

## **“This is a call for more responsible use of funds destined for poverty alleviation”**

Posted by Peter Van Dijk in Devfinance on Friday 1 April, 2005

Please allow me to support CGAP's comments<sup>1</sup> and help to enlighten all experts and organizations with the SME funding problem in developing countries.

In developed financial markets household savings are the most stable and cheapest source of funds. The biggest retail banks and biggest sponsors of the Microcredit Summit, Citibank and ING (Post)bank, know that all too well. Getting to most households in developing countries, especially in rural areas, demands an efficient, cost-effective infrastructure and a long term trust relationship between government, financial institutions and the public. And where infrastructure is bad, it requires (heavy, comprehensive, consistent) investments in roads, buildings, education, accessible and flexible products that allow customers to gradually develop a habit of savings and depositing them in institutions (that are publicly accountable). Many successful SME finance products come from savings and housing finance services, for different reasons, such as the long-term relationship between client and institution, and because continuous voluntary deposit behavior improves and lowers cost of risk management. In Europe, banks that developed on savings (especially savings banks, cooperative banks) still have the largest SME market share.

Secondly, equity funds can only add when investors know the risk of where they invest in and when they are confident (based on data as well as faith -reminding us that they want businesses and MFIs to submit credible business plans) of getting a financial (as well as social) return within a certain period of time. The problem of SMEs in developing countries is that they operate mainly in informal sectors, the "survival economy", characterized by bad infrastructure, bad education, bad or no public services, bad security, weak or no quality control, strong competition with no competition authorities to ensure fair competition. In such an environment, investors, especially wealthy foreigners, don't know the risk, let alone possess a knowledge advantage over potential local investors.

Access to funds is probably one of the last problems of small informal sector entrepreneurs, although they put that, time and again and understandably, as the main problem to foreign researchers. The Global Entrepreneurship Monitoring (GEM) project, in its 2004 South Africa report, confirms that poor informal entrepreneurs when asked, say that one of their main problems is finance. After analysis, GEM researchers conclude (based on multi-annual data) that it is rather the environment they operate and live in, their level of education and vocational training (especially in business and finance management), and their lack of self-confidence that are the problem.

I find it fascinating to see that common sense and world-wide experiences for decades do not enable the micro-credit movement to advance and better help the poor of this world. Microcredit experts always need more funds for further credit research. Further debate on ensuring massive funding for SME credit is expensive "wara wara" as they say here in South Africa (in the USA the term widely used starts with male cattle). It is extremely unfortunate (or maybe even criminal) that these debates take away incredible amounts of money from the poor, allowing the rich to talk about the problems of the poor with the stars of this world on TV. Over the last weeks, Bono, Bob Geldof and Peter Gabriel were regularly on TV here (assisting the UK government with its plans for saving Africa). They also mentioned the need for more loans to the poor ("especially women"). I am sure that some of the debate participants here might suggest to them a fund for reimbursing clients of micro-credit institutions when they fail to become self-sustainable and grow or, especially, when they close. The fund should also reimburse for damaging trust and hope for sustainable financial services for the poor. If I am not mistaken, the above-mentioned stars live in castles and mansions, in more than one country; does that not frustrate their socially committed conscience?

Finally, in many African countries (government and donor) socio-political credit programs constitute the single largest obstacle to sustained processes for building up market-oriented inclusive financial sectors (with a strong role for sustainable micro-finance as an outreach tool). This might also be valid in developing countries in Latin America, Asia and Eastern Europe. And I do not blame governments because, when micro-credit wizards cannot do the job, their peoples will still hold governments responsible.

Regards, Peter

<sup>1</sup> Brigit Helms of CGAP supported the argument that "MFIs would do better to mobilise savings to finance their loan programmes rather than relying on debt" in the Crossfire debate in the recent issue of Small Enterprise Development (Vol. 16 No.1) published by IT Publishing in March 2005.