

Work as Key to the Social Question

The Great Social and Economic Transformations and the Subjective Dimension of Work



The Potential and Pitfalls Confronting Catholic NGOs in the World of Microfinance (Microcredit)

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Abstract [\[i\]](#)

Faced with ‘development fatigue’ in the 1990s, development organisations in the South and the North have gladly accepted and embraced a new paradigm for the reduction of poverty, firstly called Microcredit, subsequently broadened to Microfinance by the inclusion of savings services, and more lately ‘micro-insurance’. It has given a new perspective and renewed energy to the development industry, and led to the establishment of thousands of ‘MicroFinance Institutions’ (MFIs) in the South. These MFIs have specialised in the delivery of financial services targeted at the poorer sections of the population, viewed as a neglected ‘segment of the financial market’ and excluded from credit and other services by commercial banks. Most of these new actors have evolved from NGO credit programs. By specialising on the delivery of financial services they have become ‘Financial NGOs’, and some of them have been transformed into Banks. Do Catholic and other Christian organisations have a role to play in the development of this new sector? And if so, can they make a difference and, if so in what direction?

Following the ‘Introduction’, the paper starts by presenting the main players and the underlying development philosophy of the booming ‘Microfinance industry’ and its main actors (Section 1). Section 2 deals with current trends in policy and practice. Subsequently, section 3 will present a set of principles embodied in Catholic Social Teaching (CST) which are used for a critical assessment of these trends and the development of a series of tentative guidelines for policy and practice from a faith-based perspective. These underlying principles are: a Preferential Option for the Poor, Subsidiarity, Community, Dignity and Equality of the Human Person, Solidarity, and Common Good and Stewardship.

The last section 4 will review the difficult choices to be made by Catholic and other faith-based development organisations in the North. Firstly, there is a strategic choice to be made, as to whether or not to enter the microfinance playing field, or stay out of it. Two principles are put forward to guide choice and action which are consistent with the earlier mentioned

principles of CST:

1. 'aiming at added value', when operating in a field with many other professional actors; and
2. 'making use of the comparative advantages' of Church-linked organisations without closing the eyes for obvious comparative weaknesses.

Once the decision to enter has been taken, there are other strategic and tactical choices to be made as to how to operate from a CST perspective. Pitfalls are an uncritical acceptance of neo-liberal thinking, creating dependence of organisations in the South upon commercial and 'social' capital markets in the North, and by-passing the poorest in the drive towards achieving 'financial sustainability'.

Acronyms

ASA Association for Social Advancement, Bangladesh

BAAC Bank for Agriculture and Agricultural Co-operatives, Thailand

BRI Bank Rakyat Indonesia

BRAC Bangladesh Rural Advancement Committee

BPR Bank Perkreditan Rakyat, privately owned rural bank, Indonesia

CARD Center for Agricultural and Rural Development, Luzon, the Philippines

CERUDEB Centenary Rural Development Bank Ltd

CIDR Centre International de Développement et de Recherche, France

CIRAD Centre de Coopération Internationale en Recherche Agronomique pour le Développement, Montpellier

CGAP Consultative Group to Assist the Poorest, Washington

CRS Catholic Relief Services, USA

DFID Department for International Development (ex-ODA)

DFN Development Finance

EDCS Ecumenical Development Co-operative Society, Amersfoort, the Netherlands, the new name is Oikocredit

EU European Union

DAI Development Alternatives, Inc

GTZ Deutsche Gesellschaft für technische Zusammenarbeit (German Technical Co-operation),
Eschborn

FINCA Foundation for International Community Assistance, US

ICA International Co-operative Alliance, Geneva

ICA/ROECSA ICA Regional Office for East, Central and Southern Africa, Nairobi

IDB Inter-American Development Bank, Washington

IFAD International Fund for Agricultural Development, Rome

IFPRI International Food Policy Research Institute, Washington

IMI Internationale Micro Investitionen AG, Frankfurt am Main, Germany

INAISE International Association of Investors in the Social Economy

IPC Internationale Projekt Consult GmbH, Frankfurt, Brussels

IRAM Institut de Recherche Agronomique, Paris, France

LWF Lutheran World Federation, Geneva

MBP Microenterprises Best Practices Project, a US AID programme

MFI MicroFinance Institution

NGDO Non-Governmental Development Organisation

PROFUND A private capital investment fund for Latin American MFIs

PVO Private Voluntary Organisations

ROSCA Rotating and Savings Association

SACCO Savings and Credit Co-operative

SEEP Small Enterprise Education and Promotion Network, Washington

SEWA Self-Employed Women's' Association, Hyderabad, India

SIDI Société d'Investissement et de Développement International (International Investment and
Development Society, Paris

UNCDF United Nations Capital Development Fund

UNDP United Nations Development Programme, New York

USAID United States Agency for International Development, Washington

WB World Bank, Washington

WOCCU World Council of Credit Unions

Introduction to the Microfinance field

The new ideology of privatisation and liberalization is rolling like a wave over the world (“Liberation through liberalization”). Foreign currency controls have been lifted in most developing countries. The new economic climate of deregulation offers new challenges and opportunities for private local and foreign financial institutions to deliver financial services to all sections of the population, including the poor, without undue government interference. As a result, many organizations within the NGO community in the South and the North, including many Church based or Church related organisations, have added “microfinance” to their agenda. Microfinance is the provision of financial services, especially savings and credit, to resource poor households and their very small enterprises, called “microenterprises.” [2] Multilateral and bilateral aid organizations have become so enthusiastic about this new field of development co-operation that they have started interacting directly with NGOs in the South to fund their programs. The result is a remarkable alliance between government institutions (the State) and private development organisations (often referred to as NGOs) , with the common view to promote the development of financial markets to serve the poor.

Governmental actors have also given an impetus to the setting up of new special funds and financing organizations at national or international levels to act as “wholesalers” on the microfinance money market for private microfinance (MF) “retailers,” known as MicroFinance Institutions (MFIs).

Microfinance is business. It is the development of a financial system regulated by the market forces of supply and demand. The many NGOs that have entered this market work for profit to cover their costs, including capital costs. The justification for this is threefold: (1) poor people need financial services; (2) conventional financial institutions do not offer them; and (3) by covering costs they can ensure the permanence of those services. Thus, traditional civil society actors transform themselves into market players to serve that “niche” in the market where the potential clientele is not served well, or not served at all.

Some of these private MF actors are “faith-based” organizations. They aim at contributing to the transformation of the human being and society in a direction consistent

with their fundamental, religious beliefs and convictions. They share with other organizations a commitment to induce positive change from economic, social, political and cultural points of view. They differ in that they regard spiritual development as an important element of change and see spirituality as a pervasive, God given driving force for all human action, to be practised in all spheres of human life, including financial and related business transactions.

The purpose of this paper is to analyse how a faith-based orientation affects the implementation of MF projects. The first two sections will review the dominant patterns of thinking on which MF theory and practice are based, the industry's key actors, and recent trends. Though faith-based organizations have not been the industry trend setters, a Catholic organization such as Catholic Relief Services (CRS) and other Christian organizations like World Relief, World Vision, Opportunity International, and many others are doing important work in microfinance.

In subsequent sections we will consider how Christian values and “Principled Practices” [3] from one Christian tradition, the Roman Catholic tradition, can influence faith-based organizations to witness and “make a difference” in the crowded field of national and international players.

