

Conference Presentations

Microenterprise and Microfinance: Presenting a Global Perspective

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Congratulations to the Jamaican National Building Society for sponsoring this important symposium and thank you for inviting me. I understand that Jamaica has a flourishing Microenterprise Sector and a growing Microfinance Sector. This is my first visit to Jamaica—I cannot pretend to be a Jamaica "expert" but I am anxious to get to know about this beautiful country.

Although I have never visited here before, our institution, St. Francis Xavier University, has had close links with your country in the past. St. Francis Xavier University has a history of commitment to social justice locally in Nova Scotia, in Canada and worldwide. A famous social and economic movement, focused on adult education and economic cooperation, called the Antigonish Movement, had its base at our university under the leadership of Moses Coady. He believed that Social Justice was linked to Economic Justice. The Movement led to the creation of many new community-based economic institutions such as credit unions and cooperatives. In response to demand from countries of the South, the university created the Coady International Institute to provide education for international community leaders. Our first connections with Jamaica were in 1938 and 1939 when Jesuit Fathers, who were inspired by the teaching and success of Moses Coady in Canada, gave lectures here in Winchester Park to awaken Jamaican people's interest in creating cooperatives and credit unions. Father John Peter Sullivan was an early pioneer in the Jamaican Credit Union Movement. Credit Unions were of course created then, just as microfinance initiatives are today, to serve the unserved and promote economic stability and prosperity. Dozens of Jamaicans have studied at our Institute over the last decades.

My presentation this morning is entitled *Microenterprise and Microfinance: Presenting a Global Perspective*. It should really be called "Presenting a personal perspective." I will start off by giving you a quick overview of my personal experience in the field; I will briefly introduce the Microenterprise and the Microfinance Sector; I will then discuss some of my influences and learnings and end off with a statement on the challenges for the future.

Before I get started, I want everyone here to know that I am biased—in fact, I have spent the past 21 years of my life as a Microenterprise/Microfinance evangelist. I will attempt to explain to you how I got this way. I first saw the light in 1980, and ever since then have been promoting, assisting, designing, researching and teaching about microenterprise and microfinance development in Canada, Latin America, Africa and Asia.

In the year Jamaica and the world lost Bob Marley and the year after the Zimbabwean people finally achieved democracy, I had the good fortune to be posted to the Southern District of Botswana as the Rural Industrial Officer—a grand title for someone who was there to assist rural microentrepreneurs to improve their businesses through marketing, training, organizing, etc. All forms of assistance were provided except for access to financial services.

In Botswana, I learned about the importance of the informal sector/microenterprises to the local economy and to the people. I also learned that women, in particular, relied on their home-based or roadside businesses such as beer brewing and trading to provide for themselves and their families. My most important learning in Botswana was that lack of access to finance hindered the possibility of growth and sustainability of the individual enterprises of the low income population and the growth of the microenterprise sector overall.

On returning to Canada, I had the "bug"; the micro enterprise bug, that is. My graduate study was on "The Struggle to Meet the Income and Employment Needs of Developing Countries Through Small Enterprise Development." In 1984, as part of that study, I worked with the Canadian International Development Agency on a State of the Art Review of Donor Assistance to the Small Enterprise Sector. At that time, the U.S. Agency for International Development was the real leader in promoting and supporting microenterprise development and microcredit.

While working in Indonesia in the mid 1980s, I was exposed to the successful savings-led models of the Badan Credit Kecamatan and the Bank Rakyat, Indonesia. These were parastatal financial institutions operating on a large scale.

For the heyday in Microcredit and Microfinance, the decade 1986-1996, I was with Calmeadow, a Canadian NGO specialized in these areas. During that golden age in microcredit development, Calmeadow worked closely with ACCION International, a U.S.-based, Latin America-focused, microfinance leader. Calmeadow's greatest contribution to the field was assisting PRODEM, a successful Bolivian Microcredit NGO, to create BancoSol. In February of 1992, I attended the official opening of BancoSol in LaPaz. This marked a new era in microfinance—it was the first time a fully commercial microfinance institution was created. It demonstrated the possible—the entrepreneurial poor could be served in large numbers by a specialized commercial bank. Also significant was the creation of PROFUND and AfriCap, new investment companies targeted at microfinance institutions.

At the same time, Mohammed Yunus of Bangladesh, a member of the Calmeadow Advisory Committee, was busy transforming a small neighborhood project of his and his students at the University of Chittagong into the Grameen Bank—the world's best known Micro Bank. Calmeadow also imported the lending models from the South and adapted them to the Canadian reality. Success was much more difficult to achieve in the Canadian context. The market was less concentrated and smaller, and cost of delivery was much greater. We worked in Vancouver, Toronto, Nova Scotia and a number of First Nations communities.

