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“Microcredit as a tool for development policy”

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Table of Contents

Subject area	Page
List of Graphics and Tables	04
Introduction	05
1- Microcredit as a tool	
1.1- Macroeconomics Scenario	06
1.2- The Grameen Bank	09
2- Microcredit Concepts	13
2.1- Microcredit Main Features	14
3- Sustainability	22
4- The importance of a correct evaluation	24
5- The correct Tool	27
6- Final Considerations	31
7- References	32

List of Graphics and Tables

TABLE

Table 1 - The division of Poverty

Table 2 - Grameen Bank Historical Data Series 2003

Table 3 - Total Cost of Administering a Loan

GRAPHIC

Graphic 1 – Banco do Nordeste Loan by gender

Graphic 2 – Banco do Nordeste Loan by amount

Introduction

In a scenario of large poverty around the world, microcredit alternatives emerges as a possibility to help in the income generation for poor families. Macropolicies were not able to reduce extreme poverty and, as a possible alternative, microcredit emerges to try to help in the struggle to raise income of the poor. Many efforts has been concentrated to increase microcredit operations. Also, different kinds of partnerships have been developed.

In this paper, the objective is to try to analyze microcredit as a tool to help to promote development. In this direction, some microcredit aspects are going to be considered.

The first step is to show microcredit as an important tool for any development policy that a country intends to implement because the lack of credit is presented as a crucial obstacle to the improvement of small business and to the income generation for families with no access to the formal financial sector.

Some of the microcredit concepts are going to be described with the intention to provide the reader with the special characteristics of its methodology. The complexity of microcredit methodology is one aspect that makes difficult its sustainability.

Sustainability and evaluation are two aspects that are going to be detailed forward trying to expose their principal capacities to guarantee a correct tool for the development. At the end, some final considerations are presented as an effort to resume the thoughts presented in this paper.

1 - Microcredit s a tool

1.1 – Macroeconomics scenario

Income generation and poverty reduction have been important issues discussed around the world for decades. That is because countries macropolicies have not been able to reduce extreme poverty in many parts of the planet. Sometimes not even the poverty¹ or the inequality.

According to the United Nations Development Report 2006, in the nineties, more than 4 billion people around the world lived with less than US \$ 4.00 per capita a day. Among these, 1,2 billion had an income below the line of US \$ 1.00 per capita a day. By the year 2002, these rates had decreased by 19%.

The proportion of people that lives with less than US\$ 1.00 a day in 2002 is as described above:

Table 1 – The division of poverty

Sub-Saharan Africa	44,0%
Southern Asia	31,2%
Eastern Asia	14,1%
South-Eastern Asia and Oceania	7,3%
Latin America & The Caribbean	8,9%
Northern Africa & Western Asia	2,4%
Transition Countries of South-Eastern Europe	1,8%
Commonweath of Independent States	2,5%
Developing Regions	19,4%

Source: United Nations. “The Millennium Development Goals Report 2006”

¹ It is important to differentiate poverty and extreme poverty as different levels of poverty lines.

By these data, it is possible to see that Sub-Saharan Africa is the poorest region, with 44% of its population living in extreme poverty. On the other hand, the Transition Countries of South-Eastern Europe are the better ones with only 1,8% of its inhabitants living with less than US\$ 1.00 a day.

According to the Newspaper Folha de São Paulo, the USA National Survey of 2005, despite the economic growth and the rise in the productivity, demonstrates that the extreme poverty has increased 26% since 2000, with 16 million Americans living in severe poverty². It is the biggest gap between the rich and the poor in the last thirty years in the United States. These data are presented as some examples to show that the problem of poverty around the world requires some serious thought.

Cash Transfer programs, like Bolsa Familia in Brazil and Food Stamps in the United States, are presented as a short-term solution, transferring money in order to help the families in their most urgent necessities.

However, without other income generation perspectives, cash transfer programs can perpetuate the poverty, creating a vicious circle of dependency and exclusion.

A very important difficulty on income generation alternatives is the lack of collateral to access credit and the failure to implement creative solutions above all because of the lack of skills.

As an alternative to increase income for poor families, who are excluded for the formal financial system, countries like Bangladesh, India, Mexico and Bolivia developed microcredit programs.

The very first known initiative on microfinance happened in the south of Germany, by the year of 1846. It was called “The Bread Association”. After a long and hard winter, that left the local farmers in deep debts, a local Reverend called Raiffeinsen started to lend wheat in order to try to help the local community in such a difficult situation.

Using this initial productive capital, the local farmers could produce and commercialize bread generating income and improve their lives. Later, this organization became a Credit Union conceived to provide loans for poor people.

² As extreme poverty, it's considered a family, with 4 members, that lives with less than US\$ 9,908.00 a year.

