to the needs of low-income and poor persons. Because they have no collaterals, the poor have no access to the official banking system (see De Soto, 2003). In this sense, financial inclusion – the objective that microfinance aims at achieving – may be seen as a dimension of social inclusion. It is currently estimated at a value of 60 to 100 billions US\$.

Most of the microenterprises of the informal sector continue to start their activities with limited initial capital drawn from own or family resources. Microfinance has earned a major place in funding income-generating activities over the recent years. This is primarily due its financialisation – a process that consists in raising funds on the international capital market. This was, however, to the detriment of its value with respect to solidarity and it still far from satisfies the needs of the global poor.

Since its discovery in the early 1970's, the informal sector has resulted in many studies. Research has been conducted about its contribution to employment, to GDP, to growth as well as the working conditions that prevail in the sector. Research has also analysed the potential it conceals as a hidden engine for innovation and growth. In addition, the informal sector is also a hidden tax base for governments unable to finance their expenditures. It is later, in the 1980s, that scholars started looking at its financial dimensions.

A SPECIFIC FEATURE OF THE INFORMAL SECTOR IS TO RELY ON ITS OWN SOURCES OF FUNDING

One of the main characteristics of the informal sector has always been not to rely on external sources of funding. The small amount of initial capital that allows the start-up of an informal micro-enterprise mainly originates from own or family savings. Informal operators rarely seek credit at the initial stage. They do, however, regularly buy on credit from their immediate and daily/weekly providers of the goods they sell or transform. Nevertheless, the combination of tight needs with large numbers of operators constitutes a vibrant market and has been the basis for the development of micro-finance.

TRADITIONAL FORMS OF ROTATING SAVINGS/CREDIT AND MAJOR ACTORS IN THE FIELD

Micro-finance has long existed in traditional societies under the form of rotating savings/credit schemes or clubs (known as "tontines" in Western and Central Africa) to benefit their members.. Important actors gradually emerged between the mid-1970s and the mid-1980s, including the Grameen bank that Nobel Peace Prize winner Mohamed Yunus founded in 1983. Others include the Self-Employed Women Association (SEWA)'s micro-credit Bank based in Ahmedabad, Gujarat India. SEWA was founded in 1974 and has more than 2,000,000 members today. Such institutions are based on trust and solidarity and provide support to poor households, helping them in their income-generating activities. As of April 2015, the Grameen Bank, for example, has 8,673,257 members (96,1% women) and has cumulatively disbursed 17 billions US\$ since its inception. Its outstanding loans are currently valued at 1,164 millions US\$ for more than 6.500.000 borrowers as micro-entrepreneurs and more than 78,000 beggar members (benefiting from loans with zero interest rate), for an overall rate of recovery of more than 98%.

Among the main features of microcredit are the high proportion of women beneficiaries. This is probably because many actors in the micro-finance sector target women but also because they are less likely to default on their loans than men. They borrow lower amounts than men and have a high rate of recovery for not so low interest rates (compared to formal loans).

NEW ACTORS AND FINANCIALISATION OF MICROFINANCE

In addition to these major and early actors in the field, Islamic micro-finance institutions have started to play an important role (especially in East Asia and in Middle East North Africa). Governments have become more and more involved in the financing of initial capital for the micro and small entrepreneurs and it is a major dimension of their active policies of employment creation mostly targeting the young unemployed graduates. Governments may also engage in the provision of small assets and working capital for income-generating activities through programmes dedicated to poverty alleviation. Revealing itself profitable, microcredit has attracted international investors. A major change during the past decade has been the entry of micro-finance institutions into the capital market through partnerships with international banks, investors and investment funds. These have started to invest in the micro-finance market in search of profit and changed the overall landscape of micro-finance institutions.

THE SEARCH FOR PROFIT HAS PROGRESSIVELY TAKEN PRECEDENCE OVER THE SOLIDARITY MOTIVATION

There are many observers now who think that financialisation of micro-finance institutions is not compatible with their basic values. All the more so because of stories of indebted farmers in India and elsewhere who commit suicide because they were not able to repay their debts, These stories have made the headlines and suggested that trust and solidarity have lost ground to these newcomers in search of profit (read the recent book by Isabelle Guérin: *La microfinance et ses dérives. Emanciper, discipliner ou exploiter ?* (Microfinance and its drifts. Empowering, disciplining or exploiting?), 2015, Demopolis, 291p., on these topics).

EXTENSION OF MICROFINANCE AND POTENTIAL FOR GROWTH

The **number of users** (borrowers, members) of the services of Micro-finance institutions is estimated at **200 million** at global level. This large number is still to be compared to the **three billion poor**. The fact is that the majority of informal sector enterprises and income-generating activities that mainly mobilise the family network remain dependent on usurers. It also indicates that ways and means for the transition from the informal to the formal economy have to be found and that a larger access to funding is still an issue to be solved. Micro-finance can be a solution for such a transition. (Note that the new concept on the transition from the informal to the formal economy has been discussed since the 2014 International Labour Conference and led to the adoption of a recommendation at the 104th Conference in Geneva, in June 2015)

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IESF TEAM SUGGESTED RESOURCES

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