Microcredit in advanced economies as a "third way": a theoretical reflection

Canale, Rosaria Rita

University of Naples "Parthenope", Italy

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MICROCREDIT IN ADVANCED ECONOMIES AS A "THIRD WAY": A THEORETICAL REFLECTION

Rosaria Rita Canale

Department of Economic Studies "Salvatore Vinci"
University of Naples "Parthenope"- Italy
rorita.canale@uniparthenope.it

Abstract
Microcredit has been growing over time and has been gaining an ever increasing position in the budget of monetary and financial institutions in developing countries. The aim of the paper is to investigate the role it can have in advanced economies and whether it might represent a "third way" as an alternative to the traditional conflict between the state and the market.
However, while in third world countries microfinance experiences have been ample and finding great success, in developed countries it reaches only a small percentage of the population. This reduced dimension of the microfinance phenomenon depends on two facts: 1) the difficulty of starting income-generating activities with microloans; and 2) the alternative no risk remuneration obtainable in the market (reserve wage). These two conditions are a direct function of the general state of the wealth of the economy.
In fact, while in cases of underdevelopment "finance for the poor" represents an instrument to exploit unutilised resources, in advanced economies it is mainly an instrument of solidarity, because it goes to fill the gap left by the absence of social safety nets and the reduction of the welfare state. Therefore microcredit in advanced economies might represent a "third way" as general non-profit organisation instruments do, and has to be investigated within this literature, rather than the framework of financial exclusion.

JEL Classification: G21, D01

Introduction

The history of economic thought and the evolution of paradigms throughout the 20th century have shown the importance of market mechanisms in countries' economic organisation. The role of the market, however, has not always been the same as economists have realised two different theoretical positions. On the one hand, the neoclassical theory, namely that the market has an self-regulating autonomous capacity and, on the other hand the Keynesian view, according to which, even if the market is considered to be the most effective form of organisation, it has to be sustained to reach the goal of full employment. This contribution should be provided by the state which does not pursue individual interests, and through public spending might help to support the aggregate demand necessary to reach an equilibrium level of income consistent with full employment

The synthesis of this controversy, presented here in a very simplified way, has fed the debate of theoretical and empirical economists since the beginning of '1900 and regarded not only advanced economies, but also developing countries and geographical areas where many people live below the poverty line.

In fact positions have been oscillating between the belief that the role of the state in sustaining demand was ineradicable, and the extreme support for liberalism and the *laissez-faire* approach. After the success up to the 1970s of Keynesian policies of support to aggregate demand and of distribution of international aid, the mainstream moved to an ever increasing faith in market and its rules as the solution to unemployment, as the only way capable of leading to stable growth both in advanced and in developing countries

In defining the premise of the consolidation of this theoretical position, domestic and foreign debt played a central role: this tool represents the way in which governments finance their expenses when there is no "cooperation" by central banks and it has to be "sustainable" in the long run.

Unfortunately the debt has often been using to finance unproductive expenditures related to the consensus mechanism, and has expanded exponentially conditioning, through the effect on interest rates, the normal working of private activity.

The idea of "supporting" the market was thus definitively set aside to pave the way for the *laissez- faire* approach. Despite the contributions of well-known economists ("one for all" Paul Krugman (1991)) of the *new economic geography* about the need to protect infant industries and underdeveloped areas to prevent the progressive increase in the divergence from advanced economies it was retained – with the support of the International Monetary Fund – to leave to single countries the autonomous management of the targets of both equilibrium income and debt repayment.

The debt-reduction policies, however, do not always have – due to the lack of cooperation of central banks and the difficulties of developing countries in gaining credibility in international financial markets – the desired effect and they experienced a steady increase in poverty and wealth concentration.

The concerns of economists about the auto-regulation ability of the market grew and – despite Keynesian positions did not become prevalent – they focused on the search for reasons of demand and supply mismatching, forming a price and/or a quantity unsatisfactory to both sides. Starting from the contribution of Akerlof (1970) about the "market for lemons" – i.e. the uncertainty concerning the quality of goods, a huge amount of literature has developed on so-called information asymmetries. According to this view, the market may create conditions in which the price that is formed can let off some buyers – *adverse selection* – and select others who are willing to pay a high price – *moral hazard* –characterised by higher risk tolerance.