In the United States, the first important microcredit operation occurred in 1953, in the city of Chicago. The CEO of a metal industry, Walter Krump, created an “Aid Fund”. Each worker deposited monthly US \$ 1.00 creating a fund to help those associated in financial trouble. Later, it became the “Credit League”.

These days, this association turned into the “Credit Union League” that operates in different States in the United States and also in many other countries like Jamaica, Thailand and Russia.

Nowadays, there exist around 10,000 microlenders all over the world and some of them have already turned into banks.

1.2 – The Grameen Bank

The most famous microcredit experience is the one of Bangladesh, called The Grameen³ Bank, founded by Professor Muhammad Yunus in 1976⁴ as an alternative to deliver credit to rural poor people.

The Grameen Bank provides credit to poor families, above all in rural areas in Bangladesh, using a specific methodology with appropriated conditions for these millions of families.

In January of 2007, the Grameen Bank summed 6,95 million borrowers, in more than 90% of the total villages in Bangladesh.

It is also interesting to note that around 97% of the borrowers are women. This shows the gender perspective that is considered in the development of the model.

The Table below, shows the historical data series of Grameen Bank for the year 2003.

Table 2 - Grameen Bank Historical Data Series 2003

All figures are in USD

Description	2003 (Million US\$)
Yearly Loan Disbursed	
a) General	366.27
b) Housing	3.05
Total Disbursement for the Year	369.32
Cumulative Total Disbursement	4180.21
Cumulative Amount Repaid	3782.73
Balance of Members Savings	170.61
No. of Houses built	578532
Coverage :	

³ The word 'Grameen' means "rural" or "village" in the Bangladesh language (Bangla).

⁴ In October of 1983 the Grameen Bank Project was transformed into an independent Bank.

Members	3123802
Groups	577886
Centers	74703
No. of Villages covered	43681
Employees	11855
No. of Branches	1195
No. of Area offices	125
No. of Zonal offices	18

Source: The Grameen Bank site (<http://www.grameen-info.org/bank/hist2003.html>)

The methodology of Grameen Bank changed the conventional practice, that requires collateral from its clients and introduced the system of mutual trust and participation.

The credit is provided based on the social background of the family, targeting the poorest people that need resources for investment. The loans are based on the voluntary formation of solidarity groups⁵, small informal groups that come from the same background and share trust to each other.

Thus, the whole group is the guarantee of repayment, with no necessity of giving a property as a secure for the loan. It is important to emphasize that the need of collateral is usually the hardest barrier of entrance for poor families into the formal financial system.

The Grameen Bank methodology assumption is that, with credit, the participants will be able to engage in a income generation project such as food preparation, animal raising, trade, manufacturers and transport services, among others services.

The methodology includes an investment in order to increase the human resources capabilities, such as, ethics, creativity and business training.

Savings are also stimulated. The intension of it is to develop the consciousness of future, the sense of responsiveness. Savings are also applied to help to guarantee the credit.

⁵ The groups are of around five people.

The “bicycle bankers” are the assistants that provide supervision and management assistance, visiting periodically the community. The close assistance is important to keep the mood and to provide the environment for discussions. They are called “bicycle banks” because they visit the communities on bicycles. It provides a cheap and easy assistance.

The repayment are based on a weekly schedule. So, every week the assistant collects the money of the group as a whole. The complete repayment is asked so that every participant has to pay his quota. The participants act together as a group.

The methodology of Grameen Bank is being adapted to be applied in very different countries, according to the characteristics of each one. Microcredit is now adopted in many places and has been emphasized in recent years.

Professor Yunus and the Grameen Bank were awarded the Nobel Peace Prize in 2006 “for their efforts to create economic and social development from below.”⁶

The year of 2005 was proclaimed by the United Nations as the Microcredit Year, as an effort to increase the access of the poor people to the financial system and to spread the microcredit’s methodology throughout the world, stressing its importance for the achievement of Millennium Development Goals⁷.

Indeed, the real transformation in the credit markets had begun during the 1970’s and microcredit represents a recognition of the importance of informal economy considering that it is an alternative to access credit by those who are out of the formal financial system.

Microcredit emerged as a social innovation, offering credit to those who were considered “unbankable”⁸, above all because of their lack of property to guarantee financial operations.

Informal sector is a reality for many countries and, perhaps, the best alternative is to learn how to live with it, instead of trying to formalize it.

⁶ http://nobelprize.org/nobel_prizes/peace/laureates/2006/press.html

⁷ The Millennium Development Goals is a compromise created in 200, among United Nations countries, to achieve eight objectives – from eradicating extreme poverty to halting the spread of HIV/AIDS, until the year 2015.

