MICROFINANCE– A WAY TO CONFORNT POVERTY AND STIMULATE ENTREPRENEURSHIP WORLDWIDE

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Abstract: The study presents the microfinance sector, by analyzing the general context in which this type of economic activity has appeared and developed since early age. While microfinance clients have certain profiles, sector's products are diverse. Moreover, Microfinance Institutions are different from classic bank structures, they have specific juridical background, often launching as non-profit organizations and they have developed in time complex assistance services. In Romania, non-financial institutions have mostly implemented a commercial strategy that guarantees a higher capitalization of invested funds. Still, Institutions have difficulties in adapting to market evolution; therefore some of them prefer becoming banking institutions instead. Nevertheless, present social-economic context points up the high demand and necessity of this type of services.

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1. Introduction

Microfinance is a worldwide recognized effective instrument to fight poverty, financial and social exclusion. In Europe, the development of this sector has begun in the ninety's and it has progressed differently form one country to another. A rapid and sustainable growth in the Central and Eastern European countries (including some of the new E.U. member countries) has contrasted with the slower enhancement of this sector in the Western European countries. Diverse networks, such as Microfinance Centre (MFC), European Microfinance Network (EMN) and Community Development Finance Association (CDFA) were involved in the efforts to create and stimulate positive experiences, adapted to the specific of each country and to the modalities in which every one operates. A reduced know-how transfer was registered between members of these international or regional networks.

Micro credit, the main instrument of Microfinance institutions, was introduced in the eighties, although these sorts of "need financing" experiments existed even 30 years earlier, in countries like Bangladesh, Brazil and other several states. What mostly differentiated micro credit than the classic financial credit was the effort to avoid flaws of early generation development programmes, by insisting upon the reimbursement of all small credits and by calculating interests and commissions for each provided service, in order to cover the total costs of activity. Furthermore, the programs pursuit the concentration of efforts upon client groups that had as alternative credit source the informal sector. The interest has passed in time from the subsidy loan type programmes to programs investing in the sustainable growth of local institutions that may serve the interests of people and small business lacking financial resources. Generally speaking, micro credit was been an initiative of the non-profit, private sector, avoiding to reach a political character. This approach has permitted the microfinance sector to register higher performances, in the past 20 years, and also it enhanced the identification and development of new necessary financial services, provided by this type of institutions.

Poverty has multiple dimensions. Facilitating the access to financial services, both for individual persons end enterprises, Microfinance sector plays an important role in the eradication of these numerous aspects of poverty. For instance, revenue generating process of a certain business must encourage the general, qualitative and quantitative, development of products and services, but it also affect income sources to became more stable, it enhances food security, children education and so on. Moreover, as women are often excluded from the public space, the interaction and transactions with formal institutions and authorities contribute to the increase of self-trust and ability to involve in a certain remunerative small business. Therefore, we can conclude that Microfinance exercises a strong influence upon the entrepreneurial sprit and economic initiative, regardless discrimination of any type.

Recent studies show the intense measure in which individuals from the excluded categories are more vulnerable to external shocks than the others, such as diseases, violent climate phenomenon, robberies or other similar events. These type of shocks might induce sever lack of basic resources, also financial resources, already being limited. In the absence of efficient and properly implemented financial services, these people find themselves going deeper into poverty. The recovery and repositioning on the anterior financial stability level might take several years time, even more than 10.

The typical microfinance clients are those persons having small incomes that usually do not hold the access to formal banking institutions products. These individuals are usually unofficially employed, working on their own, some of them working for their personal small businesses. In rural areas, they own small farms or households, or they are people involved in certain small scale revenue generating activities, such as cattle commerce, wood industry etc. In urban areas, on the other hand, the diverse microfinance services reach up to different type of individuals depending on their occupation, and they include small shops owners, services providers, handicraftsmen, street vendors and others. Therefore, microfinance clients will always be poor and less poor, bur certainly vulnerable people, demonstrating a relative stability of income sources.

While new financial services of the Microfinance sector are introduced on the market and are being developed, the potential market for this type of clients interested in the programs is also expanding. For instance, micro credit alone has a limited market to address to, nevertheless one complex financial services portfolio, which may include different type of deposits, payment services or insurance, is more likely to satisfy a higher demand. Many impecunious people, coming from the rural regions, frequently prefer opening small bank deposits, for money that otherwise would be squandered in several months, to satisfy daily necessities, than borrowing significant sums of money that they might not be capable to refund.

2. Specific Products of Microfinancing

Government institutions and support agencies often try to make use of microfinances as a device to compensate for other social problems in a country, such as drought, floods, refugees' reestablishment, civil wars victims, unemployment, devalued level of professional education and so on. Because the micro credit has been promoted as a device of reducing poverty, one expects this one to be the solution for those who have become poor as consequence of the already mentioned circumstances. The Micro credit programs rarely function in these situations. A credit needs a 98% performance rate in order to be effective. This means that 98% of those who have graduated the professional training courses or 98% of the refugees that have returned to their country should set up some successful micro enterprises, solvent, so that their micro credit paid installments be high enough to allow the general sustainability of such a microfinance program. But this thing is practically illusory. Running a program, in which installments are not paid or have a lower value than the credit itself, acts contrary to the notion of credit and dissolves the practice of repayment among those who can afford it.