This is not the first time in economic history that civic engagement and action have given rise to the establishment of new economic institutions that have become powerful players on the market. For example, co-operative organizations, which count seven hundred fifty million members world wide, typically emerged from civil associations. In the financial sector, co-operative institutions are known as savings and credit co-operatives or as “Credit Unions,” and about a hundred million people are members (Genberg 1999). Some of these are large, while others operate on the “microfinance” market with an average loan size below \$100. [4] There is thus some overlap between the MF sector and the co-operative financial sector, but financial co-operatives have tended to focus more on low-income salaried workers and (male) farmers, while most new MF actors target women, have a more outspoken poverty focus, and concentrate on the informal economy.

1. The Microfinance Playing Field: Development Philosophy and Key-Actors

Philosophy

In the past, many credit programs initiated by government or civil society organizations were unsustainable because they emphasized poverty reduction and minimized the importance of realizing a profit. At present, the new actors, as well as some of the old ones, claim to operate so as to pursue the double objective of serving the poor and achieving the financial sustainability of their organizations. Currently, MFIs work on the basis of a largely common set of assumptions that characterize mainstream thinking in microfinance. These assumptions, listed below, can be found in the brochures and policy documents of

international (donor) and implementing agencies:

- a. Most of the poor have untapped entrepreneurial qualities of self-development. Through access to credit (sometimes as little as US \$50) at a reasonable rate of interest, they can start up or expand their business, free themselves from poverty, and participate in a free market economy.
- b. The promotion of self-employment through microenterprise is the most effective way to accomplish broad-based economic development and poverty “alleviation.” [5]
- c. The poor are creditworthy and “bankable.” MFIs can cover their costs and be sustainable if they are well managed, apply an appropriate “credit technology,” and enlarge their portfolio by scaling up their activities.
- d. To optimise MFI performance and social impact, microcredit delivery should focus on women; they constitute the majority of the poor, repay their loans much better than men, and manage money in a more responsible way.
- e. Replication of “best practices” is the most effective way to replicate success and expand outreach. Among these the Grameen Bank model is the most outstanding as it reaches over 2.5 million poor people in Bangladesh.
- f. The market for microcredit in developing countries can be estimated at 500 million poor people, but the number of poor people with access to microcredit is probably between 12.5 million (CGAP 2000, 2) and 23.5 million (MCS 2000, 7). Whatever the right number, it would clearly justify the undertaking of a “Microcredit Campaign,” a “nine-year fulfilment campaign” started in February 1997 through the Microcredit Summit held in Washington D.C., with an outreach target of 100 million clients by the year 2005. [6]
- g. This ambitious target cannot be achieved without a substantial increase of donor financing to capitalise the loan portfolios of local MFIs.
- h. Such donor funding will eventually be replaced by local MFIs accessing national or international money and capital markets, resulting in the full integration of the microfinance sector into national and international financial markets. A level of local competition beneficial to low income borrowers is expected to result. [7]

The above is a highly schematised representation of mainstream thinking, but presenting it in this way can help to understand reservations expressed by critics or opponents, some of whom, like MicroSave Africa are working to give it a different orientation. Other critics believe that financial services delivery simply does not attack the root causes of poverty.

Reservations and criticisms of microfinance can be summarised as follows:

- a. Microfinance has a high potential for further growth and expansion, but it is not the unique, or necessarily most effective response to the multifaceted problem of poverty eradication.

- b. Not all poor people have the ability or ambition to become self-employed micro entrepreneurs.
- c. Even for those who have that ability, credit alone is not sufficient to overcome other impediments like the “imperfect” markets in which the poor have to sell their goods and services, the quick saturation of these markets resulting from too many micro-entrepreneurs selling the same goods and services.
- d. Not all micro-entrepreneurs need credit. Reducing their vulnerability and increasing their security of life are first priorities for most of the poor. Donor supported MFIs have focused on lending and neglected other financial products poor households need, such as access to savings and insurance facilities.
- e. The greatest innovation microfinance has brought about in the field of banking practice and development action is the delivery of credit directly to poor women, but the focus on women tends to overlook the fact that most micro-entrepreneurial activities are family undertakings. Irresponsible behaviour in money and social matters on the part of men cannot be solved by targeting women and excluding the men.
- f. Replication of “best practices,” especially when sanctioned by donor money, carries the danger of imposition of models not adjusted to local cultures (e.g. Grameen Bank replications in Africa).
- g. MF programs tend to ignore existing informal knowledge and financial management systems. Poor and low-income people have not waited for development organizations to set up their own savings and credit systems and clubs, known as ROSCAs or ASCAs.[8]
- h. Fund raising campaigns in the North and disbursement pressure of donors undermine the development of more autonomous financial systems that thrive on the mobilization of local resources.
- i. A “financial sustainability” orientation causes many MFIs to move away from the poor as their preferred clientele. They tend to start providing bigger loans closer to “low income section” of the population instead of deepening their outreach to include the most needy.
- j. Microcredit is no panacea to poverty eradication. Unfortunately, there is a tendency in the media and promotional literature to present microenterprise and microcredit as a substitute for broad based social development.[9]

A major, philosophical pitfall of the microfinance approach to development, stemming from the current appeal of the neo-liberal orientation, is its suggestion that all poor people can break out “the vicious circle of poverty” by their own effort as micro-entrepreneurs. Overcoming poverty thus becomes the responsibility of the individual person or family. By “access to credit” for investment, a poor person is offered the opportunity to strengthen her place on the market, increase her income, and be in a position to buy food, pay school fees, medical bills, etc. Credit and the (informal) market, in a “free economy” can thus solve the poverty problem. The state can concentrate on law and order, and is not at

fault if poverty persists. The poor have only themselves to blame. Such thinking leads readily to a denial of the responsibility on the part of governments to secure access to basic social services like health, education, and food for ALL its citizens, even for those who cannot pay for it.

In the discourse of some agencies and actors, access to credit for poor women is often presented as a tool of “empowerment,” but this is a dangerous suggestion because it raises expectations beyond what mere “access to credit” can achieve. A much broader range of educational and supporting activities is needed to change the position of poor women in their economic, social, and cultural setting (Krauss, Joussem, and Verhagen 2001). [10] Credit is known to be used for a variety of purposes within the household and can even have the effect of consolidating inequalities if women have no or little control over the use of money. The process of empowerment is so fundamental that it cannot be reduced to a process of development of individual entrepreneurship and the economic dimensions of life.

Key actors in the South

The poor, especially female non-farm micro-entrepreneurs, are now considered to be “bankable.” They can repay relatively small loans of between \$50 to \$500, which they can use as working or investment capital for their small, family based enterprises. They can also pay relatively high interest rates on these loans (between 20% to 45%), which allows the MFI to cover costs of lending. The spectacular expansion of some of these programs and high repayment rates have caused many traditional NGOs and donor agencies to turn their attention to this field. Successful technologies of credit delivery and repayment have been documented, and subsequently propagated for replication as “best practices” (Grameen Bank, Banco Sol, etc.). As a result the number of organizations providing “microfinance” facilities to the poor has also grown spectacularly in almost every developing country, mainly through traditional NGOs and social movements setting up special units for credit delivery or transforming themselves into MFIs. CGAP estimates their number at 10,000. The Microcredit Campaign (MCS 2000) reports that of the 23.5 million people reached by the 1,065 institutions and special programs reporting to the Campaign, 13.8 million can be qualified as “poorest,” defined as belonging the poorest half of the population living below the poverty line. Of these 13.8 million, over 10 million are women.

In places where MF has gained momentum, practitioners report strong competition among MF service providers who target largely the same low-income clientele. Independent observers agree that competition will make most of the donor-dependent financial NGOs disappear within the next ten years. Only a few strong ones, having achieved a high degree of “financial self sufficiency” will likely survive.