Now I am at the Coady International Institute, where we have a rich tradition of developing peoples economic institutions, where we teach microfinance to practitioners from all over the world and we work overseas in partnership with groups such as the Self-Employed Women's Association Bank in India.

I believe my own experience working in the sector parallels fairly closely the widespread recognition of the microenterprise sector and the emergence of microfinance throughout the world.

Now I would like to move to the general context of microenterprise.

The Microenterprise Sector—Blight or Bright Light?

I'd like to start with a quote to set the context.

"...And where today can the rural migrants go? The world is already allotted, the land occupied by the nineteenth century modernizers ... So the cities fill up and the urban unemployment still grows. Very probably, there is an equal measure of worklessness in the countryside. The poorest quarter of the population in developing lands risks being left almost entirely behind the vast transformation of

*the modern technological society. The "marginal" men, the wretched, the strugglers for survival on the fringes of farm and city, may already number more than half a billion. By 1980, they will surpass a billion and by 1990, two billion. Can we imagine any human order surviving with so gross a mass of misery piling up at its base?"*¹

In this rather disturbing 1979 speech, Robert McNamara, the former President of the World Bank, touches on the interrelated problems of poverty and unemployment experienced in most nations and most acutely in developing nations. But there is always another perspective to every image. While acknowledging the reality expressed by MacNamara and the issue of violence so clearly articulated by all of the speakers this morning, the human order has proven to be tremendously resilient. What we have come to call the microenterprise sector has provided employment, incomes, goods and services for millions of people throughout history. The fact that these highly localized businesses are flourishing in this, the age of globalization and the multinational corporation, is proof of their resilience. The microenterprise is not a primitive economic activity, which will gradually become obsolete as high technology permeates all parts of the world. The microentrepreneur of today is at home on their computer in the shoe repair shops, behind the newspaper stands of the world's most modern cities, as well as in the rural marketplaces and urban neighbourhoods of developing countries. The sector is ubiquitous. It is often identified with developing countries because of its obvious importance in satisfying the employment and income needs of such a large portion of both the urban and rural population of these countries. Marguerite Robinson describes microentrepreneurs as "people who farm or fish or herd; who operate enterprises where goods are produced, recycled, repaired or traded; who provide services; who work for commissions; who gain income from renting out small amounts of land, vehicles, draft animals or machinery and tools on a very small scale."²

For the very poor and unemployed of the world, necessity has definitely been the mother of invention. People have demonstrated tremendous ingenuity in creating their own jobs. There are many good reasons to support microenterprises.

- They provide important employment and income for many people. They protect existing livelihood opportunities and increase the potential for the creation of more.
- They have strong economic linkages—forward and backward—with other sectors of the economy—agricultural produce sold in market stalls or process in home-based enterprises.
- They are efficient and there is low investment cost per job created in the microenterprise sector.
- They meet the needs of low-income people for goods and services at the prices, in the amount, and in the locations that are accessible to them.
- They reduce income leakages from communities. They keep money circulating longer.
- They usually cause minimal impact on the environment due to low power consumption. Many microenterprises also directly improve the environment because they are based on recycling.
- They have the potential to improve social and political stability and cohesion in communities by reducing income inequalities, and encouraging self-reliance, self-pride and increased local control, thus building social capital.
- Successful microentrepreneurs in communities can serve as role models for young people. They can instill hope and demonstrate opportunities in difficult circumstances.

While some governments and classes of citizens might consider microenterprises to be messy, a sign of a backward economy and therefore an embarrassing blight on their society, it is clear that for the large numbers of people who depend on them for their livelihood, they may in fact be the only bright light.

The Microfinance Sector—Helping the Light Shine Brighter

I will now switch to what has become the most significant approach to Microenterprise Development in the last couple of decades—Microfinance.

Microfinance generally refers to the provision of small-scale savings, credit, insurance, and any other financial services to those who cannot access them from formal financial institutions. Formal banks don't usually lend to the microenterprise sector due to issues of risk and cost associated with servicing the larger numbers of small low capital input businesses.

Microfinance is a relatively new term. But most societies and cultures have a long and rich history of traditional or informal savings and credit arrangements. The "susus" and "Tontine" of West Africa, the "chit funds" in India, the "tandas" in Mexico, the partner in Jamaica or the legion of savings clubs and burial societies found in all parts of the world have operated for centuries (probably since the introduction of currency). In the late 19th century, various types of larger and more formal savings and credit organizations emerged in Europe and were organized primarily amongst the rural and urban poor. These institutions were known as People's Banks, Credit Unions, Housing Societies and Credit Co-operatives.