For this very reason, the Micro credit represents a viable solution for those who have already identified some economic opportunities which they can transform into capital if they are provided small amounts of money. So, those persons who work in stable and progressive economic systems, those who have proved abilities to organize different activities proposed within the enterprise and who, at the same time, have taken upon themselves the engagement of debts repayment (without having the feeling that the respective credit is some kind of social aid) are the best candidates for the Micro crediting programs.

The supply of financial services to the poor is a practice rather expensive, especially if one relates to the level of implied transactions. This is one of the main reasons for which banks do not loan small amounts of money. For instance, a loan of 100 dollars requires the same number of employees and resources as one of 2000 dollars, the costs per transaction unit consequently raising. Credit officers have to pay visits to clients at their residence or work place, to evaluate their repayment capacity on the basis of some interviews with their families or acquaintances, and in many cases, the credit officers continue this procedure in order to stress on the importance of a blooming repayment culture. So, the costs of a 100 dollars micro credit may raise up to 25 dollars. This being 25% of the loan value, the institution finds itself thus obliged to apply an increased rate of interest as to meet the administrative costs.

3. Microfinancing Institutions

Microfinancing institutions are organizations that provide financial services to those categories of persons with lower incomes. A large part of these organizations offer micro credits and take in exchange small amounts of money from their clients. Within the microfinancing industry, the term Microfinancing Institution refers now to a wide variety of organizations that control the supply of these services: NGOs, Credit Unions, cooperative societies, private commercial banks and non-banking financial institutions (some that have evolved from NGOs into systematized institutions), as well as banks with government capital or with private capital, independently administrated.

The common image that people visualize by referring to a microfinancing institution is that of a `financial NGO`, a NGO that dedicates itself thoroughly and totally to supply the financial services: but, most of the time, NGOs are not allowed to create deposits of savings coming from the general public. This group of organizations has led to the development of micro credits and hence to microfinances, globally speaking. The organizations in discussion encompass the newest crediting methods in order to generate efficiency and also access to the more under-developed spheres of economy, on sustainable bases.

As far as the profitability of these organizations is concerned, statistical data of the MicroBanking report, from 2005, point out that the first 63 Microfinancing Institutions of the world, have an average of the profitability rate, after having adjusting them according to inflation and having also considered the subvention programs that they would have received, of 2.5% of the total income. This rate may be compared as standard with those from the sphere of commercial banks and besides, it renders credible the hypothesis that microfinances can be sufficiently attractive as to be implemented in the retail banking field, thus increasing also the number of clients that can benefit from these programs. On the other hand, some parts are worried that a too heavy interest in obtaining profit in microfinances may lead to a reorientation towards categories of clients who have greater capacities of absorbing larger amounts of money. This is called the `crowding out` effect. This may happen in the circumstances in which there is a considerable number of people with mean incomes who do not have access to the services provided by the banking system or other crediting societies.

As the microfinance programs have extended as number, seeping in more and more regions of the world, institutions have become thus interested in offering a legal framework that would allow the development of their practices. This fact allowed further the advancement of some alternative types of financial NGOs, credit unions and other institutions that would be able to obtain licenses in order to provide specialized financial services. This may represent an adequate strategy in some countries, but in the majority of them, their general progress level of the microfinance industry cannot yet grant the licensing of a special class of institutions exclusively meant to the category of persons with low incomes. A disadvantage would be that of the high costs implicated by a correct supervision of this new segment, costs that may even rise up to 25% - 50% of an agency's total budget considering that the final incomes to be produced would be only a small part from the whole financial system.

4. Romania and Its Microfinance sector

As far as Romania is concerned, it can be mentioned that Microfinances set out 14 years ago in this space, when the first international institution within the Microfinances field initiated a program for financing the expansion projects of the Romanian SMEs. In the last years, this one has become more and more efficient and productive, achieving a more and more significant role in providing the necessary support and services to enterprisers. Regarding the legislative circumstances, one may affirm that the authorities really uphold this program in promoting a proper framework to be favorable to the development of activities; furthermore, EU stimulates the initiatives of developing this field. Hence, though micro credits put forward various forms and accomplish different roles, in the EU member states and regions, they are frequently used as devices as to encourage the expansion of independent activities, as well as the foundation and the development of micro enterprises.

In Romania, the majority of the microfinancing institutions have adopted a strategy with a strong commercial character, this one producing also the best profits. In the same time, this strategy has led to the extension of the access to services, geographically speaking, and to the growth of efficiency and productivity of the specific activities. But unfortunately, this strong commercial character, which is reflected in its attitude towards the market, disadvantages all those organizations that pioneer especially the social support. Besides, it may be observed that the majority of initiatives and almost all the activities, which are made public or promoted, relate mostly to enterprises and less to the general public and to the different social classes whose claims for financial services are consequently unsatisfied. The structure of national microfinancing field is displayed in the diagram no.1 (2006 data).