⁸ “Unbankable” is the very used word to define those people who are excluded from the formal financial system

There is a large perspective to create jobs on this sector. It is a very labor intensive sector that can employ less skilled people. There are some interesting statistics about job creation that brings the following numbers:

To create an informal job it costs US\$ 1,000.00

To create a formal job it costs US\$ 10,000.00⁹

According to these numbers, the informal sector has a greater perspective to create jobs compared to the formal sector. So, that is another reason to try to improve the conditions of the informal sector, rather than to try to formalize it.

Microcredit appears as an important way to raise the income of the poor by self-employment. It represents an alternative for the people who can not access the formal market to access credit.

The popularity of microcredit programs raised in the 90's. It happened as a result of the huge social and economic transformations on the societies.

⁹ "Microcredit and Development Policy", 2001, page 22.

2 – Microcredit concepts

Microfinance is the group of services provided for low income families and formal and informal microenterprises that cannot be supported by the formal financial system, above all because of the lack of collateral.

The formal financial system is not interested in providing small credit operations with the same transaction cost as a large loan. Small credit is expensive for the banks when compared to large loans that can provide bigger returns with less effort and low risks.

Microfinance includes small amount in loans but also savings, credit services and insurance. Actually, it is a broad strategy, rather than just credit. It provides this services as a systemic combination of factors in order to achieve a safe environment for new loans.

There exist a large web of institutions - microlenders – created to provide microfinance including credit union, non-governmental organization, commercial bank among other agencies.

Microcredit is one of the Microfinance tools and it aims to provide small amount of credit for a targeted part of the population, using a very specific methodology. Actually, it is an instrument to provide economic and social development. Economic development since it searches a better income generation and the development of professional knowledge. Social development because its methodology allows people to develop social skills like self-reliance and being able to support the workers as a group.

Microcredit is part of a new paradigm, based on grassroots contributions.

2.1 - Microcredit main features

The lack of employment pushes people to the informal sector that starves from financial capital, a vital input for income generation purposes.

The survival expenditures of poor family consume almost all small amount of income. Few money last for investment. Then, these families have to rely on extra money if they want to develop any activity looking for some profit.

The main feature of microcredit methodology is the bottom-up development. Loans usually are based on groups that discuss their aims and problems, looking for sustainable development.

The groups are around five people that are linked by a relationship of trust and background. That means people that know and trust each other, like neighbors and friends, and that are in similar social and economic conditions.

The guarantee given to the microlender by the whole group works as a collateral. If one borrower defaults on the loan repayment, the group has to pay the debt. It forces the group to be very careful to choose the partners and to keep their obligations up to date.

It results in a more than 95% of repayment rate, in general. Indeed, microcredit usually has a very high repayment rate. Higher than many other bank operations.

There exists two mains forms of contract in microcredit:

- joint viability loan contract
- individual liability loan contract

In the joint viability loan contract, groups are formed to define their aims and function as a warrant to each other. They don not have to work together. Each one has its own business. However, they have to pay the debt together, otherwise the whole group is in default. It is the most usual form of credit.

In the individual liability loan contract modality, there is no group but individuals that work and take the microcredit alone. It is less common.

The terms of credit are shorter than usual. The payments usually are weekly and the term of loans are short, from 6 months until one year. However, the close supervision significantly increases the transaction costs, providing a challenge to the microlenders. That is one of the reasons for the many commercial banks to stay out of the microcredit programs leaving an important role for non-governmental organizations and other credit agencies.

Microcredit's average amount of loans are usually below one hundred dollars. The large quantity of very small loans also increases the operational costs. So, the institutions must have returns that, at least, cover their costs, otherwise, they go bankrupt.

The following table shows an example of how it is much more expensive to implement a microcredit than a big credit operation:

Table 3 – Total Cost of Administering a Loan

TOTAL COST OF ADMINISTERING A LOAN		
	<i>Big lenders (eg: Banks)</i>	<i>Microfinance Institutions</i>
Cost of capital	10%	10%
Loan loss	1%	1%
Total cost of capital	11%	11%
Total amount of loan disbursed	\$1,000,000	\$1,000,000
Loan size	\$1,000,000	\$100
# of loans	1	10,000
Yearly transactions	4 - 12	120,000 - 520,000
Cost of administering loan	3%	20%
Total cost to institution	14% (11% + 3%)	31% (11% + 20%)

Source: Unitus (www.unitus.com)

In this case, the cost of administering a microcredit is almost three times the cost of administering a big loan.

Another interesting thing that is happening nowadays is that important investors, like international financial institutions as World Bank and Inter-American Development Bank, tend to concentrate their loans on big microlenders agencies.

That means, the donors, stimulated by the facilities of investing in a developed agency, are concentrating the money on few mayor microlenders. Around 350 out of the 10,000 microlenders institutions all over the world are good places to invest.

