

Microcredit as a Cure for Poverty: The Case of Serbia*

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ABSTRACT – *When the Nobel Peace Prize for the year 2006 was given to Dr. Muhammad Yunus and Grameen Bank "for their efforts to create economic and social development from below", microcredit was recognised as an efficient tool against poverty. According to Statistical Office of Republic of Serbia, 6.6% of Serbian population was objectively poor and 13.9 unemployed in 2007. On the other hand, the possibilities for poor and unemployed to take a micro loan in order to start business are limited. Many groups are totally excluded from the banking system on the grounds that they are not bankable. This indicates that certain measures should be undertaken so that the potential of microcredit as a tool for poverty and self-employment incentive could be fully exploited, for the benefit of the groups in need and Serbian society as whole.*

KEY WORDS: *poverty, unemployment, microcredit, microfinance institution*

Introduction

When the Nobel Peace Prize for the year 2006 was given to Dr. Muhammad Yunus and Grameen Bank "for their efforts to create economic and social development from below", microcredit was recognised as an efficient tool against poverty. Instead of reconciliation with the world in which poverty is the destiny for a half of its inhabitants² and a trial to beat it with charity, small amount of money should be lend to poor people so they could undertake businesses that generate incomes, allowing deprived to care for themselves and their families. The idea is to help poor people to improve their condition on their own. This "small amount of money for micro enterprise establishment by poor" is known as **microcredit**³.

Grameen Bank has done business for more than quarter of a century providing poor people, particularly rural women, with micro loans. The Bolivian Banco Sol, another pioneer in microfinance industry, has mostly been concentrated on the urban, so called "economically active poor" - entrepreneurs with small business for which the traditional banking services have been out of reach. Besides these two, nowadays there is a great number of other **microfinance institutions** (MFI)⁴ organised in different ways: as non-profit organisations, credit unions, savings and credit cooperative societies, specialized banks, etc. Their experience has shown that poor people can be relied on to repay their loans, and also that financial services could be provided to poor people through market-based enterprises without subsidy. On the other hand, their activities resulted in poverty and unemployment reduction⁵.

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² "Some 2.7 billion—almost half the world population—live on less than \$2 per day." Source: *The Wealth of the Poor-Managing Ecosystems to Fight Poverty*, United Nations Environmental Programme (UNEP), the United Nations Development Programme (UNDP), the World Bank, and the World Resources Institute (WRI); 2005 p.3

³ What is considered to be "a small amount of money" differs from country to country.

⁴ There should be made a distinction between terms microcredit and microfinance. The later has broader meaning and entails insurance, savings, transfer services, etc., as well as micro loans. Source: Microfinance Gateway; www.microfinancegateway.org;

⁵ Bangladesh Institute of Development Studies (BIDS) carried out an extensive study of the impact of microcredit program using longitudinal data of 3,000 households between 1997–2000. One of the key findings was that "microcredit has a positive and significant effect on poverty status of the program households". The study also finds that members of microcredit

Poverty and unemployment in Serbia

Statistical Office of the Republic of Serbia has undertaken a research analysis on poverty in Serbia and the data were presented in the *Living Standards Measurement Study, Serbia 2002-2007*⁶. Poverty has been analyzed based on the data obtained in the Living Standards Measurement Survey (LSMS) conducted in May 2007. The data indicate that 6.6% of Serbian population is poor. It is estimated that the consumption of the 490000 inhabitants of Serbia (6.6%) is below the poverty line⁷. However, as in most countries, subjective poverty in Serbia was significantly higher than the objective measures showed - twice as many Serbians were subjectively poor compared to the objective assessment⁸.

The most affected categories are: the population from rural areas of South East Serbia, the uneducated and the unemployed, then elderly people (65 and over), as well as households with two and more small children (aged 0-6). The research shows that poverty is strongly correlated with education - the highly educated population is not exposed to poverty risk, and they accounted for a mere 1.7 percent of the poor. Moreover, labour market status significantly affects poverty. The highest poverty risk is experienced by inactive households, as well as households with no employed members.

The processes of transition towards market economy, privatization, bankruptcy, restructuring, downscaling, etc, have led to great number of dismissed workers. On the other side, new work places have not been opened as rapidly so that they could absorb people who lost their jobs and for the new generations of workers. This has led to relatively high unemployment rate in Serbia. According to Labour Force Survey 2007 conducted by Statistical Office of the Republic of Serbia, the unemployment rate was 13.9 percent, while the EU unemployment rate was 7 percent and in surrounding countries it was less than 10 percent (Croatia 9.0 percent, Hungary 7.2 percent, Romania 6.7 percent and Bulgaria 6.9 percent) in 2007.⁹

The unemployment rate for women is 16.5 percent and for men 11.8 percent. It could be noticed that women unemployment is relatively higher. Similar to other countries that have gone through a transition period and experienced high unemployment, young people were most affected by unemployment. Young people (between 15 and 24 years of age) account for 15.5 percent of the total number of population aged 15+. They constitute 6.3 percent of the employed and 24.8 percent of the unemployed. It is clear that youth unemployment is extremely high.