These concepts were then applied to the credit market in the Stiglitz and Weiss (1981) contribution from which a vast literature on exclusion from the possibility of obtaining funding as an obstacle to the removal of poverty has developed[1].

This is how, relying on the theoretical underpinnings of "market failures" and "microcredit" originated – i.e. the practice of granting microloans on the basis of specific projects or specific targets for individuals living below the poverty line.

This search process has been significantly accelerated with the creation of the *Grameen Bank* by the man who would later receive the Nobel Peace Prize – Muhammad Yunus. He has the great merit of having made known to a wide audience and suggested its microfinance initiatives as tools for promoting development in poor countries. The activity of this bank, which is based on traditional market mechanisms, on the direct control of the path of loan repayments by the borrower and on some sort of altruistic aim, seeks to grant small loans to people who are traditionally considered outside the economic circuit.

This initiative was considered to be convincing and has had such resonance at international level that it has spread quickly throughout the world. In particular, major results were obtained in South-East Asia, Latin America and Africa.

[1] For a review of the literature see Armendáriz de Aghion and Morduch (2004)

A great interest has been expressed explicitly in Europe (European Commission 2007) because there is the spread belief that microcredit can play an important role within the Lisbon strategy for growth and employment and achieve social inclusion. To the interest of the market (banking institutions) and the world of voluntary (non-profit) organisations the interest of institutions was added, aimed at creating effective tools to promote microcredit practices.

Microcredit – defined by the European Union as that reaching a maximum loan amount of €25,000 – is in fact considered an instrument of:

a) self-employment encouragement;
b) the creation and development of small businesses; and more recently also
c) support to individual demand.

It would be an instrument to encourage the entry of individuals into the world of employment because they have the opportunity to obtain microloans on the basis of projects presented as the best way to move from a state of unemployment into a state of self-employment in which the sense of responsibility for the business activity is an effective incentive.

It would be then, an instrument of creation and growth of small firms (less than 10 employees) because it opens to credit, activities that are unable to provide collateral, but that need support to start or expand their business.

It would finally represent a support mechanism for private demand for it is able to replace the traditional credit for consumption and overcome liquidity constraints.

However, if microcredit has been growing over time in developing countries and has been covering an ever-increasing position in the budget of monetary and financial institutions operating in those contexts, what role can it have in advanced economies?

May it represent a "third way", to suggest as an alternative to the traditional conflict between the state and the market?

The aim of this paper is to answer these questions to understand the role of microcredit in the economic organisation of advanced economies.

If, in fact, third world countries have been finding great success – microfinance projects are used to finance microactivities used to eradicate extreme poverty conditions – in developed countries microcredit is one of many possible alternatives facing an individual under the poverty line.

The small size of firms (individual firms), in developing countries represents a factor of versatility and adaptation to the environment, while in advanced economies it is a factor of greater exposure to market changes and a lack of competitiveness compared to companies that enjoy large economies of scale.

The reduced dimension of the microfinance phenomenon does not only depend on the presence of asymmetric information or on the application of interest rates excluding diligent and reliable debtors but attracting risky ones, but especially depends on the lack of demand because of the impossibility of finding convenient destinations for microloans.

These circumstances make microcredit in advanced economies much less applicable and relegated into the initiatives of solidarity.

To prove this conclusion, the paper goes on to examine the size of microcredit in the world with a look at Europe (Section 2). In Section 3 some simple analytical tools are presented to show that demand for microloans depends on:

a) the ability to produce income in the future; and
b) the lowest wage obtainable in the market that the individual is willing to accept (reserve wage).

Finally, the fourth paragraph outlines the overall findings

2. Microcredit in the world: A quick outlook

Since the end of the last millennium, as far as liberal ideas are concerned, an ever-increasing consolidation and the difference in the concentration of wealth has become wider and microfinance has – especially in poor countries – been growing exponentially.

Table 1 describes the evolution of the phenomenon of microcredit as a whole since 1997, the year of publication of the Yunus contribution (Yunus 2000). The increase from 7.6 million poor people in 1997 to 106.6 million at the end of 2007 represents an increase of 1302 per cent over ten years.