As in the conventional banking industry, competition also elicits new forms of co-operation. MFIs have formed “networks” at national, regional, and international levels. Some networks have set up special funds to act as “bridges” between the international donor community and MFIs, with the intention of gradually replacing donor funding by

commercial funding. Examples are the Acción's Bridge Fund, PROFUND, the Grameen Trust, and Women's World Banking (Wisniwski 1998).

In most countries conventional commercial banks have shown little interest for that segment of the "market" that serves low-income people and has been the exclusive domain of informal money lenders, savings collectors, informal savings and credit groups, conventional savings and credit co-operatives, and development organizations. In Latin America, however, this has started to change as many traditional retail banking institutions have introduced high interest micro-loans. Robert Christen (2000) expects them to become the biggest players in microfinance in Latin America and likely to outperform MFIs that have their origin in the NGOs sector, the most important of whom are members of the Acción Network . [11] Whether this will evolve into co-operation or competition between conventional banks and FNGOs is not yet clear.[12]

'Civil society' actors in the South partnering with (inter-) governmental donors of the North

Many leading intergovernmental and governmental international aid organizations have considerably expanded their support in the MF field. Among donors they have become the main players, carrying more weight and disbursing larger sums than Northern NGOs and private Foundations.[13]

The leading players in the South, referred to as "practitioners," are institutions that have generally emerged from the NGO sector. These "best practice" MFIs have set up a global association, the MicroFinance Network, which has close connections with leading donor institutions. Standards for the MF industry are being developed and determined through the interaction between the above groups of players, among which the World Bank initiated CGAP Secretariat plays an important catalytic and coordinating role.

This public/private alliance is not unique to the MF sector. It is an expression of a more general trend of government controlled aid agencies seeking alliances with "civil society" actors in the North and the South. At least three factors have facilitated the move toward public-private alliances: (1) the inefficiency of government implemented programs in the South; (2) disbursement pressures of aid agencies in the North; (3) and agency policies of decentralisation that give more space for decision making to Regional Offices and Embassies.

Some Europe based NGOs have given important financial support to MFIs in the South in the start-up phase, but they have had to give way to multilateral and bilateral institutions that have greater funds at their disposal.[14] The same applies to US and Canada-based NGOs, of which some are also important players in both funding, and program implementing.[15]

Organizations like CGAP, the "Best Practice" program of USAID, the German GTZ

and British DFID try to identify innovative and best practice programs, issue awards, and develop training material and programs. As government agencies, they also see it as their specific role to assist local governments and central Banks in the development and introduction of convenient regulatory mechanisms, and in the removal of inappropriate, obsolete legal obstacles and regulations. They thus promote an “enabling environment” for the Microfinance industry.

Northern NGOs provide similar support to their “partners in the South” through funding, organising technical assistance and training workshops, but with less impact. Moreover, many of them are also heavily dependent on funding from bilateral or multilateral organizations through the mechanism of “co-financing.” It is interesting to note how the pervasive power of market forces has changed the *culture* of international aid. In the MF sector government controlled institutions in the North have become the most staunch supporters of market-based approaches. They are followed in this by many civil society actors in the North and the South who traditionally were hostile to, or very suspicious of, the market as a regulatory mechanism for sustainable development.

All important players seem to agree that governments in the South should *no longer* engage themselves directly into the provision of financial services to low-income people. Instead, governments should leave this to private initiatives and concentrate on establishing a regulatory climate that ensures fair competition among microfinance service providers, for example by requiring transparency of interest rates charged to borrowers.

2. TRENDS IN THE MICROFINANCE INDUSTRY

This section will highlight several recent trends in MF that are directly relevant to the discussion of the practice of faith-based MF programs.

Savings, for most poor people a better deal than credit?

Many credit-led programs, targeted at the poor, have started their “poverty lending” operations without asking themselves, nor their potential clients: What kind of financial service do poor people value most? Practice has shown, however, that where poor people have a choice, the demand for savings accounts is much greater than for loan accounts. Telling examples are the experiences of big MFIs like the BRI-UD Indonesia, the rural Kenya Savings and Credit Co-operatives, and SEWA India. “They (poor people, especially women) are desperate to get their small savings out of the house, at a safe and accessible place (Acción 1999; Hannig 1999a [16]).” It is somewhat ironic that while most poor people seem to have a higher demand for savings services than credit services, development organizations have emphasized the latter.

Savings among the poor are important for several reasons, among which are

consumption smoothening and consumer durables (esp. housing), social and religious purposes, education of children, ill health, disability, predictable seasonal variations in cash flow, unpredictable natural catastrophes and economic activities (small investments and working capital).

Many poor people are frightened to get into debt. Still, savings are often not enough to cover needed or desired expenditures, making access to credit at reasonable terms an important service.

Following a period of sometimes bitter debates in the MF sector between protagonists of savings-led and credit-led approaches, there is now broad agreement in the industry that poor people need both: savings *and* loan facilities, and that they are best served by flexible programs responding to their specific family and individual financial needs. MF is increasingly seen as a form of personal banking. The poor are best served if financial services help them manage their (little) money in an optimal fashion by serving them with the right type of financial products at the right time and place.

The service emphasized so far by the MF industry has been lending for income generating activities, because it responded best to prevailing perceptions of how to overcome poverty. But this perspective, without being necessarily wrong, is based on a too narrow perception of poor people's demand for financial services, and it is gradually changing.

The dark side of micro-credit: people in debt

In the international MF discussion there was initially a certain abuse of language suggesting that the MFI lending programs were reaching out to "poorest of the poor." It gradually became clear that credit programs, even those with a very specific poverty focus, had great difficulties in reaching the "bottom 50%" of the poor. In the course of the nineties, however, it became clear that many MFIs, in spite of their rhetoric, do not even work with the poor, and work less with the poorest of the poor (David Hulme in Harper 2000; Morduch 1999). Moreover, it also became known that the poorer the client the greater the likelihood that credit would do more harm than good (Harper 2000, 2).

It has taken some time for the MF industry to realize that credit services and multiplication of Microfinance institutions can lead to "overindebtedness" of the client. Some clients move from one MF program to another and become seriously over-indebted. (Acción 1999, 87). The idea that poor people repay their loans from additional income has also turned out to be a myth. The poor repay their loans primarily from family income (BRAC study 1999). The main explanatory factors for high repayment rates turn out to be the promise of a new, bigger loan together with pressure from loan officers and peers. The debt burdens create tensions, conflicts, violence and even suicide (Aminur Rahman 1999).

One of the major conclusions of the June 2000 North South Dialogue Workshop [17]

on MFIs was that MFIs tend to be so much preoccupied by their own financial sustainability that they give little attention to the sustainability of the livelihood of their indebted clients.

Credit-led MFIs assume that their clients want to continue borrowing, and that the size of the loans they require will increase. Thanks to the loan, the borrower's microenterprise will expand, giving rise to a growing demand for affordable credit. Those who stop borrowing are looked upon as "drop-outs" (Micro-Save Africa publications 1998/1999). The author's personal observation of MFI practice in Tanzania and Kenya (March 2000) was that MFIs, through "credit shops" and similar devices, actually induce potential savers to become borrowers. They do not promote financial self-reliance of their clients, nor of groups. Even accessing personal, compulsory savings after full repayment of the loan is administratively complicated, because the institutions want to keep them as collateral for future loans.

While there is growing awareness of the negative sides of debt as "credit that has got out of hand" (ECLOF/Oikocredit 2000), the overall effect on the living standards of the millions of poor people reached by MFI services, is still regarded as positive.

Growing recognition of importance of non-financial services

Microfinance was "discovered" as a development instrument in the late eighties, because some NGO development workers had found that something essential was missing in the package of services the poor require. From the numerous impact evaluations made since then, as well as direct observations of "practitioners," it became clear that financial services provision is a necessary, but not a sufficient condition for substantial poverty reduction. In addition, two type of additional services are needed:

- Non-financial *social* services, such as basic education, technical training, health, and housing.
- Non-financial *economic* services, such as appropriate marketing channels for the goods and services produced.