It is easier to invest large amounts of money in a big microfinancer than to make lots of small loans to agencies that are not tested and that have less capability to be in place.

That is killing some of the new agencies and avoiding the creation of new ones because they keep starving for money. The small microlenders suffer with the lack of money to be lent to the poor.

There is a good example of the result of this concentration process in Mexico. Compartamos, started as a charity subsidized entity, is now a microcredit bank. It was established in 1990 and has, in 2007, around 612,000 clients.

Recently, the international credit-rating agencies allowed Compartamos to issue bonds. That means that Compartamos now has a lager opportunity to collect money.

All this evolution happened due to the huge support of big international financial institutions like World Bank that invested a lot of money on this microlender.

Apparently, some microcredit institutions are now profitables thanks to the help provided by the large organization at the beginning of their operations. However, these large organizations tend not to invest in small agencies, making it difficult to develop local atomized microlenders.

Some top microlenders are now free from subsidies and charities donation. This seems to be a paradoxical situation because the abundance of money makes it difficult to develop efficient alternatives.

Nevertheless, microlenders agencies have to search for profitable activities, develop commercial funds, like deposit and the capital market, to become self-sustainable.

The private sector, that seeks for profits, usually is afraid of investing in microcredit market because of the lack of expertise and also because it worries that this can be seen by the society as a predatory practice.

Microcredit is a development strategy to grant small-scale loans to the poor that also provides a training ground for entrepreneurs. People receive professional training,

stressing their specific skills but also developing issues like professional responsibility and credit payment.

This professional training comprehends the demanded training to improve the productivity of the business.

For example, if a participant is a farmer that wants to raise corn, he has to receive training to develop agricultural skills that can lead to an increase in the production. Thus, he may receive information about seeds, fertilizers and land management.

The idea is to increase the ability to raise corn and, by doing so, to provide a higher production and, consequently, a higher income to the family. This professional training can be provided by any of the partners. It is very common that a non-governmental organization or a public enterprise step in the processes at this point, promoting the training based on their own knowledge.

The payment for the training is not supported by the participant. It can be provided by any part of the process like government, non governmental organization, public enterprise or also any other sponsor.

Usually, microcredit is a strategy to grant small-scale loans associated with small business training and consulting, but it is frequently combined with literacy and health care programs.

Stimulating savings and managing loan repayments are other features of microcredit methodology. It is part of the strategy to ensure repayments and to improve the business skills.

The participant have to develop the ability to take credit and pay it back. It is very common that some people that are used to receive cash transfers from the government, lose the capacity to differentiate a loan from a cash transfer program.

Cash transfer is a money that the government gives to the families to try to solve their immediate necessities. It is non refundable. The family receives it and does not have to give it back. The microcredit money has to be used to develop any profitable work. Only if applied to a business finality is it considered microcredit, otherwise it is credit for consumption.

However, when they make a loan, they have to develop the accountable capacity to calculate a flow of payment in order to have the money to guarantee the repayment of the credit.

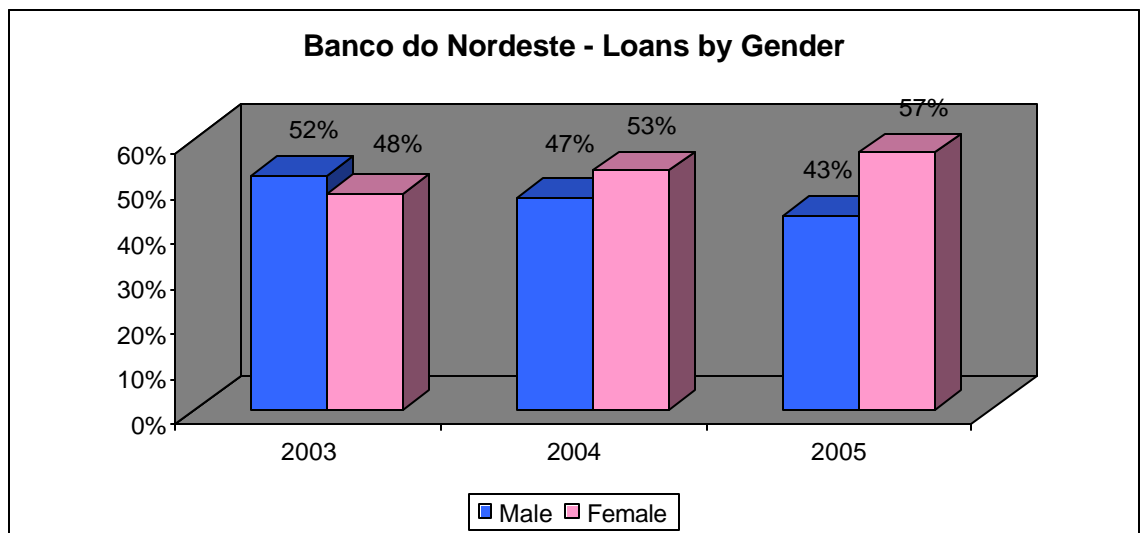
All together, microcredit performs an important role reducing the lack of self-confidence and the social isolation existent inside these groups of people. It promotes the relationship among the participants, the necessity to discuss the credit features and tools and to guarantee a full repayment.