Table 1: Microfinance growth in the world (1997-2007)

Date	Number of programmes	Clients	Poor clients
12/31/97	618	13.478.797	7.600.000
12/31/98	925	20.938.899	12.221.918
12/31/99	1.065	23.555.689	13.779.872
12/31/00	1.567	30.681.107	19.327.451
12/31/01	2.186	54.932.235	26.878.332
12/31/02	2.572	67.606.080	41.594.778
12/31/03	2.931	80.868.343	54.785.433
12/31/04	3.164	92.270.289	66.614.871
12/31/05	3.133	113.261.390	81.949.036
12/31/06	3.316	133.030.913	92.922.574
12/31/07	**3.552**	**154.825.825**	**106.584.679**

Source: *Microcredit Summit Campaign*, 2009 Report

Table 2 shows the size of the phenomenon by geographical area. Asia, particularly the southern region, is the region where the phenomenon was most widespread. Since the late 1990s, it is well-known that in Bangladesh and Indonesia microcredit was not only an instrument to support poverty, but it was also a social safety-net during the financial crisis (Marconi and Mosley, 2006).

Table 2: Diffusion – by geographical area – of finance for the poor (from 31/12/2006 to 31/12/2007)

Region	Number of Programmes	Clients 2006	Clients 2007	Poor 2006	Poor 2007	Poor Women 2006	Poor Women 2007
Africa Sub-Saharan	935	8.411.416	9.189.825	6.182.812	6.379.707	4.036.017	3.992.752
Asia and Pacific	1.727	112.714.909	129.438.919	83.755.659	96.514.127	72.934.477	82.186.663
Latin America and Caribbean	613	6.755.569	7.772.769	1.978.145	2.206.718	1.384.338	1.450.669
Middle East and North Africa	85	1.722.274	3.310.477	755.682	1.140.999	621.111	890.418
Total Developing Countries	**3.360**	**129.604.168**	**149.711.990**	**92.672.298**	**106.241.551**	**78.975.943**	**88.520.502**
North America and Western Europe	127	54.466	176.958	25.265	109.318	11.765	72.576
Eastern Europe and Central Asia	65	3.372.280	4.936.877	225.011	233.810	142.873	133.815
Total Industrialised Countries	**192**	**3.426.746**	**5.113.835**	**250.276**	**343.128**	**154.638**	**206.391**
Total	**3.552**	**133.030.914**	**154.825.825**	**92.922.574**	**106.584.679**	**79.130.581**	**88.726.893**
Percentage in Developing Countries	94,6	97,4	96,0	99,7	99,7	99,8	99,7

Source: *Microcredit Summit Campaign*, 2009 Report

Far behind, according to the number of projects and amount of resources, follows sub-Saharan Africa, Latin America and the geographical area of the Arab countries (the Middle East and North Africa (MENA) countries) with a not very relevant position. Of particular note, however, are some experiences in Latin America, such as in Bolivia where the Bancosol first and other financial institutions after, have devoted themselves with great success to microcredit (Navajas, Conning and Gonzalez-Vega 2003)

In all developing countries the number of women below the poverty line represents the majority of the reached population.

If we look at the phenomenon in industrialised countries, we see that microcredit projects in advanced economies are not a significant proportion at all – never more than six per cent and often below one per cent (see last row of Table 1). Even in Eastern European countries, the phenomenon of microfinance is not very popular despite the conversion from socialist economies to market economies creating a significant number of people living below the poverty line.

The limited spread of microcredit as a market activity is a phenomenon affecting all continents, as private monetary financial institutions granted only one-sixth of total microloans (*Microcredit Summit Campaign*, 2009 Report)[2].

Observing the institutional forms of microcredit companies all over the world we can find that they were all born as non-profit institutions and assumed the form of non-governmental organisations (NGOs).

However, despite the transformation into regulated financial institutions as a model that has become appealing due to its potential benefits, such an ability to mobilise public deposits, have access to private sources

[2] For a more in-depth, but less updated, analysis of the qualitative evolution of the phenomenon see Gonzalesz and Rosenberg (2006)

of capital, improvements in governance and transparency, with an ultimate goal of reaching significant scales and financial sustainability; of the 7.000 NGOs providing microfinance services to poor entrepreneurs throughout the world, only a minute percentage has initiated the transformation into privately owned, regulated microfinance institutions (MCI) (Hishigsuren 2006).

Table 3: Numbers of microcredit NGOs transformed into regulated financial institutions by geographical area

Geographical area	Number of countries	Number of MCI
Latin America	8	24
Asia	6	12
Africa	4	7

Source: Hishigsuren 2006

Table 3 depicts a situation in which just a few institutions transformed into monetary and financial institutions following market rules; the task of microfinance even in poor countries is best solved by NGOs, having non-profit purposes.

