

Background: Micro-credit and the Commonwealth

What is Micro-credit?

Definition

Micro-credit is generally defined as making small loans available directly to small-scale entrepreneurs to enable them either to establish or to expand micro-enterprises and small businesses. Micro-credit is normally applied to target groups that would otherwise not qualify for loans from formal institutions. This includes the majority of those living below the poverty line.

Lack of credit is a constraint to the development of small-scale enterprises. Most lack access to lending institutions. The reasons for this range from lack of collateral or a credit track record to the fact that most financial institutions find it too expensive to administer the small loans usually sought by the small-scale entrepreneur. Micro-credit fills this gap. Loans at commercial interest rates are given for sustainable small or micro-enterprise projects that provide self-employment. (See Appendix E for additional facts on micro-credit.)

The Commonwealth Approach to Micro-credit

The Mandate

The promotion of micro-credit as a means of poverty alleviation in the Commonwealth has received endorsement at the highest political levels. When they met in Edinburgh in 1997, Commonwealth Heads of Government committed themselves to a Commonwealth-wide effort to reduce poverty. They undertook to 'work towards halving the proportion of people living in extreme poverty by the year 2015', and in particular to 'promote the role of micro-credit schemes in reducing poverty

through increased assistance from the international community' (Edinburgh Communiqué, 1997).

The Commonwealth Youth Programme (CYP), an intergovernmental organisation within the Commonwealth Secretariat, works to integrate young people into national development. Founded in 1974, the CYP has for a quarter-century provided a range of services to young men and women, youth workers, NGOs and national government in the four regions of the Commonwealth.

The CYP has developed a Commonwealth Plan of Action for Youth Empowerment to the Year 2005, which was endorsed by the 1998 Commonwealth Youth Ministers Meeting in Kuala Lumpur, Malaysia. The Plan of Action presents policy options grouped under ten strategic objectives, with a number of action points which can be selected and adapted as appropriate to specific national circumstances.

The first strategic objective is:

1. Develop and implement measures to promote the economic enfranchisement of young people and their participation in the economy.

Among the action points suggested as policy options under this objectives are:

2. Promote and support an integrated approach to micro-enterprise training and credit schemes, including the creation of tax incentives to agencies and private-sector partners engaging in micro-enterprise development for youth, the promotion of partnerships of key stakeholders to manage these schemes, the development of Chambers of Commerce for youth enterprises, and the identification

of resources for operating and replicating successful micro-financing schemes.

3. Develop poverty alleviation and employment programmes targeted specifically at young women, young people in special circumstances and those in rural areas.

The Approach of the CYCI

The CYCI takes a holistic approach to micro-credit delivery. This approach emphasises the provision of micro-credit as part of an integrated package that includes skills, marketing and management training; and business counselling, to ensure its effectiveness. The holistic approach is based on the premise that running a successful business requires skills which first-time entrepreneurs may not have. The poor need assistance to translate business ideas into reality, prepare business plans, develop new products and market their product outputs systematically.

The CYCI builds upon the work of such initiatives as the Grameen Bank and the UNDP's MicroStart Guide. However, it differs from these initiatives in that they assume that the provision of credit alone is sufficient to stimulate economic activity for poor people. This 'minimalist approach', as we can call it, argues that poor people already have a wealth of ideas and knowledge of market potential, and simply lack the financial means to transform these into a thriving business. This approach takes the view that, while the

training, business counselling, information technology and other services are helpful, their cost may render the whole project unsustainable, and it is therefore best managed separately (UNDP 1997a).

The minimalist approach has been proven to be successful in many different contexts. However, it may not address the full range of needs of those who are entering into economic activities for the first time – for example, young people or marginalised groups such as women, disabled people, street people and refugees, the poorest of the poor, or any target sector where a strong culture of entrepreneurship is not already established. The CYCI aims to reach these groups by bringing specially targeted support to such groups. Where alternative programmes already exist, the CYCI should not compete with these. The CYCI can be used to complement and support other micro-credit activities which provide only credit and not training or other support.

The CYCI also emphasises the importance of an enabling environment; a political, economic, social and cultural context that encourages the growth of successful micro-enterprises. Peace, political stability and democracy are important elements of the enabling environment. Other factors which also affect the enabling environment include government policy, global and regional macroeconomic forces, and conditions at the local level where the programme is to be implemented.