Local NGOs are recommended by their financiers ("donors") not to mix up financial and non-financial services, and concentrate exclusively on the former with a view to achieving full financial self-sufficiency. While this is probably the correct strategy for institutional development, it also leads in the field to a growing gap in service levels. For many, access to financial services has become relatively easy, while access to badly needed non-financial services has become more difficult. Due to the growing number of NGOs that have gone into banking, especially credit delivery, the supply of non-financial services by non-banking NGOs diminishes or is lagging behind. Yet both types of services are indispensable for the poor to overcome their poverty.

3. Catholic Social Teaching as a Frame of Reference

In development circles, program and project objectives and performance criteria and indicators are normally expressed in secular terms. In contemporary Europe, for example, faith-based development organizations have to be careful about emphasising their Christianity and convictions as a basis for selection of overseas partners, or for definition of criteria for project appraisal and evaluation. Explicit faith-inspired criteria and religious language may arouse the suspicion of religious bias, of a hidden “missionary” agenda, and unprofessional behaviour in relations with partners. Stressing one’s religious identity and church affiliation is particularly delicate when many of the organization’s financial resources originate in governmental or intergovernmental (European Union) sources. Even to obtain private donations, a church connection no longer pays. Church communities, in Europe, the traditional source of funds for faith-based development organizations, are aging and church attendance is declining rapidly. For effective fund raising, modern media and marketing techniques have to be used to reach a public that is not particularly church minded.[18]

In the Microfinance industry, there is competition among development organizations in the North for access to funds from public authorities (especially official bilateral aid), or from private sources (donations or cheap loans, the so-called “charity market”). Similarly, there is competition among those in the South in their quest for development funding, defence of territory, and enlargement of outreach to new “target groups” or geographical areas. There is enormous performance pressure in this kind of “arena,” and there is little time to reflect on how to integrate and consistently apply the Evangelical message. Performance criteria are set by the “industry,” and, like everyone else, committed Christians have to adjust if they do not want to be labelled as “amateurish” or “charitable” rather than “professional” development practitioners. [19] A no-nonsense mentality prevails. Without demonstrable and measurable “impact,” the development activity, be it microfinance or otherwise, cannot be regarded as having delivered “value for money,” and is likely to be discontinued.

In MF discussions, sometimes reference is made to “Islamic Banking” as a form of financing where the provider of funds does not charge interest on loans, but has to cover its costs from administrative fees or profit sharing (See, for example, Muhammad Zahid Elahi 2000). Others speak openly of “ethical” banking. The expression “Christian Banking,” on the other hand, is non-existent and if an organization were to use such a term, it would fall under the suspicion of being “fundamentalist” in its thinking and intentions.

In spite of this somewhat hostile environment, however, especially in Europe, it is important for Christians to evaluate their development ideas and practices on the basis of Christian principles. In what follows I will summarize some key principles from Catholic Social Teaching (CST) and then use them to assess and evaluate the microfinance strategy of development. [20]

A Preferential Option for the Poor [21]

This principle is a call to make a fundamental option for the poor that extends to all who are deprived of fundamental economic, political, economic, cultural, religious or personal rights (Dwyer and Montgomery 1994, 755-759). The notion is solidly rooted in the Old and the New Testament. It was a central theme of the Bishop Conferences in Latin America (Medellín 1968 and Puebla 1979) and the “liberation theology” that had emerged in Latin America during the nineteen sixties. As a principle for action it has been cautiously accepted by the Vatican administration, under the condition that it is not understood as an exclusion of the non-poor and an invitation to class struggle in the Marxist sense.

In the Microcredit discourse, “access to credit” is often put forward as a right. When taking into account the latest insights into the nature of financial services the poor require, it seems fair to say that access to financial services, including savings, credit, and perhaps insurance, is a basic economic right, since it enables poor people in a vulnerable position to manage risk and optimise the use of the little monetary resources they have for productive or consumption purposes.

The preferential option for the poor has several implications for the work in MF.

Give special, but not exclusive, attention to women.

Out of the 1.3 billion people living on less than \$1 a day, nine hundred million are women. They are known to play a central role in managing the household economy, and there is a high frequency of single parent, female-headed households. Many agencies have opted for an exclusive, or almost exclusive, focus on women for social reasons (as an antidote against discrimination and oppression) and/or for pragmatic reasons (women have a better repayment morale and are more receptive to peer pressure). The focus on women, however, leaves unresolved the often irresponsible behaviour of men in money and social matters which is a societal issue causing suffering for both sexes.

In dealing with the delicate matter of group formation, one can take guidance from the informal sector where savings and credit groups are flourishing, especially among women. It is now widely accepted that women should have the right and freedom to set up their own savings and credit groups, and it is not up to MF providers to push them in either direction: women-only or mixed groups.

Prioritise savings over credit facilities

There is growing evidence “that offering voluntary and accessible savings facilities

may result in the inclusion of the poorest 10-15% who are averse of risk.”¹[1221] Earlier in the paper I explained why people save and why they value so much facilities for safe custody of the small monetary reserves. In critical situations (illness, poor harvest, etc.) such reserves can forestall the need to sell or mortgage the few assets they have. An option for the poor requires an attitude of prioritising not only the poor as a target group, but also their demands. “Faulty perceptions about the poor have led to faulty policy strategies and financial products.....” (Zeller and Sharma 2000, 1). The myth that poor people are unable to save or to pay for insurance has led development organizations to neglect the demand for appropriate savings and insurance products.

“Cross-subsidisation” as a strategy to include the poor

Does the priority option for the poor imply that the not-so-poor or relatively rich people should be barred from co-operative membership, or excluded from MF services? It does not, for economic and social reasons. Servicing the not-so-poor is relatively cheap, while servicing the poor and the poorest is relatively expensive. Financial sustainability of the MFI can still be achieved by applying a strategy of “cross-subsidisation.” [23] In practice, this means that the poorest are serviced below cost price – because of the low amounts of their financial transactions – and that these are partly “subsidized” from the surpluses realised on savings or credit transactions with the not-so-poor or lower middle class clients. This policy draws also on the principle of solidarity, which might imply that the same rates of interest are applied regardless of the amounts borrowed or deposited.

Market-based pricing where possible

One of the basic principles in the MF industry is market based pricing. Christians might fear that such a principle trumps any faith-based purposes, but the use of the market mechanism to regulate supply and demand is not in itself wrong, [24] for it normally allows the provider of goods and services to cover its costs and ensure the permanence of the institution (John Paul II 1991). Serving clients/members over the long term is honouring a promise and expectation, which make sustainability of the organization a moral issue. This is even more true when low-income people have deposited their savings with the MFI. A market orientation is not by definition a merciless application of commercial principles. It means that the MFI makes a serious effort to explore the market to identify the categories of the poor it wants to serve and the type of financial services they demand. Subsequently, it designs and tests its “products.” When some products are priced below costs for social reasons, the MFI should be aware of the loss made, and plan from which earnings it can cover the difference.

Linkages with other institutions for access to non-financial services

As discussed earlier, it was argued that we know from impact studies and practitioners' experience that financial services alone are not enough to solve the problem of poverty. This does not suggest, however, that faith-based MFIs should necessarily enlarge their service package to include other economic, social, and educational services. Professional, low-cost delivery of financial services is difficult to achieve without a high degree of focus and specialization, so it is important for MFIs to stay focused on this important area of work among the poor. Still, the preferential option for the poor principle entails the duty for the MFI to actively facilitate linkages with other institutions that can deliver important additional services.