These difficulties appear not to discourage European institutions. Policy authorities in the old continent consider microcredit as a useful instrument in supporting the Lisbon Strategy, with the aid of the European Investment Fund (EIF).

According to estimates by the European Union (EU), aimed at quantifying the potential of finance for the poor, individuals are considered below the poverty line if they have an income of less than 60 per cent of the median of the population. Of these, according to the report of the EU only 45 per cent of the age group between 15 and 64 years own quality requirements to start entrepreneurial activities. Among these only 3–4 per cent can be considered potential users of microcredit initiatives. Using these assumptions the EU study has estimated as shown in Table 4, the potential amount of loans to be granted as microfinance (2009 data).

Table 4: Estimate of microcredit potential in Europe (2009 population)[3]

	EU-15	EU-12
Population between 15 and 64 years	324,2m	177, 01
Percentage at risk of poverty	16%	16%
Potential entrepreneurs	45%	45%
Potential users	3% to 4%	3% to 4%
Average amount of microloans	**€**10 240	3 800
Potential demand of microloans	**€9. 561 m**	**€1.937 m**

Source: Population: Eurostat; method of calculation *European Commission (EU 2007)*

Across the EU, both referring to the most advanced and to the most underdeveloped economies, the estimate for 2009 is of more than 1.443.400 loans totalling €11.498 million. However, this is an estimation that even if confirmed would represent a volume absolutely incomparable to that of third world countries.

3. Demand for microcredit in advanced economies

Starting from Akerlof's contribution (Akerlof 1970) on asymmetric information and from the extensions of these findings to the credit market (Stiglitz and Weiss 1981) economists have focused on trying to explain why some individuals have no access to credit. The most diffused conclusion gave as an explanation the formation of a prevailing price inadequate to the needs of the market. In other words, the setting of too high an interest rate charged on loans from the banking system leaves the less risky individuals out of the market while meeting profitability requirements (*adverse selection*) and on the contrary takes inside subjects, with no minimum performance requirements, that are likely to bear a higher risk (*moral hazard*).

These arguments are very relevant in explaining the inefficiencies of the credit market because they introduce issues that relate to the risk of the borrower and their viability over time of the ability to repay the loan obtained plus an interest rate. This research has also been extended to microcredit, recent studies on which have focused on how the monetary and financial institutions can obtain a profit while providing loans to poor persons, without collateral, who are normally excluded from the credit market (Hishigsuren 2006).

[3] Data is considered separately for EU15 (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom) which represents the area of most industrialised countries and EU12 (Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia) who represent the area of so-called new-access countries having a poorer economic structure.

If this reflection is certainly valid, because it examines the limits on the supply side of a banking system created to support the developed economies, there is another perspective through which to look at the phenomenon. It is in fact possible to investigate the other side of the market: the demand for microloans to determine in which cases they will be formulated.

We exclude from this analysis small loans granted by the traditional banking system to those who already gain acceptable levels of income. Indeed, the microcredit – or the finance for the poor – is defined in the literature as the granting of small loans to poor people living below the poverty line to undertake income-generating initiatives that enable them to live without additional economic assistance.

When a poor is going to demand for credit?

This question can be approached from two perspectives: the first assessing the ability to produce income from the activity to which microcredit is destined and a second comparing the income obtainable from the starting activity with the reserve wage or the lower wage that an individual poor is willing to accept as an alternative.

Microcredit and expected income

Microcredit – as we have already said – is defined as those loans granted to people living below the poverty line.

Therefore the following relation holds:

$C_t > Y_t$

According to which, consumption at time C_t needs to be greater then the earned income in the same time interval Y_t. The individual asks a monetary and financial institution for credit to reach at least subsistence consumption C*.

To achieve this goal the individual who lives below the poverty line will ask in the same period for a loan at least equal to the difference between current consumption and current income:

$$F_t \geq C_t - Y_t \qquad (1)$$

Where F_t is the microfinance asked of the credit institution.

In the next period the "poor" will have to repay the loan plus the interest rate:

$$F_{t+1} = F_t\ (1+r) \qquad (2)$$

Where F_{t+1} represents the total amount that the individual must be able to repay.