If associated with other social policies, it helps to decrease illiteracy, health and nutrition problems. For example, any partner can step in to promote courses for adult literacy. With that, the vulnerability of the person is incredibly reduced since a huge window of opportunity is opened.

A very special aspect of microcredit is the gender perspective. A large number of microcredit participants are women that can find a way to a better life with a higher income. The better income also provides a higher level of self-confidence and supports an important role for the woman inside the family.

As an example, for the most important Brazilian microcredit institution – Banco do Nordeste – Bank of Northeast, that is responsible for 60% of all microcredit contracts in the country, the gender perspective is presented as follows:

Graphic 1 – Banco do Nordeste Loan by gender

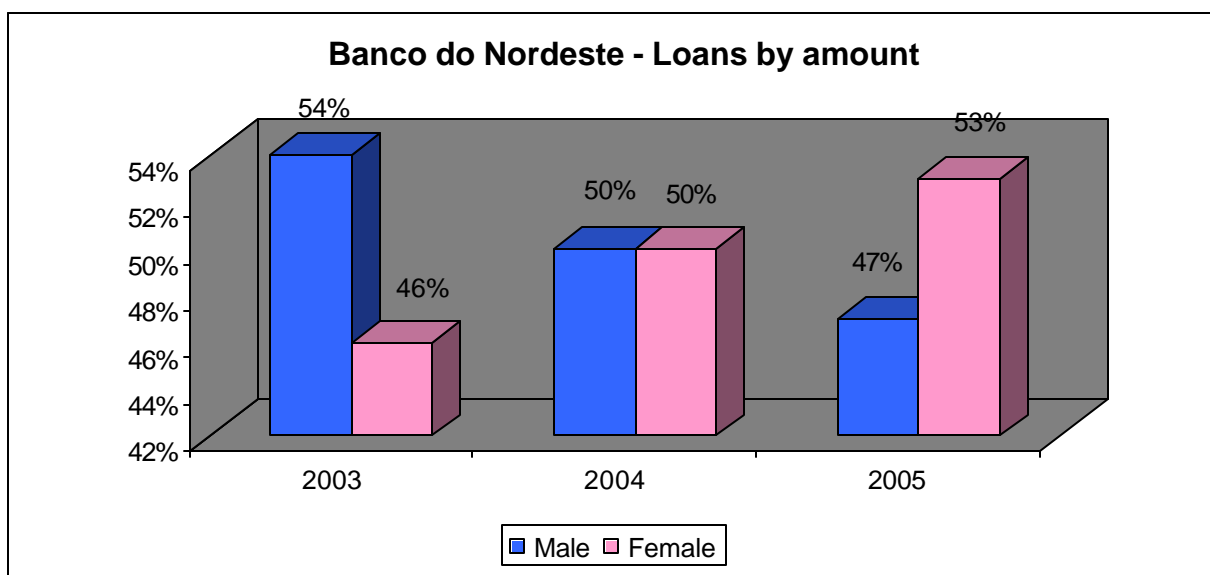


Source: Banco do Nordeste

Graphic 1 presents the total number of loans between 2003 and 2005. The Brazilian female participation on the total number of loans is increasing, moving from 48% in 2003 to 57% in 2005. Analyzing other Bank data, in the year of 2002, 49% of all clients were women. This number increased to 61% in 2004.

Graphic 2 shows the loans by amount, considering the gender perspective. In this case, in the year 2005, 53% of the whole amount were borrowed by women while this percentage was only 46% in 2003.

Graphic 2 – Banco do Nordeste Loan by amount



Source: Banco do Nordeste

The whole methodology of microcredit is based on partnership. It involves a large number of stakeholders, above all local. It counts on partners and institutions linked to other local organizations.

Let us see an example. Again, the case of Banco do Nordeste, where a large number of partners are involved. The Federal Government budget, through the Ministry of Agrarian Development, provides the funds to support the microlender.

Together with the money, it also gives the rules for the credit. These rules includes the maximum allowed amount of loan, the maximum interest rate, the desired profile of the participants, the term of microcredit cycle, among others.

In this case, Ministry of Agrarian Development and Banco do Nordeste agreeded that the amount of loans can be from around US\$ 45.00 until around US\$ 900.00, depending on the type of activity.