Subsidiarity

“Just as it is gravely wrong to take from individuals what they can accomplish by their own initiative and industry and give it to the community, so also it is an injustice and at the same time a grave evil and disturbance of right order to assign a greater or higher association what lesser and subordinate organizations can do (Pius XI 1931).”

A preference for member-owned, member controlled institutions where feasible

The principle of subsidiarity is perhaps, next to the preferential option for the poor, the most relevant and compelling one for the development of the Microfinance sector. Essentially, it encourages and allows people to help themselves. It means that the higher level institution is conceived as a service institution to the lower level institution and that the higher level does not appropriate or maintain powers, responsibilities, or tasks that the lower level is capable of assuming.

Acceptance of this principle for the development of microfinance systems implies the recognition that people have the capacity, or can acquire the capacity, to govern themselves, develop their own rules and regulations, and set up and run their own financial institutions. Suffocating this self-help potential through top-down interventions in local communities is an example of what the encyclical sees as a “disturbance of right order.” In the practice of microfinance, however, there is a tendency to impose standardized models of service delivery, simply because they worked well elsewhere. Local communities are confronted with a “take it or leave it” offer from the MFI and have insufficient opportunity to appropriate and own the process. Putting the principle of subsidiarity in practice means the search of an optimal devolution of powers to the lower level. It easily leads to a preference for the member-owned, member-controlled type of structures over the more directive approaches, as applied by some Financial NGOs.

A preference for growth strategies which avoid subordination of the lower level to the higher level

In reviewing the significance of the subsidiarity principle for MF practice, it is helpful to distinguish the different levels, starting with the lowest or most local, at which financial transactions take place:

The household or family level

The group level (the savings and credit group)

The MicroFinance Institution

National level institutions performing financial wholesale functions

Institutions operating at international level supporting MF sector development in the South

The higher level supports the lower level. The lower level cannot flourish and grow without this support while the higher level cannot operate, and has no reason for existence, without the lower level. There is thus a type of institutional inter-dependence. What one often sees in practice, however, are relationships of dependence and ‘subordination’ of the lower to the higher level. The higher level defines unilaterally the rules and regulations to which the lower level is expected to comply. Among the common types of dependence that form in MF programs are the following:

- Dependence of the household on the lending institution as a result of a MFI policy that tries to secure the permanence of its own organization by aggressively encouraging clients to take “repeat loans.”
- Dependence of the Savings and Credit Group, on its supporting MFI when the Group is discouraged by the MF, from creating its own source of lending capital from the pool of savings, reserves and/or shares of its members. The Group is thus forced to continue lending from the MFI. Though the MFI may require group savings, the purpose of the saving is to guarantee loan repayment. [25]
- Dependence of the MicroFinance Institution itself may emerge if its affiliated international “donor” or a government bank offers cheap loans or grants to the MFI. The “cheap money” may come directly from a donor agency or a national fund established with donor support, performing a subsidized wholesale function for its MFI clients. This facility acts as a disincentive for resource mobilization at the lower levels of the system. Such practices must be carefully reviewed and relationships among the levels should provide ample opportunity for growth and development at the lower levels.

A preference for the development of domestic financial markets

Some development agencies in the North are actively searching in the South for lending opportunities, but they are confronted with the limited “absorption capacity” of Southern MFIs. Like the MFIs in the South, they too have adopted a business orientation and aim at achieving self-sufficiency of their own institution by becoming independent from “aid money.” On the emerging international microfinance market, they operate as a lending institution. One must keep in mind, however, that in order to achieve “self-sufficiency” at each level, the end-user (the poor borrower) must bear the administrative costs of the upper levels of the system. It is questionable whether this is the right direction for the development of financial systems destined to serve the poor, for it stands in the way of Southern organizations becoming the architects of their own systems and financiers of their own development.

Some institutions have been set up at “Regional” level covering several countries or a continent, for example PROFUND for Latin America (based in Costa Rica) and AFRICAP operating from Dakar. These were established with donor support on the basis of the premise that the MFIs in the South need to be capitalized by external financing, and that commercial funds cannot be found and mobilized locally in sufficient manner for rapid institutional growth.

From a subsidiarity point of view, priority should be given to the development of domestic markets rather than international markets. This does not mean that any form of external financial resource input directed from the higher to the lower level is inherently wrong. External financing and support can be very well justified when conceived and provided as a form of “bridge financing” that gives time and the opportunity to the lower level to build up its own asset and capital base.

Community

“CST expresses the idea that authentic human life is lived in community (CRS 1997, 4).” People have been created as social beings. When community is understood in a generic sense, different levels of community life come into view; the nuclear family, the extended family, the rural or urban neighbourhood (village or city quarter), the broader “national community,” and the “international community.” Communities have the responsibility to secure the well being of all their members. Solidarity with, and inclusion of, those community members who are economically or socially weak is the touchstone for the moral quality and social performance of a community institution. In development circles, the concept ‘community’ is generally understood as a particular locality, such as a village or a city quarter where its citizens reside and share a broad range of common characteristics.

Applied to Microfinance, the principle of community leads one to ask how the MFI

and its methods of operation affect the interactions and relations within households and the local “community.” In other words, how microfinance fosters (or breaks down) the social capital of the primary social units to which a person belongs is a crucial aspect of the MF program. The relationship of the MF strategy to social capital and community formation is illustrated well in the case study by Rebecca Samuel Shah on the Bridge Foundation in India (see chapter in this volume).

A preference for a community-based, member-owned organizations

A preference for community-based, self-managed institutions is the reasonable choice for a development organization that wants to contribute towards strengthening the social fabric of village or urban-based communities. Apart from access to financial services, the member-owned financial institution can give its members other benefits like fostering relationships and co-operation between them. The small community based MFI, such as a “Village Bank,” can act as the financial nerve centre of a community and provide a participatory organizational framework for addressing issues like the involvement of the marginalized sections of the community, the type of financial services to prioritise, and the link with non-financial services to be provided by other institutions.

Family and group membership as an option in addition to individual membership

The community principle, in its broader sense, pleads in favour of opening up membership to entire families and groups, in addition to individual membership. In some co-operatives and Village Banking programs in East and West Africa, this option already exists and people can choose between different, complementary forms of membership. True, it complicates the voting system, but it is more in line with the local culture, and creates additional space for people’s preferences and participation.

A “community approach” in microfinance is important, but so is flexibility

A community development approach for structuring the microfinance sector at grassroots level sounds beautiful, but is not always feasible or even desirable given the tensions and differences in status and power that may exist among residents of the same locality. Such local realities may call for setting up gender specific small savings and credit groups or for limiting membership to people in a similar economic or social position. Gender or occupation specific groups can become visible expressions of hope and self-confidence of marginalized groups. As such, they are part of the social capital of a community in transformation, and they may be a step on the way to a fuller and more inclusive realization of community.

Dignity and Equality of the Human Person

“All of humanity has been created in the image of God...Each person has a basic dignity that comes not from any action on our own part but because of our very creation. Each individual is a person worthy of dignity and respect (CRS 1997,2).”

Poor people gaining self-respect through microfinance

One of the common laments of low-income people in developing countries is the lack of respect they encounter at commercial banks. They are attended in an off-hand manner and confronted with procedures and papers they do not understand and are not explained.

In response to the treatment the poor receive at commercial banks, Microfinance works to give new dignity to people who have long been regarded as “not bankable” and not able to pay for bank services. Women were once even regarded as less bankable and credit worthy than men, though the opposite has proven to be true in practice. Financial NGOs, on the other hand, build self-esteem and dignity by tell themselves and their sponsors that MF is “no charity.” Borrowers are treated as valued clients. They pay a price that is market-based or close to it, and they get a service for it.