On expiry of the financing obtained, the individual must not only have a sum sufficient to repay the loan, but must also consume, so that its income must be such as:

$$Y_{t+1} \geq F_{t+1} + C_{t+1} \qquad (3)$$

Substituting (2) in (3) we have:

$$Y_{t+1} \geq F_t (1+r) + C_{t+1} \qquad (4a)$$

The poor, in order to be able to pay a positive interest rate:

$r > 0$

has to gain the following income:

$$Y_{t+1} \geq F_t + C_{t+1}$$

In order to pay an interest rate greater than zero it must necessarily be that the future income exceeds the future consumption plus the value of the initial loan. The amount of this surplus makes the cost of financing affordable. This last inequality can be read as the minimum constraint the individual has to respect to improve his condition of poverty.

We can extend the relation (4a) to a multiple time.

The final value of the loan to be repaid can be divided into many instalments going from time t to time t+1 for t=1,2,3,4,5.., so that:

$$F_{t+1} = R_0 + R_1 + R_2 + \dots + R_{t+1}$$

Extending for the entire duration of the loan and indicating with a single value j the rate at which the flows of spending and future income have to be discounted, the following generalisation holds:

$$Y_1 + \frac{Y_2}{1+j} + \dots\dots + \frac{Y_{t+1}}{(1+j)^t} > R_1 + \frac{R_2}{1+j} + \dots\dots + \frac{R_{t+1}}{(1+j)^t} + C_1 + \frac{C_2}{1+j} + \dots\dots + \frac{C_{t+1}}{(1+j)^t} \quad (4b)$$

According to which a person who lives below the poverty line will ask for the loan if the expected discounted income flows for future periods are at least equal to the sum of consumption of the coming periods plus the instalments to be repaid.

We can observe the situation from another point of view. Suppose that the individual – not being able to gain a sufficient income – asks for an additional loan to repay the loan granted in the previous period. If its resources for consumptions are still below the amount to grant the subsistence level the finance at time t has to also cover this difference. So that the loan granted to the poor is:

$$F_{t+1} = (1+r)F_t + (C^* - C_t) \qquad (5)$$

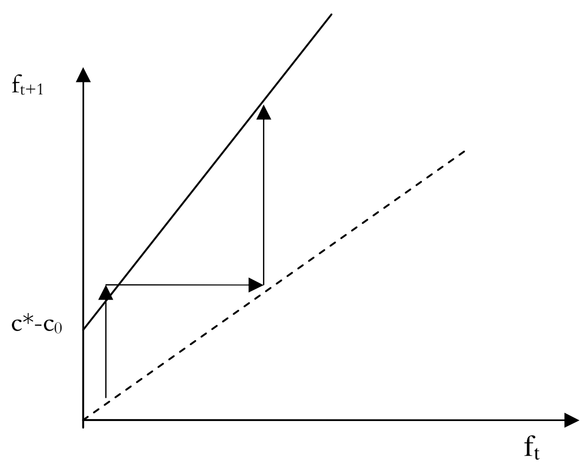
According to which, the current amount of loan F_{t+1} consists of the loan inherited from the past F_t, plus interest thereon rF_t plus current deficit in consumption $(C^* - C_t)$.

Dividing all by Y_t, and recalling that $Y_{t-1}/Y_t = 1/(1+y)$, we have the equation describing the dynamic of the finance/income ratio (f_t) through time:

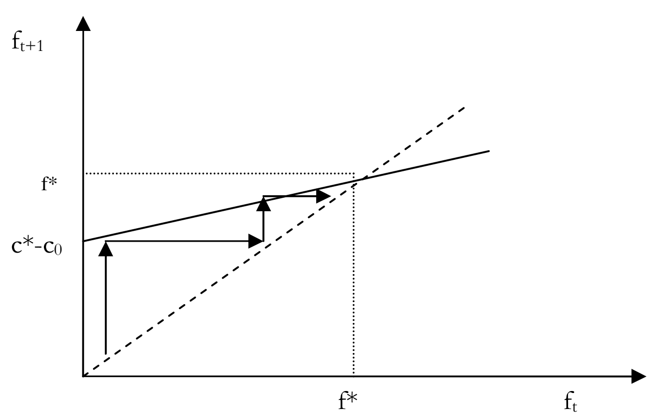
$$f_{t+1} = \frac{(1+r)}{(1+y)} f_t + (c^* - c_t) \qquad (6)$$

(c^*-c_t) are the difference between the ratios' subsistence consumption/income and current consumption/income respectively.