The data unambiguously show that unemployment is one of the main causes of poverty, largely resulting from a low education structure of labour active household members. The reduction of unemployment rate and education attainment would have the largest impact on poverty. However, there are groups of unemployed that do not belong into the category of poor population, but which are still the indicator of unsatisfactory level of Serbian economic development. The possible solution to these serious problems could be helping the poor and unemployed to start a business by providing them with a microcredit.

programs are less vulnerable when faced with crises. Moreover, improvements in other social indicators (child immunization, use of sanitary latrines, and prevalence of contraception) are also more noticeable for microcredit program members compared to non-members." Source: *Scaling up Poverty Reduction, Case Studies in Microfinance*, Consultative Group to Assist the Poor and World Bank Financial Sector Network; Washington, D.C.; 2004; pg. 58.

⁶ *Living Standards Measurement Study, Serbia 2002-2007*, Statistical Office of the Republic of Serbia, The World Bank, Department for International Development, Statistical Office of the Republic of Serbia, 2008.

⁷ Source: *Living Standards Measurement Study, Serbia 2002-2007*, Statistical Office of the Republic of Serbia, The World Bank, Department for International Development, Statistical Office of the Republic of Serbia, 2008.

⁸ "To define subjective poverty, we used respondents' answers to the question about the minimum funds a household requires to cover its basic needs. In order to compare the relation between subjective and objective poverty, the poverty line defined according to consumption of population was applied to subjective assessment of respondents concerning the minimum amount required to cover basic needs." *Living Standards Measurement Study, Serbia 2002-2007*, Statistical Office of the Republic of Serbia, The World Bank, Department for International Development, Statistical Office of the Republic of Serbia, 2008, p. 13.

⁹ The definition of unemployment by the Labour Force Survey is based on International Labour Organization definition and therefore Serbian unemployment rate is comparable.

Microcredit for poverty and unemployment reduction in Serbia

Microcredit owes its success to the fact that there is potential in every human being. No matter of which educational level, gender or age one is, everyone is capable of using its talents and skills in lucrative way.

“Miroslav Spasić having lost his job in a cable factory took the severance pay from his work and a loan from Micro Development Fund (microfinance focused non-governmental organization) and invested the money in a second hand plane in order to start up his own business. Today, he has his own production of fences, protection bars for boutiques and shops, flower holders. His fences are of high quality and of esthetical appeal. He plans to employ more workers and extend the business soon”¹⁰.

“*Lastavica Catering Service Ltd* is a fully independent and sustainable NGO - owned social business. It started as an income generation initiative for refugee women supported by several humanitarian organizations, while today, it is a successful small enterprise that has 12 fully employed women. The catering company *Lastavica* provides regular monthly income for its employees – women that are marginalized in their status: refugees, Roma, long-term unemployed, undereducated or inadequately trained”¹¹.

These two examples illustrate successful stories of once unemployed, today independent individuals. The first example shows good practice in using micro loan for self-employment by a person who lost his job. In the second, the group of marginalized women was financially supported to establish a business. Their business has been developed and today enables them to earn their living with their own efforts and work. The initial capital for business establishment was not provided by micro loan, but by a donation. Nevertheless, the success of *Lastavica* indicates that it would have been able to repay a micro loan back, if it had been provided with some. What are the options for other poor and/or unemployed to take microcredit in Serbia?

There are different financial and non financial institutions, ranging from non-profit and public agencies to private entities, which provide microcredit and donations for unemployed and other individuals, poor families, rural households and micro and small enterprises¹². The organizations which operate in public sector are the following: Development Fund, National Employment Service, Guarantee fund, Fund for financing increased employment in the economically underdeveloped and distinctly migrant regions. In private sector, there are different banks, leasing companies and investment funds dealing with microcredit. There is also a number of NGOs, humanitarian organisations and donators operating in non-profit sector.

Analyses show¹³ that public institutions' microcredit is not available during the whole year, but periodically in accordance with the institution's annual funding programme. It is not possible to rely on whether and when it will be provided. The procedure for applying is rather complicated and centralised, with a small or no influence of the local institutions on decision making process. Except of the Serbian National Employment Service, which has branches all around the country, other institutions are out of borrower's living places. The credit purpose is strictly determined and usually is not compatible with the applicants' needs. Advisory service is low and rather limited on formal requirements regarding the application process. Caused by centralised procedure, the costs are disproportionably high. Nevertheless, the credit price is subsidised below the inflation rate, and therefore is highly affordable.