In spite of their market orientation, however, MFIs must also prepare for the possibility of default. When the poor are unable to pay back their loans, feeling of shame, loss of dignity, and loss of respect are often the result. The respectful, yet effective, treatment of defaulters is a constant challenge to each MFI.

Increased self-respect is also felt by people who, through self-imposed discipline, have been able to put aside some of their small earnings in the form of savings. Savings not only give a sense of security, but also of achievement and self-esteem.

Make sure users are well informed and respect their choices

Another aspect of dignity is the respect of the people’s choices as to the destination they want to give to their money. Many MF credit programs are still characterised by degrading “paternalistic” or “maternalistic” overtones as to the use of the loan. MFIs are increasingly recognizing that exercising this kind of control is virtually impossible, due to the fungibility of money in a household economy. From a human dignity point of view too, the practice of “supervised credit” should also be rejected. Whatever the intended use of the loan, if the lender has no trust in the borrower’s honesty or repayment capacity, he should not lend; if the lender trusts the borrower, there is no need to impose the type of conditionality that characterizes supervised credit programs. Those conditions and

concurrent control operations are humiliating and have also proven to be ineffective in practice. Providing users with good information so that they can make well-informed decisions and responsible choices is part of the MFI responsibilities.

Solidarity

Solidarity “...is above all a question of interdependence, sensed as a system determining relationships in the contemporary world in its economic, cultural, political and religious elements, and accepted as a moral category. It then is not a feeling of vague compassion or shallow distress at the misfortunes of so many people, near and far. On the contrary it is a firm and persevering determination to commit oneself to the common good; that is to say, to the good of all and of each individual because we are all really responsible for all (John Paul II 1987, 38).”

The message for the MF sector is that solidarity must be practised as a “virtue” in the way MF “promoters” or “providers” set their objectives, choose target groups, determine their strategies and act in the field. Promoting MFIs or setting up new ones is not just about the delivery of financial services. It also about shaping human relationships. Solidarity implies a commitment to the “common good.”

“Solidarity groups”: real solidarity or a misnomer?

In the MF sector we see the widespread practice of group lending and of MFIs working with “solidarity groups.” By participating in a group, mutually responsibility is accepted for repayment of debt to the MFI as well as for the maintenance of savings discipline, often an obligatory corollary of the credit service. Some observers are critical of this group approach, which is forced upon people by the MFI to ensure repayment by peer pressure, because borrowers themselves seem to prefer a much more individualized approach. Here the pitfall is that the discourse of “solidarity” masks another reality that is not the people's choice, but is instead part of a strategy chosen by the more powerful MFI .

Misuse of “solidarity” by underpaying staff

At the MFI level, solidarity is sometimes enforced by pressuring staff to accept not only harsh working conditions, but also considerably lower salaries than they could earn in conventional banking. The pitfall here is the exploitation of social commitment of staff who pay the price of their commitment and “solidarity with the poor” by underpayment and poor secondary work conditions (no pension fund, no adequate health insurance etc.). Such pressures motivate staff to leave the organization, and sometimes the MF sector, to look for greener pastures elsewhere. Church connected institutions in the South have a special

reputation of poor labour conditions for their staff. But these practices are not necessary. If the MF sector “principle” of market-based pricing of products is well applied, the efficiently run MFI should be able to pay decent salaries to staff without exploiting the “target group.”

Co-operation or competition between MF development organizations ?

“Catholic teaching on solidarity has been primarily pastoral (Dwyer and Montgomery 1994, 910).” Referring to the Encyclical On Social Concern (John Paul II 1987), Matthew Lamb says “solidarity ...is not just a vague feeling of compassion ...it must be practised between individuals, professionals, classes, communities and nations... (Dwyer and Montgomery 1994, 909). In development circles, solidarity has been used primarily in a political sense of promoting “solidarity among the poor” and “with the poor.” It is used much more rarely when speaking of development organizations that have the common objective of serving the poor. Yet, any practitioner of MF can give examples from her field experience how the lack of co-operation among organizations at local, national, and international level is causing considerable waste of scarce human and financial resources. Because of sectarian religious zeal, competition between faith-based organizations of different denominations can be particularly fierce and destructive, going completely against the Biblical vision of an alternative society based on co-operation and solidarity. On the other hand, a cooperative spirit needs to be balanced with a reasonable sense of competition required by the market.

The pitfall here is that perceived organizational interests, competition, and a profit-orientation, can prevent the exchange of lessons learned by organizations. Consequently, co-ordination is often minimal and the poor who could gain from greater proficiency of MFIs and streamlining of interventions are not as well served as they could be.

In situations where co-operation could be beneficial to enhance the quality of service and expansion of the sector, non-co-operation due to organizational rivalry, misunderstandings and prejudice is a betrayal of the principles of solidarity and responsible “stewardship.”

Common Good and Stewardship

The phrase “act locally, think globally,” expresses very well the essence of the common good principle as it applies to the microfinance industry.

The “common good” principle asks for the use of a broad perspective in the design of development activities. In microfinance, local action should be viewed in connection with larger social structures that shape the economic and social life of a community, a region, or a nation. Through international funding there are also connections with money

transfers at global level.

MF promotion from a broad, financial system perspective

Promoting the common good means that the design of MF programs and institutions should take into account what other organizations are already doing in the communities under consideration. The ultimate goal is not the sustainability of a single institution, but of an entire financial system that serves the poor and supports them in their efforts of self development.

Implementation of the principle of common good may require MF providers or promoters to advocate at national levels for legal provisions and regulations that do not hinder, but instead facilitate MF initiatives and innovations. A typical example is the removal of government dictated interest ceilings that aim to protect borrowers against usury, but which in fact facilitate the operations of informal lenders who have no public accountability.

A self-sustaining and sustainable MF sector is part of the “common good” of a society. Where MF systems are well advanced, as they are in Bangladesh, Indonesia, and some West Africa countries, they are precious national assets, even if they have not finally solved the problem of persistent poverty.

Stewardship “at its foundation, is based on the principle of responsibility and is intrinsically linked to the common good ... we are called to respect and justly share the resources in a way that provides for the needs of all (CRS 1997, 10).”

In the nineties, there has been a revival of the notion of stewardship (see LWF, 1994). This principle calls for the implementation of cost effective and socially effective strategies and methods of work. Responsible stewardship brings professionalism and commitment together, not as opposites but as complementary requirements for serving the poor.

MFI managers as “stewards”

Stewardship in the Christian sense and “good governance,” a term often used in the civil society discussion, are closely related. In the microfinance sector, stewards are entrusted with the management of human and financial resources of an MFI organization, with the custody of the people’s savings deposited with the MFI, and with the issuance of loans in a responsible and fair manner. Managers do not work in isolation, and the principle is therefore also relevant to board members and other MFI staff. The moral obligation to act professionally is even more compelling when a MFI administers important sums of poor

people's savings.

At a personal level stewardship “presupposes one has a deep personal spirituality... stewards do not function on some island, making decisions and plans in isolation (Dwyer and Montgomery 1994, 921).” It leads to a value-sensitive participatory style of management.

Protecting the value of small savings against the ill-effects of inflation

In recent years many monographs and manuals have been written, especially in the US, that are geared towards improving the MFI efficiency, but to the author's knowledge, no manuals have been written that deal with how to protect the value of deposits of small savers against inflation. With easy access to international money markets, stable foreign currencies, and hedging instruments, there are certainly possibilities to do so. International and Regional Funds serving the MF sector already exist, like the Acción Bridge Fund and PROFUND, but these funds have concentrated on facilitating access to international capital, not to products that protect the value of people's savings. The principle of stewardship should motivate development organizations to take up this challenge.