Equation (6) states that, to avoid an ever-increasing debt, the growth rate of income has to be greater than the rate of interest, regardless of the level of the deficit in consumption, which is always positive for this hypothesis.



panel (a)



panel (b)

Figure 1 . Divergence and converge paths of microcredit loans

This situation can be depicted in Figure 1 where the alternative loan dynamics are described

We can have two cases: one in which the interest rate is greater than income growth rate (panel a) and a second one in which the cost of finance is lower than the income growth rate (panel b).

In both panels the straight dashed line inclined at 45 degrees shows all the points in which the debt of the poor does not increase and it is not necessary to ask for further loans to try to exit the poverty condition.

The other straight continuous line shows the effective dynamic of the loan. When the two lines match the financial conditions of the individual reach a stable value.

In panel (a) the line describing the dynamic of the microloans shows a worsening of the finance condition and a divergence from a constant value.

In panel (b) the line describing the dynamic of the microloans shows, on the contrary, a progressive improving of the debt conditions towards a stable value.

As an additional consideration we can add that if the subsistence consumption equals the effective one at time t, there is no more reason to ask for microcredit and the line describing the convergence path moves downward until its origin crosses the origin of the axes (figure 2).

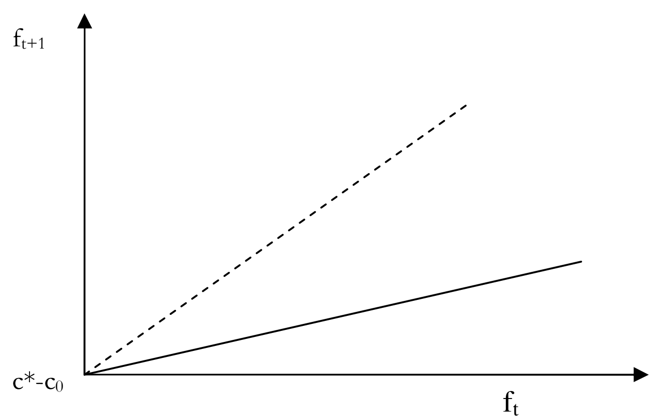


Figure 2. Absence of microloans when current consumption equals subsistence level

Microcredit and the reserve wage

Suppose the project for which the individual should get the funding makes him able to produce an income high enough to reach his subsistence level of consumption to live with dignity.

He now faces a second alternative choice: either to accept the loan and start a business on his own earning a small entrepreneur's income or offer his labour force to the market and obtain a wage.

This evaluation is based on the comparison of:

a) the stability over time of both of them;

b) the likelihood of finding employment in the market; and

c) the minimum wage the individual is willing to accept to pursue a more lucrative but risky business.

It is obvious that the first factor depends on the nature of the project and expectations of growth in the economy. It also depends on the degree of development achieved in the country. The more the country has an advanced economic structure, the fewer the areas to which to allocate productively small loans, but more likely to get a stable job. Also the probability of finding employment is a function of the economic size of the country and its growth rate.

Finally, the reserve wage is influenced by historical, cultural and geographically determined conditions, so that in a country where the average standard of living is high and there are social safety nets, the individual will not find convenient the income obtainable from a microcredit project, but will always prefer to provide his labour force in the belief that this activity will ensure the highest revenue through time and will be subject to minor disturbances.

Let p be the probability of obtaining a wage. It holds that:
$0<p<1$
Then let W_t be the salary in each time period.
It is possible to extend the inequality shown in 4b:

$$Y_1 + \frac{Y_2}{1+j} + ... + \frac{Y_{t+1}}{(1+j)^t} > R_1 + \frac{R_2}{1+j} + ... + \frac{R_{t+1}}{(1+j)^t} + C_1 + \frac{C_2}{1+j} + ... + \frac{C_{t+1}}{(1+j)^t} \qquad 4(b)$$

And add a second inequality:

$$Y_1 + \frac{Y_2}{1+j} + ... + \frac{Y_{t+1}}{(1+j)^t} > p_1 W_1 + p_2 \frac{W_2}{1+j} + ... + p_t \frac{W_{t+1}}{(1+j)^t} \qquad 4(c)$$

Summing up, to make a microcredit project work under the normal market activity, it has to be that the fluxes of income obtained from the projects funded must be able to guarantee repayment of the loan and the subsistence level of consumption must also be greater than the likely revenues obtainable in choosing to work as an employee

4. Solidarity and profit in finance for the poor

Economic literature has long investigated the relationship between financial market development and economic growth, concluding that: "with informed policy choices, finance can be a powerful force for growth"[4]. However economists have not detailed whether, when and under what circumstances the widening of financial markets and the increase of capital mobility may help reduce poverty (Arestis and Caner 2008; for a comprehensive survey on this issue, see Demirguc-Kunt and Levine 2009).