The late 1970s and early 1980s saw the emergence of "microenterprise lending" programs, meaning an almost exclusive focus on credit for income generating activities (in some cases accompanied by forced savings schemes) and targeting very poor (often women) borrowers. The early focus of most microenterprise lending programs was upon proving that the poor were creditworthy. Indeed, the Grameen Bank, often referred to as the "flagship" of the new microenterprise lending movement, was largely focused on credit, with savings mobilization largely seen as a means to promote discipline. The bank's founder, Dr. Mohammed Yunus, began in the 1980s to refer to "credit as a human right." Savings were conceived of as a method to ensure repayment, rather than as a service or end in itself in these early years.

By the late 1980s, the provision of credit to the poor had reemerged as probably the most popular and high profile of all development sectors in terms of volume of resources invested in it and the claims of poverty alleviation attributed to it. It was not until the mid-1990s that the term microenterprise lending began to be replaced by a new term that included not only credit, but also savings and other financial services. Microenterprise finance or "microfinance" emerged as the term of choice to refer to a range of financial services to the poor, that included not only credit, but also savings and other services such as insurance, and occasionally pawning, or leasing.

The 1990s saw growing enthusiasm for promoting microfinance as a strategy for poverty alleviation. There is a global campaign underway, under the banner of the "Microcredit Summit" to extend the reach of microfinance to 100 million of the world's poorest microentrepreneurs by 2005."³

Types of Institutional Models: Who delivers microfinance services?

There are many different types of institutions delivering financial services to microentrepreneurs today. Given the diversity of the microenterprise market, different models are required for different contexts.

- Commercial banks are often upstream in the market but some are specialized, such as BancoSol and others, which have special microfinance windows or programs. The new ScotiaBank Jamaica microfinance scheme is a local example of this phenomenon.
- NGOs can be social intermediaries between financial institutions and low-income clients.
- NGOs can be financial intermediaries by directly lending to clients themselves. This is a very common model.
- NGOs can serve as loan guarantors. This is the case with many affiliates of Women's World Banking.
- Small Community-based Savings and Credit groups are ubiquitous.

- Mutual type institutions such as Savings & Credit cooperatives, Credit Unions, Cooperative Banks, and Building Societies are some of the earliest players. Most started with a focus on savings. Many are now creating specialized microfinance programs. Jamaica National Building Society is one such example.

Credit Methodologies: How are financial services delivered to microentrepreneurs?

The main lending methodologies employed include individual lending as used by our host in Jamaica National Microcredit, group lending which is further broken down into peer group and solidarity group lending used by Grameen and ACCION and the Village Banking technique of FINCA and Freedom from Hunger. Group lending and Village Banking are usually used for the smallest loans and individual lending is often used for larger ones in situations where collateral is available. Microfinance providers usually deal with the issue of risk by developing creative schemes to motivate timely repayment. They use a mixture of carrots (incentives) and sticks. The carrots often include more loans and larger loans for clients with a good repayment record. The sticks may include collateral and peer pressure.

They deal with the cost issue by developing streamlined administrative procedures, having the borrowers' groups do a lot of the work and charging appropriate rates of interest. These rates are generally higher than traditional commercial lending rates but considerably lower than moneylenders.

The approach taken by microfinance schemes very much depend on their goals. These approaches can be broken down into the financial systems approach and the poverty lending approach. The goal of the financial systems approach is simply the provision of financial services to low-income people. With the poverty lending approach, the financial services are a means, not an end. The end or the goals are poverty reduction, wealth creation and empowerment.

When I was at Calmeadow, we were aiming for three things:

- Impact—make a positive difference in terms of poverty reduction, enterprise growth, income, employment, social cohesion, empowerment, asset accumulation, etc.;
- Scale—meet the large-scale demand by having significant market penetration; and,
- Sustainability—cover all operational and financial costs and be well managed.

A microfinance institution won't be doing anybody any good if it is out of business.

Having characterized the microenterprise and microfinance sectors, I would like to now situate them in the context of development thinking. I will do this by citing some of my own gurus along the way.

My Influences and Hearings

My work in development and microfinance has been influenced by many wise and wonderful people.

The first is Dr. Seuss. In one of my favorite stories, Dr. Seuss's character, Professor McMonkey McBean, rolls into town with his fixem-up chappies and his fixem-up machine. They descend on the community to cure/"fix up" its ailments. It works for the short term but then all chaos breaks loose and the people end up worse off than when the fixem-up chappies first arrived. The lesson for development work is to resist these fixem-up tendencies and chappies. The people themselves have to do it and own it for themselves. Microenterprises require support but we also need to step back if we want to foster self-reliance.

Mohammed Yunus, founder of the Grameen Bank in Bangladesh, a bank owned by 2 million landless women, taught me and others involved in the microcredit movement that, to be effective,

our development approach must be based on a deep respect for the creativity, drive and dignity of human beings. One of his other important lessons is that poverty is not created by the poor.