4. Consequences for Faith-Based Development Organizations in the North

Putting together the general principles of microfinance with the principles of Catholic Social Teaching leads to some difficult choices for faith-based development organizations in the North.

First, there is the basic strategic choice as to whether to be engaged at all in the “business” of microbanking, or stay out of it. Once the decision of engagement has been taken, there are other strategic and tactical choices to be made as to how to operate from a Christian perspective, and how to become trend setters rather than trend followers. I would like to suggest two principles to guide choices and actions that are consistent with the principles of CST:

- a. “aiming at added value,” when operating in a field with many other professional actors; and
- b. “making use of the comparative advantages” of Church-linked organizations while minimizing the comparative weaknesses.

Catholic and other Christian organizations are not immune to their environments, and many Northern organizations have undergone a process of secularisation. This is partly due to the fact that it is not always obvious what value they can add, nor what comparative

advantages they have as faith-based organizations.

Enter the arena of microfinance or stay out of it?

Christian development organizations are already involved in many important areas of development work: human rights, education, social development, agriculture, health, food, and nutrition, etc. Is microfinance a high enough priority for Christian organizations to focus more of their attention there? A group of international MF experts say: “The poorest of the poor don’t need debt. They need food, medicines, employment and skills training. Then they can make use of microfinance (Acción 1999, 46).” Indeed, the very destitute, street children, the neglected elderly, the mentally or physically disabled, are not served at all by microfinance.

On the DFN Listserv, the best known ongoing virtual conference for people working in the MF sector, the question was raised: Is their any proof that the Dollar, Pound, Krone, or Euro spent on Microfinance is better spent than the one spent on health, education, water and sanitation? The answer was that there was no such proof. Comparative impact analysis between sectors either does not exist or suffers from methodological flaws. At the same time, there is also a broad consensus that it is very difficult for poor people to overcome poverty without access to sustainable financial services.

A Christian model of a MFI?

Theoretically, one can design a model of a MFI that perfectly matches the principles of CST. Whether it can also find embodiment in the real life of a market economy however, is doubtful. But creating the perfect MF model is not the role of CST. Instead, it should provide orientations that can serve as a framework for reflection, analysis, and evaluation. Even then, extreme caution should be exercised in labelling one approach as more “Christian” or “Catholic” than another, on the basis of its closeness, in concept or practice, to the value-orientations embodied in the official social teaching of a church, e.g. the “magisterium” of the Catholic Church.

Some “donor” guidelines

In addressing the question whether or not a development organization should enter (or withdraw from) the field of microfinance, there is no universal answer, but the following considerations may be helpful guides to Northern NGOs trying to determine their role in the world of microfinance.

- Donor organizations should be aware that “there is already too much donor money

floating into microfinance (Acción 1999, 62).”

- “If donors want to help they should be subsidising the learning curve [of the MFI]” (Acción 1999, 55), by focusing on institutional development.
- Donors should take care not to disturb the development of financial markets in the South with cheap lending, grants, or subsidies.
- Northern NGOs should be demand-led institutions, implying that they should provide equity, loans, guarantees, or grants as appropriate, and give special attention to equity.
- Grant making organizations should work in alliance with organizations that have the mandate and skills to act as investors or bankers. The latter provide loans and guarantees, and the grant making organization the subsidies, as and when appropriate. [26]
- Good practices in the South, not necessarily the “best,” should be disseminated freely, because the sector is best served by a variety of approaches.
- “They (donors) should get out of the funding of loan portfolios (Acción 1999, 59).” Money for capitalizing loan portfolios of the MFIs should be generated by mobilization of domestic resources, including lending from local banks.

“Added value” and “comparative advantages” as principles to guide choice and action

How to add value to the system

Adding value can be achieved by *not* copying and repeating the orientation and bias of most international, bilateral, and non-governmental funding agencies that tend to direct their financial support to MF providers that distribute short term loans for microenterprise development in urban or rural urbanised, commercial centres. Adding value can be achieved by international organizations that are willing:

- to support, in a long term perspective local organizations that have accepted the challenge to develop financial services in the more remote/poorer areas, so far not served by existing MFIs.
- to support savings-led rather than credit-led approaches, and connected microinsurance services [27]
- to support innovative practices that seek to establish a link between financial services and sustainable development in the health and education sectors
- to support through technical assistance and subsidies, computerization of accounts and development of management information systems (the gains in efficiency reduce the costs of transactions with the poor)
- to give special attention to partners which have chosen to be promoters rather than providers of financial services. Promoters assist the poor in setting up their own

savings and credit systems and/or accompany the poor in their choice and planning of economic activities

Another way for adding value is by focusing not on microfinance, but rather on small enterprise finance. The microfinance hype has meant that less attention has been given to the technical and financial needs of small entrepreneurs (5 to 20 employees) that are able to generate employment for people who are poor but do not have the abilities or interest to be self-employed.

Church linked: a comparative advantage?

A LWF publication says that “Churches or church-related institutions are usually not particularly business minded. Business requires a different type of management, a different philosophy, a different approach altogether (LWF 1994, 78).” Realistically, the drive for covering organizational costs is not a high priority in churches. Repayment of loans thus seems particularly problematic. A MF expert expressed this as follows “The minute it smells, even smells, of the church, people don’t pay you back (Acción 1999).” The following is a schematic overview of the strengths and weaknesses of Church or Church-related institutions in the South engaged in microfinance and often the privileged “partners” of faith-based organizations in the North:

Church Based Institutions in Microfinance

STRENGTHS [28]
Present in poor areas Are trusted (good for savings-led approaches) Concerned about social performance Holistic perspective of human development Committed staff
WEAKNESSES
Inward looking Poor financial management and accounting Too little attention for financial performance; reluctant to charge cost covering interest rates Low gender awareness Professional staff underpaid

A final reflection on “temptations” and pitfalls

This paper has argued that microfinance systems and institutions can be sustainable, while serving the low-income sections of the population, including “the poorest,” and operating in a manner consistent with the principles of Catholic Social Teaching and thought.

In the analysis of what organizations could, or should be doing, one should be aware of the fact that all development aid institutions in the North and many of their “partners” in the South, faith-based or not, are not driven only by development objectives. They also have their own organizational objectives and targets to achieve in terms of income and expenditure, funds to be raised, and disbursements to be made. They have to secure their own survival in a highly competitive atmosphere. The transfer of funds from the North to the South for microfinance [29] to serve the credit needs of the poor, also serves the organizational objectives of local MFIs and their international supporters. While international financial support is definitely needed for the build-up of a viable microfinance sector, there is a major pitfall: international support may undermine a strategy that seeks to optimise the use of available, local financial and human resources available in the communities and the countries of the South. “Temptations” for organizations in the North are the relative ease with which funds for “access to credit for the poorest” can be raised in the North from the public, or, under the existing co-financing facilities, from multilateral or bilateral aid programs. The North-South flow of funds may thus, under the banner of “solidarity,” create a chain dependence of organizations in the South from funding by organizations in the North, a phenomenon well known from other sectors of development aid.

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Footnote

[i] A slightly different version of this paper will be published in October/November 2001 by MARC Publishing as part of a reader with the tentative title: *Will civil society save the world? Christian insights into the role of citizens in international development*. Marc Publishing is a division of World Vision International.

Endnotes

[1] The author would like to acknowledge the many, valuable, sometimes extensive comments he has received on an earlier draft of the paper, especially from Lowell Ewert and Roland Hoksbergen, Larry Hendriks of Hendriks&Associates, Frank Bakx of the Rabobank, Elli Bosch of IC Consult and Wim Kluft, and from field and headquarters staff of CRS.