Banco do Nordeste is the institution responsible to implement the microcredit program in some of the northeast states of Brazil. It performances involves all the cash operations as well as all the supervision of the program implementation.

However, Banco do Nordeste hires a partner to execute the program, the Instituto Nordeste para a Cidadania - Northern Institute for Citizenship. It is a non governmental organization, hired by Banco do Nordeste, to perform the micro loan operations.

This institute has around 1.000 consultants that work based on a plan, developed together with Banco do Nordeste. Its function includes to inform the target population about the characteristic of the program and, with its bureaucracy and accumulated wisdom, to execute the microcredit operation including all the steps demanded by the methodology such as organizing the groups and discussing the alternative for business.

Embrapa – Brazilian Enterprise for Agricultural Research, is another partner. It is a public enterprise that can guarantee, with its federal budget, the trainings on agricultural business. Its aim is to contribute to the technological progress attempting to create alternatives for the sustainable development and, with its knowledge, helps to increase the productivity in a sustainable way.

In general terms, the involvement of local partners can grant long-term benefits. That occurs because local partner can rise the social empowerment delivering a better result.

Also, time and place aspects must be taken into account when stressing local partner importance. Social benefits can be positive for the whole community and the costs and risks are diluted when a local partner really knows the real situation.

Many partners usually are involved in microcredit operation, varying from place to place since it is as very local process. In the example showed above, many other local organizations are involved, depending on the local attributes and on the available web of partner.

As examples of existing associations, there are organizations such as Government, NGOs, Multilateral Institutions, Development Agencies, Private Charities Organizations and Banks.

These organizations can act as donors, sponsors or can partake in the process with their knowledge or ability to deal with local communities. The participation depends on the design of the program that always will be developed to adapt to each single situation.

A key features of the network of borrowers is that is made of people that already know each. The strength of the network and the local participation create an environment for the transmission of technical information.

3 – Sustainability

One of the most discussed points on microcredit is the sustainability of it. Then, to try to improve the possibilities of sustainability, microcredit operation has to rely on some crucial aspects.

These aspects are neither fixed, stable or sufficient. It always depends on the local situation. However, here these aspects are presented as an effort to try to analyze some of the required facets to create a sustainable implementation of microcredit program.

The appropriation of the practice, the procedures and the rules of microcredit's methodology by the local networks seems to be some of the most important elements. It has to be developed with the involvement of the local community.

If it is implemented as a top-down policy, important aspects of its methodology are lost like, for example, local information on trends and some abilities of the participants.

The partners have to involve the participants on the whole process, beginning with the information of all the compromises necessary to introduce the microcredit program in that community.

Microcredit has to be faced as a business perspective, rather than a social service. There is a strong temptation to treat microcredit as social policy when it is a business initiative. Seeing it as social policy can increase the risks of less returns and also the reliability on specific partner like government.

It is very usual that government give the first help to start a microcredit program, like fund, for example. However, the sustainability of these programs depends on its self-development. And, for that, the institutions have to face microcredit as a business considering all its features, such as productivity and profits.

Many critics argue that the microcredit agents are largely dependent on government and donors support and that the lack of profits turn the long-term existence of the partnership to be not feasible.

It is really an important point! In fact, heavily subsidized operations turns this policy less sustainable. The permanence of the strategies is strongly linked to the ability of the microlenders to perform sustainable operations and to generate profits. To achieve it, productivity and efficiency are key words.

Also, the high transaction costs, due to the microcredit methodology make the returns more difficult. The close supervision inside the communities and the large quantity of small loans increase the costs.

The agencies have to have an efficient performance in order to guarantee enough budget to provide the credit and to offer the demanded assistance counting on few profits.

The organizations must look to increase the productivity on the processes in the future in order to develop profitable procedures. Only with higher productivity can the agencies cope with the costly operations of microcredit.

Nevertheless, microcredit entities suffer from difficulties at self-sufficiency, weak management and lack of financial sustainability. Then, some technical investments in the microlenders institutions are necessary. Improvements in self-procedures are required to increase the capacity to operate the system.

The correct infrastructure such as trained professionals, sustainable funds and management strength must be provided to guarantee the sustainability of the institutions.

Furthermore, the increase in the participant capabilities in business terms can lead to social and material benefits. The professional trainings aim to raise the level of knowledge so that the family can be able to handle with their business issues.

Also, some improvements in terms of accountancy can conduce to a better quality of the credit. For example, household income and business revenues must be considered separately when analyzing self-employment profits. It is very usual that a family mixes their own monthly expenses, such as water and energy accounts, with the business ones.

In terms of accountability, it turns very difficult to make cost analysis and to identify the business revenue if this procedures are not adopted.