On the other hand, micro loans provided by private sector are highly available – credit supply is high and always present. The net of microcredit institution's branches is rather dense and territory is covered

¹⁰ Source: www.mdf.org.yu

¹¹ Source: www.lastavica.org.yu

¹² Igor Brkanovic, Milan Lalovic, Aleksandar Lakic, Srdjan Tilger, *Study on Micro-finance Support to Start-up in Serbia*, International Labour Organization, Belgrade, 2007.

¹³ Igor Brkanovic, Milan Lalovic, Aleksandar Lakic, Srdjan Tilger, *Study on Micro-finance Support to Start-up in Serbia*, International Labour Organization, Belgrade, 2007.

well. In order to apply for a micro loan a client is obligated to be a bank's comitent. Some banks give technical support in cash-flow analyses, business plan development, etc. which is the necessity for risk assessment, but there is a lack in overall advisory service etc. Microcredit provided by the private sector is rather unaffordable – interest rate is above the profit margin.

The amount of the available resources provided through non-profit organizations is limited and highly below demanded. Since employees visit clients in their place and establish direct communication the loans are “at hand”. Credits are designed in accordance with the client's needs. Advisory services are highly developed – cash-flow projection, financial management, business information provision, connection. Credit price is relatively high, but in the profit margin framework. However, these institutions encounter various problems, such as the inability to access foreign capital. The main source of capital are donations, so that the activities of these organizations are often limited with regard to loan beneficiaries (one of conditions for granting donations is that the future beneficiary belong to some marginalized group, which, although it is good, prevents loans to be offered to other groups of people who need these funds as well).¹⁴

Another important issue is the legal framework for microcredit industry in Serbia. The legislation which refers to public institutions is clear and precise. The public institutions are allowed to provide microcredit to targeted groups when it is in accordance with their strategy and aims. On the other hand, legislation in this field is arranged in favour of banking sector and forbids establishment and work of microfinance institutions in private or non-governmental sector. In other words, there is not a law which recognises microfinance institutions other then commercial banks.

It could be concluded that the options for the poor and/or unemployed to take a microcredit in Serbia are limited. In other words - microcredit supply does not meet the needs of its clients: microcredit is either very expensive or provided in insufficient amounts, or is not compatible with the applicant intentions for its use. The poor and unemployed inhabitants of Serbia do not have appropriate opportunities for taking a micro loan and being considered as of the high risk many groups are being kept outside of banking system. Moreover, lack of legal framework degradates sustainability the existing organizations and prevent others to develop a business in this sector.

What should be done?

As a highest priority, certain measures (such as passing a Law on Microfinance Institutions) should be undertaken so that the legal obstacles could be overcome and the infrastructure for founding microfinance institutions created. However, microfinance could be attractive for wider number of organizations only if it is perceived as a profit-making industry or sustainable activity. As it was briefly presented in the introductory passages, the micro loans have been repaid regularly, and even the organizations providing microcredit to the poorest operate on lucrative bases. Nevertheless, it should be underlined that their credit landing models are created in accordance with the socio-anthropological and economic characteristics of the particular country.¹⁵ Respecting the differences among the cultures, it would not be plausible to conclude that successful models elsewhere would be successful in Serbia as well. In order to enable adequate credit landing model definition, there should be undertaken certain researches of sociological, cultural and economic aspects of Serbian society. Consequently, the poten-

¹⁴ Milan Lalovic, Zoran Skopljak, *Analysis of Regulatory Obstacles to SME Development in Serbia*, Report from TAIEX Workshop, MEER – Department for SME and Entrepreneurship Development, Belgrade, June 2008.

¹⁵For example, Grameen bank operates as following: a bank unit is set up with a Field Manager and a number of bank workers, covering an area of about 15 to 22 villages. The manager and workers start by visiting villages to familiarise themselves with the local milieu in which they will be operating and identify prospective clientele, as well as explain the purpose, functions, and mode of operation of the bank to the local population. Groups of five prospective borrowers are formed; in the first stage, only two of them are eligible for, and receive, a loan. The group is observed for a month to see if the members are conforming to rules of the bank. Only if the first two borrowers repay the principal plus interest over a period of fifty weeks do other members of the group become eligible themselves for a loan. Because of these restrictions, there is substantial group pressure to keep individual records clear. In this sense, collective responsibility of the group serves as collateral on the loan. Source: Grameen Bank Web site:

http://www.grameen-info.org/index.php?option=com_content&task=view&id=43&Itemid=93

tial of microcredit as a tool for poverty and self-employment incentive would be fully exploited for the benefit of the groups in need and Serbian society as whole.

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