[2] Microenterprises can be defined as enterprises run by one or two persons belonging to a resource-poor household. It is a form of “self-employment.” Unlike the “small enterprise,” a microenterprise has no more than 1 to 2 employees, and household and enterprise are financially integrated. (There is no universally accepted definition of microenterprise; some specialists define microenterprises as firms with less than 5, or less than 10 employees.)

[3] “Principled Practices in Microfinance” is the title of a recommended booklet written by

Kim Wilson (2000) of CRS.

[4] Like the Sri Lanka SANASA movement serving 725,000 members with an average loan size of \$90 (Microcredit Summit 1997) and the Indian SEWA with 130,000 women members, average loan size US \$53 (North South Dialogue 2001)

[5] The term “poverty alleviation” or “reduction” is preferred by most of the well-established development organizations, instead of “poverty eradication,” a concept promoted by radical NGOs that advocate fundamental changes in the current economic order.

[6] See www.micreditsummit.org for additional and updated information.

[7] Commercialisation and competition have become the keywords in the international MF discussion. (IPC Frankfurt Seminar September 1998). The Bolivian situation is referred to as a case of healthy competition among credit providers. In Bolivia (mostly) urban-based micro- and small entrepreneurs now can choose from several MF providers. The rate of interest is one of the factors they take into account.

[8] ROSCAs – Rotating Savings and Credit Associations; ASCAs – Accumulating Savings and Credit Associations. ROSCAs are member managed; ASCAs are managed for a group of people by a third person.

[9] In October 1998, a veteran in Microfinance Katherine McKee, the new director of USAID’s Office of Microenterprise Development declared in the keynote address at the 1998 Annual Meeting of SEEP: “We are becoming increasingly aware that for most MFIs, only a small percentage of clients qualify as truly poor. As a result – we both donors and practitioners have become dishonest and irresponsible in our claims about who microcredit serves and can benefit most, and casual about our use of “poorest of the poor” language (Nexus 1999, no. 42).

[10] Referring to SEWA’s (India), ASA’s (Bangladesh) and CARD’s (Philippines) experiences.

[11] Acción is the biggest MFI network of Latin American MFIs.

[12] For example the Bamako FORUM of December 1998 where both parties met to discuss “How to establish relations between commercial banks and microfinance institutions”

[13] Important “bilateral” players are USAID, the German GTZ, the British DFID and the French AFC. The most important “multilateral” institutions are World Bank through UNDP/UNCDF, IFAD, ILO, IDB, African Development Bank, the European Union, and CGAP. CGAP (Consultative Group to Assist the Poorest) is a group of the most important donor agencies. Initiated by the World Bank, it brings together the most important multilateral and bilateral agencies in this field. Its Secretariat is located in the WB Office in Washington. NGOs in the South, too, have formed regional networks, and may take over

the lead in the years to come.

[14] In international micro-finance promotion a new category of financial institutions has come up in Europe, called “Social Investors.” Social investors are private institutions that do not provide grants, but use other financing instruments like loans and guarantee schemes, or they become direct shareholders (IMI 1999). Oikocredit (former EDCS) in the Netherlands is one of the pioneers in the provision of loans. Many European social investors are grouped in the Brussels based network INAISE, International Association of Investors in the Social Economy, with over 30 members.

Microfinance has also attracted the attention of some European Universities and Development Institutes; in France, IRAM and CIRAD; in Germany the Universities of Hohenheim, Köln, and Frankfurt; in the UK, the University of Manchester and Brigham Young University; and in the Netherlands, Wageningen University.

[15] Relative heavyweights in the field are US and Canada based NGOs that specialize in a specific form of lending, called “Village Banking” and are members of the SEEP network (Such as Care, CRS, FINCA, Freedom from Hunger, World Vision, Opportunity International, Desjardins). Some of them implement their own programs through regional or country offices based in the South; others implement their programs by working together with local partners. In the same North American hemisphere, we find the Headquarters of the most important multilateral players like World Bank, IDB, UNDP/UNCDF, and it is also home to USAID, the most important bilateral donor.

Some important “think tanks” of international reputation like the Development Finance Group (Ohio State University), the consultant firm DAI, Inc. (Development Alternatives), and Boulder University for training, are also located in the US.

[16] This paper reviews seven “best practices” in savings mobilization in Asia, Africa and Latin America from the private and public sector. It is a strategic paper issued just before the 1999 Microcredit Summit meeting in Abidjan. It argues that savings mobilization can be organised in a cost-effective way and is an important ingredient of any strategy aiming at MFI financial sustainability and balanced financial systems development. It is one of the many publications of the German GTZ on savings mobilization

[17] The North South Dialogue Workshop in Bad Honnef, June 2000, on the Elaboration of Principles and Guidelines for Microfinance Promotion. The Workshop was part of the study to be published (Krauss, Jousen, and Verhagen 2001).

[18] In March 2001, the Belgian Catholic weekly *Tertio* published an article of Johan van der Vloet “Christianity is more than ethics,” a critique on the way progressive Catholic organizations present themselves to the public and their relative silence about their Catholic roots and source of inspiration. It sparked off a virulent debate on the way faith-based organizations should interact with their Church constituency and manifest themselves in the larger society (Van der Vloet 2000).

[19] CRS is the only Catholic organization in the North that, to the author's knowledge, has made a serious effort to derive policy principles from Catholic Social Thought for Microfinance practice. These principles are: 1) Serve the poorest clients; 2) Link loans to savings; 3) Use solidarity guarantees; 4) Practice participatory management; 5) Invest in scale and self-sufficiency; 6) Plan for permanence (see Wilson 2000).

[20] Perhaps the most comprehensive book on CST is the *New Dictionary of Catholic Social Thought* by Judith A. Dwyer (editor) and E. L. Montgomery (production editor). 1994. Minnesota: The Liturgical Press. Catholic Social Thought is a wider concept than Catholic Social Teaching. As a frame of reference for the present paper the author has preferred to limit himself to the official teaching of the Catholic Church as laid down in official Church documents.

[21] "A Preferential Option for the Poor" is the title of the Final Document of the 1979 Latin America Bishops Conference held in Puebla.

[22] UNCDF/SUM web site, "About MicroSave"

[23] There are some very interesting cases of co-operatives in West-Africa and the Philippines where, with financial and technical assistance from Freedom of Hunger, the outreach to poor women has been considerably deepened through an innovative "Credit with Education" program.

[24] Centesimus Annus 1991- The Hundredth Year, Encyclical of Pope John Paul II commemorating Pope Leo XIII's encyclical *Rerum Novarum* (Of New Things) of 1891.

[25] Among US based agencies involved in "Village Banking," there is a discussion on whether or not prominence should be given to the development of the self-managed "internal account" which is capitalized by the members' savings, or to the "external account" capitalized by the MFI. The dilemma is: how can the higher level financially survive if the lower level becomes financially autonomous?

[26] Known in the Netherlands as the Hivos-Triodos model and the NOVIB-ASN model. HIVOS and NOVIB are both NGDOs (Non Governmental Development Organizations), and the Triodos and ASN are ethical banks.

[27] In recent years a broad consensus seems to have emerged that savings and credit services deserve equal attention, but that the combination of savings collection and lending by one and the same institution asks for an even higher degree of professionalism and moral integrity than just credit delivery.

[28] When the author presented the above scheme in a course attended by a group of practitioners, mainly working in Africa, broad endorsement was received from the participants for the "weaknesses," but reservations were expressed concerning the supposed "strengths!"

[29] The transfer can be estimated at US \$1.4 billion for 1995-98 for international and bilateral government organizations only. Source CGAP Annual Report 1999.