4 – The importance of a correct evaluation

Much has been said about microcredit success. Nevertheless, it is not that easy to find a good evaluation of it. The evaluations are scarce and, usually fail to analyze the success of the program in microterms, that means, the success of each participant.

One of the most common evaluations are the ones made by the banks. It analyses if the operation was re-paid, if the amount for the same client increased during the time, if the client was punctual on his payments, among others aspects.

However, this seems to be an evaluation on the bank terms. It measures if the financial operation was successful. Actually, understanding if the microcredit operation were effective for the client, not for the bank, also matters.

Thus, it is important to see if the client is better off after the microcredit implementation. If these very small loans to poor people or to small enterprises succeeded in making the self-employment or business projects better. If these people are generating income and improving their management skills.

The main question that must be answered is that if the participants are better off socially and economically after the introduction of the whole methodology of microcredit.

In this sense, lack of good data are the reality. The reason for that absence of quality microcredit analysis includes a significant number of aspects.

The first, but not necessarily the most important, is the lack of control groups. It is extremely difficult to find another family, or small entrepreneur, in the exactly same situation.

Each group has some very special characteristic such as knowledge of the business issue, previous investments, source of raw materials, that makes it exclusive. So, the evaluation usually analyzes the evolution of each group, instead of comparing groups among themselves.

Also, these populations usually are targets for many other program and social policies, making it difficult to identify the responsible for the possible progress. Some

improvements can be identified, but it is hard to see which one was due to which action. The result is a better off situation as a whole however it is difficult to ascertain the origin of the progress.

In this case, it is difficult to see what are the improvements created specifically by the microcredit and those established by other factors such as better knowledge of the market or a social program.

The groups under analysis are also selection biased. It means that the studies are based on groups that are inside the program. It narrow the focus disturbing any other possible points of views.

The few available information on evaluation makes it difficult to gather longitudinal data. There is no available information for long-term analysis. The total amount of information accessible considers the short term microcredit operations. This way, it becomes difficult to compare previous and future results. Thus, the available information allows the study of short-terms results.

Usually, the evaluation aims to account for proper financial management and compliance with donors wishes. Accomplishing the financial establishments, according to the donors desire, means that the result is successful.

As said before, cost recovery and loan repayment is the focus of the most available evaluation. The global repayment rate for microcredit loans is around 95%. This kind of analysis can cloud the reality inside the families that are taking part on the microcredit programs. For example, these families, despite their regular repayment, can be facing a debt problem or a lack of development in their own business.

Indeed, there is another problem that comes with this narrow focus. Actually, if the operational efficiency is the focus of analysis, that forces a tendency to concentrate effort on a population in a better off situation.

That means that, if the objective is to achieve a good repayment rate and a high execution of the budget, the microlenders can be driven to provide credit to people that does not really need it but that have a good capacity of leverage guaranteeing a low rate of failure on the repayment.

If cost recovery and loan repayments are the hypothesis of successful in the evaluation, the microcredit institutions will tend to lend money to people that have a

major probability of repayment. Usually these borrowers are people in a better off situation from the beginning. This can lead to a error on the population's focus leaving out the people that are the real objective of the program.

Another tough subject, as seen before, is the division of business and personal accountancy. Frequently, money is money, it does not matter if it comes from the business activity or from another source. That makes it hard to analyze the real business revenue.

One of the used methods of evaluation is the sum of all households revenues before and again after the microcredit operation. It should show the increment on the business performance due to credit.

However, it is not true that all the gains are strictly related to the microcredit process. It can be or it cannot be! It depends on the whole context. Assuming that all the better off situation comes from the microcredit operations can be dangerous and lead to a false result!

5 – The correct tool

Despite all the good said about microcredit, the reality is that it seems to be a limited experience. Some countries, like Brazil for example, have experienced few microcredit operations until this year.

Nevertheless, some other countries experience very important microcredit programs for a longer time, as the example of Grameen Bank in Bangladesh.

However, there seems to still exist room for improvements in this area. Furthermore, the numerous success stories have made the whole world to become more aware to it.

The analysis of the causes of poverty is a very important starting point. Poverty is a broad and complex problem. It can exist due to various factors. It can not be summarized only to the lack of money.

Identifying the principal factors that lead a specific group to poverty is the core point for developing the way out of it. It is crucial to built a solution based on the very detailed problem.

Nevertheless, labeling the poor as an homogeneous group is also wrong. Each family has to be seen as a specific client. That is why, personal assistance is one of the most important characteristics of the microcredit methodology.

In fact, there is a variety of low-income population. Also, it is again linked to the causes of poverty. Analyzing the real causes of poverty can lead to a real solution.