Like Dr. Yunus, John McKnight of Northwestern University of Evanston, Illinois teaches us to focus and build on people's and communities' "assets" rather than dwelling on their "deficits." Focus on people's talents and their capacity. Start with what people can and are doing rather than what they don't have. The traditional needs-based approach has led American inner-city neighbourhoods to be characterized as needy, problematic and deficient. That is not the whole picture. McKnight's Asset Based Community Development approach starts with the assumption that the glass is half full and builds from there. Recognizing people's potential and building on a vibrant microenterprise sector in a community is consistent with this approach.

Jane Jacobs, an author and community activist, has taught me about the importance of economic democracy, economic vitality and economic opportunity to individual and community well-being and also to local, national and global stability and health. From Jane, I also learned about the importance of innovation and risk. Access to critical financial services for people left out helps to bring democracy to our economies. Including the hardest to reach in the economy requires a lot of innovation.

Mary Houghton, president of Shorebank in Chicago, taught me to be wary of the short-term, quick-fix, project approach. She shows us the importance of working with people to create new, permanent, yet flexible institutions. These institutions must operate on sound business principles and practices. Microfinance requires a strong and sustainable institutional base.

Ela Bhatt, the founder of the Self-Employed Women's Association of India, has demonstrated that there are many good reasons to focus on women. There is the reason of equity because women are still the most credit disadvantaged in the world. There is the reason of impact because when a woman's income and assets improve, the whole family and community benefit. Finally, lending to women has proven to be good business. Women repay their loans.

Dr. Saluddin Ahmed of the Bangladesh Rural Advancement Committee taught me two important lessons. He says small is beautiful but in many cases big is necessary. He is not referring to the size of enterprise, but rather to the scale of effort and resources required at a variety of levels to have the impact needed to attain economic justice in the world. Microfinance promoters need to think large-scale.

One other important teaching I took away from conversations with Saluddin is the importance of financial sustainability to autonomy. This is very critical for groups and organizations who rely on outside funding for their work. As Saluddin would say—if I have my hand in someone else's pocket, I must walk where they walk—and that may not be where I want or need to go. Outside funders, particularly governments and donors, can be very fickle.

The final influence I will mention is Dr. Moses Coady, our Institute's namesake. In the forward to his book, **Masters of Their Own Destiny**, Coady describes the Antigonish Movement as an effort to educate the people by assisting them to become masters of their own economic destiny. Three famous Coady quotes, which are at the basis of the microfinance philosophy, are:

- *"You are poor enough to want it and smart enough to do it"*—Poor people are motivated by necessity and have the innate capacity to help themselves.
- *"The people will use what they have to secure what they have not."*—People need to be encouraged to see what talents, skills and assets they have which can assist them to build a better future for themselves.
- *"Responsible government did not bring true democracy. Many of our people are now asking for a responsible economy for the right to manage their business affairs as they once asked"*

for the right to control their political affairs."—Full participation of the people in the businesses which fuel the economy is essential for a true democratic society to exist. Microenterprises are an important point of economic access for so many people in the world.

The Challenge for the Future

I would like to end off with a few words on the challenge in front of us.

Current estimates are that there are at least 600 million poor microentrepreneurs in the world. Jamaica, I know, has its share. The numbers grow everyday here and elsewhere. Currently, the Microfinance Sector globally is only reaching approximately 4% of that potential market. There are many players: an estimated eight thousand microlenders. However, there are only a few large-scale entities such as Grameen Bank serving the market.

We need to get serious about meeting this demand and thus reducing poverty and social instability. Microenterprises should flourish and successful microfinance schemes need to grow, proliferate and adapt. Capable leadership needs to be identified and developed.

We will need to ensure that even the most difficult to serve of the difficult to serve are provided with services. These include the rural, the remote, the smallest, the people living in the toughest urban neighbourhoods. This is where our sector requires the greatest innovation and creativity.

This will be as critical for Jamaica as it will be in all other countries experiencing social and economic strife and disparities. The potential is there just as is represented in this room today.

As Moses Coady says:

"The world calls loudly for a real democratic formula to bring life to all its people. It is not going to be done by guns, making armies or bombs, but by a program in which the people themselves will participate. This is democracy not only in the political sense but it is participation by the people in economic, social and educational forces which condition their lives."

Microenterprise and microfinance can open that door for the people to participate in society in a full and meaningful way—as engaged citizens.

Thank you.

Endnotes

1. Robert McNamara, "Address to the Annual Meeting of the Board of Governors," Summary Proceedings, (Copenhagen; International Bank for Development and Reconstruction, September 21-25, 1979), p. 27.
2. Marguerite Robinson (1995), *Microfinance: The Paradigm Shift from Credit Delivery to Sustainable Financial Intermediation*. Harvard Institute for International Development.
3. Adapted from A. Scoggins, "Savings and Credit for the Poor: A Training Manual for Development Workers," Coady International Institute, 1997.