Microcredit, by its very nature, was born as a tool for the reduction of poverty because small loans are intended for poor people to give them the opportunity, through self-employment, to leave their condition of exclusion. The contribution of Yunus with the Grameen Bank has the merit of having brought attention to and systematically organised a new instrument on the "third way" between the market and the state. This new approach to economic policy for financial markets proposes the mitigation for exasperated market distortions without recurring to welfare mechanisms[5].

To make finance for the poor an experience of success some conditions not reproducible in the same way in developing countries and advanced economies must happen. Microcredit as a support to poverty in fact rests on two assumptions[6]:

1. the destination of the loan to income-generating activities; and
2. the impossibility of obtaining a sufficient wage as alternative remuneration.

These two conditions are more true if the economy is underdeveloped and has low levels of income and capital per capita. In this case, in fact, the "finance for the poor" is one way of avoiding the poverty traps and encouraging growth rates leading to the catching-up of developed economies.

Only once these conditions are respected can economists investigate making credit available to all and finance for the poor profitable for the banking system.

It is not a coincidence, therefore, that the size of the phenomenon in advanced economies is very small. Morduch and Schreiner (2001) – economist supporters of extensions of microcredit experiences in developed countries – stress that to be carried in an advanced economy like the United States, effective programmes of support and control of the path of investment must be accompanied by strategies for containing banking costs. We can say that the profitability of microcredit projects within the market system is subordinated to assistance. However, this seems, having a look beyond the value of the objective of poverty reduction, somewhat contradictory.

Lanzi (2008) states that: "microcredit is far from being the capitalism-compatible tool of liberation [in the Marxist sense] of the poor and this piece of news cannot shock economists since, following Marxism, no capitalism-compatible ways towards the freedom of the poor actually exist" (Lanzi 2008, p.209).

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4 World Bank, 2001, p.1

5 Adams and Raymond (2008) state that microfinance is – rather that an instrument for the reduction of poverty – an amplified media representation of a relationship system that already exists in developing countries.

6 Lanzi (2008) states that the entire theoretical structure of microcredit, as proposed by the Grameen Bank, is neither theoretically consistent, nor practically useful as an instrument for the reduction of poverty.

Having a closer look at what happens in developed countries, we note that the practice of granting loans of reduced amounts exists a lot of the time and works as an instrument to address the lack of liquidity and the distribution of consumption over time.

Actually, the banking and financial system grants credit to private sectors – individuals and businesses – for personal needs or to finance projects supporting current consumption through instalments, to whoever proves to be capable of generating income and not having a past history of default.

The demand for microcredit (in this case credit of little amounts) does exist and is more or less satisfied by the banks. It is a further question to ask ourselves whether interest rates incorporate all the information of the debtor and the creditor, or whether it is the result of asymmetries, but this issue is much broader and covers both the regulatory instruments and monetary policy.

The demand for microcredit, this time the demand for financial instruments for very poor people, may not exist if we adhere to traditional standards of the market. In fact it is directly related to the expected future income of the activity to which it is destined, and an inverse function of the wage obtainable alternatively, depends on the poverty dimension of that economic system.

Finance for the poor will find so much space and will be so much more profitable if the country is in a state of underdevelopment. In this case the microcredit can represent a "third way" because it adds a new element of propulsion for growth, does not exacerbate conflicts typical of the market, and does not use donor practices.

In the case of developed economies, on the contrary, even if they may be in a phase of recession, the inability to obtain adequate income makes microcredit mainly an instrument of solidarity, because it goes to fill the gap left by the absence of social safety nets, the reduction of the welfare state and more generally by the progressive reduction of the state in economic activity.

Microcredit in advanced economies must therefore be analysed, with its particular features, within the literature about non-profit organisation to which we suggest referring to the deepening of knowledge about the limitations and opportunities.

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