Poverty can have many faces, depending on the different places, different times and different cultures. Most often, poverty is known as hunger, lack of shelter and lack of job.

It is also having some rights denied like health assistance and education and the deficiency of abilities and skills. Poor families usually have scarce perspectives for a better future and this absence of hope makes it difficult to implement programs.

In this sense, some of these problems must not be remedied just by credit. A lot of other supporting services must be provided into different combination, depending on the characteristics of the group.

The implementation of a literacy policy and health care assistance can be crucial to a good development of any income generation program. For example, if the participants suffer from poor health, it can lead to a failure in the implementation of any development policy.

Thus, the collaboration of government and local partners are central. The appropriate tool must be imagined based on the local *status quo*, considering all the most important social, cultural and economic aspects of the local community.

The government may be required to increase the available places to adult literacy or to increase the number of health posts guaranteeing a better public result for the whole community.

The development of a diverse set of institutions in order to meet the different needs of each group is central to an appropriate result. All the accessible entities must be involved increasing the possibilities of success of the programs.

Microeconomics shows that wages are related to productivity. The higher the productivity, the more can be the return for the worker. So, the loans and the professional training have to come together on the objective of increasing productivity. It also guarantees the high level of repayment but with an increase in the profitability of the business implemented.

Microcredit must be used to increase the productivity of the group otherwise it will be just a cash transfer. That means, the loan will be used to increase the income during a certain period with no long-term impacts.

It is important to stress that the main difference among microcredit and cash transfer is the capacity of the first to make more money. Furthermore, cash transfer is a transference of money to help a family with low income problem. It is momentary fact, with no further results expected. Also, it is non refundable.

Microcredit is the credit that has to be used in a profitable activity. Applied in an activity that will generate more income so that the participants can, in the future, access the formal financial system.

The ultimate objective of microcredit tools is to create sufficient economic wealth for the small business so that it can, in a future period, achieve the formal financial market.

In this case, microcredit program must target primarily the households that are already engaged in some kind of business activity or with a significant propensity to accomplish that goal.

The objective is to elaborate the skills that the household already possesses and to permit an increase on its profit with greater productivity. The participant will develop abilities to invest the loan in order to receive a better result.

That is the reason why the microcredit can be a failure if it aims the wrong group. In many places, the loans can be identified as a solution for the low income of the families.

However, as said before, if it is not applied in an business activity, it will not have the ability of repayment, neither of future increase on the income of this family and it becomes just a cash transfer activity.

The aim of microcredit is to include the excluded, so the focus must be poor families with no access to the formal financial system. However, as seen before, these families must have some business activity, otherwise, they will no be able to move to a higher profit level.

It is common that families take the credit and, with no ability to handle it, emerge in a debt problem with no future alternative of profits since the investment was lost or wrongly conducted.

Nevertheless, this is another undesirable consequence, the so-called “debt trap”. Without professional training and with no saving incentives and management loan repayment training, lots of families entered in a trap becoming in-debt with few perspectives of repayment.

The availability of credit can lead families to an extremely difficult situation, worse off than before credit. Avoiding this “debt trap” is another obstacle faced by the groups.

The subsidy dependence is presented as the major cause for some microcredit programs failure. The institutions have to implement sustainable and profitable programs in order to generate long-term perspectives.

The dependence on government funding can influence the expectations increasing the instability and preventing the institution from elevating their productivity.

Pursuing the objective to be sustainable, microcredit operations have to develop a methodology that allows it to be replicable. Replication is an important feature to guarantee the long run life to microcredit institutions.

The survival of the microlenders and the microentrepreneurs is linked to the market demand. Families have to understand the microcredit and to trust on the program in order to demand it.

Also, a favorable macroeconomic scenario encourage further production increasing the interest for microcredit. The supply for the increasing production can lead to a better result.

6 – Final Considerations

Microcredit is an important alternative to increase profitable activities. However, a lot of important aspects have to be considered in order to achieve a sustainable result.

The macroeconomic scenario is very important to guarantee the market for the production that can come with the investment on small businesses.

Surveys show that one of the most difficult aspect of these programs it to improve the capacity of trade. The participants on microcredit programs can increase the productivity but, in order to achieve a higher profit, they have to meet a favorable market.

Also, the development of strong partnership can lead to a more complex program meeting solution for the various aspects it presents. The local partner must be emphasized and the sustainability of microlenders are crucial.

The evaluation implemented have to consider a broad variety of points, from the rate of repayment to the profit each participant is achieving, since the implementation of the skills acquired through the methodology.

The capacity of microlenders to face the challengers that surge in a dynamic situation as presented in theses cases is vital to their maintenance in the market.

However, the increasing number of microlenders and the interest of international institution in this theme is a simple instrument to measure the growing perspective for the microcredit market.

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