Only in Romania, it is estimated that a quarter of the total population is poor, and 8,6% of this percentage finds itself at the level of extreme poverty. That is, a person who cannot afford his or her consumption expenses at a maximum limit of 157,5 new Lei (1,570,000 old Lei) is considered to be a poor person, and if this limit is under 100 new Lei (one million old Lei) one may assert that the respective person lives in an extreme poverty. This category of persons lives under the standards of a decent life and does not dispose of the mere financing - crediting services or access to consumption loans and capitalization of the cumulative enterprising potential. Although, throughout the country, there is a series of non-banking financial organizations and institutions referential of the European and global economy, existing at least one institution per county, the number of clients, either physical or juridical, which appeals to microfinancing services, is still very reduced.

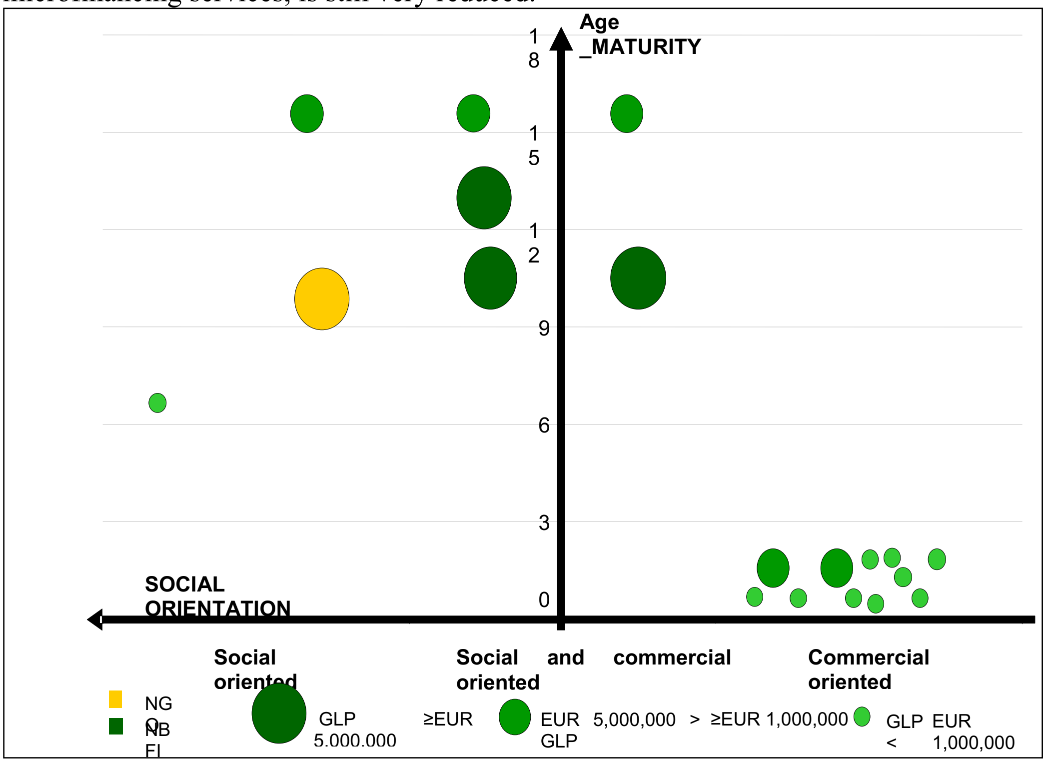

Figure no. 1.

As for the business sector, and the micro enterprises, which represent 99% of the entire EU's campaigns, one may be notice, given the present circumstances of the global liquidities crisis, a critical demand of the specialized services meant to this sector. Microfinances may represent a solution for the member states' economies, if one considers that the microfinancing consultancy also stands for, apart from establishing the value of a financial support, providing training services, human resources recruitment, assistance in negotiations or studies and researches that significantly contribute by adding a high value, considering the ineffectual managerial capacities as the main impediments to a durable business.

As a conclusion, the present paper sustains the importance of the microfinancing sector, not only in Romania, but also in the world, this sector being a device of fighting against poverty proliferated throughout various global regions. If we are to take into consideration the statistical data referring to the apportionment of wealthiness in the world, statistics which reveal that only 1% of the global population possess 99% of available resources and that 40% - 50% of GIP, generated nowadays in economy, is produced by small and medium enterprises, with maximum 250 employees, it seems naturally to conclude that the banking financial sector represents a market recess extremely well valued, but which does not suppose the access to the public market because of the high risks typically implied by this one. Maybe it's the time for a revolution in this services sector, which for more than 100 years, has been serving the interests of the greatest world powers and of their corporations, neglecting thus the needs of masses.

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