MICRO-CREDIT: A MEANS TO WHAT END?

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There is more to life than making a living. And certainly making a living depends on more than having access to financial services. So why all the attention and resources to micro-credit (aka micro-finance, micro-enterprise credit, poverty lending and village banking)? Many in the PVO community are wondering what sort of madness has led to many to focus on so little. What is the appeal of this latest "silver bullet" and what could tarnish its luster?

For many PVOs, child welfare is the ultimate concern, be it an explicit part of the mission or a key proxy measure of success. We pursue this goal from many angles, which we call "sectors," and very important among them is what PLAN International has labeled "livelihood." PLAN recently asked me to challenge their assembled country directors with a review of what a PVO can do to advance child welfare by improving the livelihood (food security and income generation) of a child's family and community. My colleagues have encouraged me to share the main points with a larger audience. My focus here is on the appeal of micro-credit and why it does or does not improve child welfare.

Figure 1 shows how the resources of time, knowledge and physical assets (labor, land, water, working capital, tools, etc.) can be invested in food production, agriculture for cash and non-agricultural enterprise. These activities allow a person, family or community to produce or buy adequate year-round quantity and quality of food (food security). Food can be eaten, or it can be traded as a limited form of currency. But cash can be used to satisfy an almost infinite variety of needs, like health services, housing, non-food consumption items, education, communal services and productive assets that add to the resource pool for further investment. Even farming people need cash to diversify their diets and often to purchase food as their own stocks are depleted before the next harvest.

Helping people generate cash income can assist a larger, more diverse group of people to solve a greater variety of problems than helping people produce food. *If a PVO has to choose* (and that is the trend), it accomplishes more by helping people produce cash income. This does not apply to some populations, but globally this assertion holds true.

There are many ways PVOs can help a person, household or community expand the resource pool so as to increase their cash-earning potential. Figure 2 arrays six of the better known strategies along two continua: from narrow to broad utility (variety of possible applications or benefits) and from extensive to intensive effort (lower to higher cost per beneficiary).

These six strategies are (from narrower to broader utility): **Appropriate Technology** (e.g., a new time-saving oilseed press increases productivity and time available for other activities); **Farming Systems Research and Extension** (increases knowledge, productivity and physical assets for specific systems of sustainable crop and livestock production); **Sub-Sector Development** (can use all these other strategies to increase all resources at all levels of a specific economic sub-sector, such as wool from sheep grazing to textile manufacturing and marketing); **Cooperatives Development** (pools resources for greater efficiency of resource use); **Business Training** (increases knowledge to invest resources and increase productivity in a wide variety of formal businesses); and **Financial Services** (savings and credit services to expand working

capital and investment for any economic activity of choice). The first and last of these strategies are extensive, serving large numbers at low cost per person. The other four are relatively intensive strategies.

Of these six, the strategy with broadest utility and least cost per participant is financial services. *If a PVO has to choose*, it accomplishes more by helping people gain access to financial services. Again, this assertion is true for most but not all populations.

This line of reasoning may explain the appeal of financial services. But what of the impact on child welfare?

Figure 1 also illustrates how the outputs of income generation must be converted into inputs to a child's welfare by the actions of the child's care givers. Most often the primary care giver, especially for younger children, is the mother or another closely related woman. And it has become a truism among development experts that cash controlled by women, especially poorer women, is more likely to be used for the direct benefit of children (food, health care, clothing, etc.) than cash controlled by men. Therefore, financial services to poorer women *can be* an effective strategy for improving child welfare on a large scale.

However, promotion of micro-enterprise activity among the primary care givers also has the potential to divert resources of time and assets away from the child care toward the enterprise. Figure 1 illustrates the competition for resources. It also illustrates the opportunity for a PVO to invest in the resource pool so as to enhance both child care and enterprise opportunity. For the former, enterprise selection must protect, even increase time for child care, and knowledge must be expanded to improve the capacity and willingness of care givers to convert increased income into benefits for children. Such important changes in current care practices do not happen without a promotional effort.

There are always culture-specific and location-specific barriers to behavior change that can be overcome only with focused information, negotiation and support. This kind of educational effort is particularly needed, even welcomed, by poorer women. The most efficient opportunity for supporting women micro-entrepreneurs with care-promoting education occurs in the context of delivering financial services to larger groups of women who meet regularly for repayment and other functions (e.g., Grameen Bank and village banking). This strategy has the broadest utility, least cost per participant, and greatest beneficial impact on child welfare.

If a PVO has to choose, it accomplishes more for child welfare with integrated financial and education services to groups of poorer women. The broad applicability of this assertion is likely, but it needs to be explored much further.

The massive expansion of micro-credit, as promoted by the upcoming Microcredit Summit (February 2-4, 1997), runs the risk of narrowly focusing on micro-enterprise development at the expense of other sectors. A too-narrow approach to micro-credit is likely to miss an opportunity for major improvements in child welfare; it could even hurt children by diverting resources from their care.

That would indeed tarnish the silver bullet.