Five Talents
Fighting Poverty, Creating Jobs, Transforming Lives

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Microfinance: Small is Beautiful

Tom Sanderson, 20th July 2010

Microfinance is coming of age. The industry has grown from its non-profit roots to become a fast growing commercial sector. There is a growing academic literature surrounding the different models and contexts: what works well and what doesn't work so well. There are strong plaudits, advocates and fans. Increasingly there are also doubters, sceptics and critics.

The World Bank estimates that there are 1.5 billion people without access to formal financial services. Access is limited by aspects such as distance and poverty. Most of us in developed economies live within easy access of an ATM, a bank branch, a telephone, computer and credit card - through which we can save money, withdraw money, transfer money, have an overdraft, a loan, some insurance - all sorts of sophisticated means of intermediating our money.

But financial exclusion in developing countries has stunted economic growth. Imagine trying to run a business without start-up capital, without access to an overdraft facility, or a safe place to deposit cash at the end of a days' trading. Instead, informal financial mechanisms are used in community settings, but they are expensive and unreliable. Loan sharks will lend you money; deposit collectors will help you save - but there is no consumer protection, no fair finance, nor free banking or business advice.

When Muhammad Yunus started lending small amounts of money to Bangladeshi women in the 1970's, his local bank manager thought he was going to lose his funds. Instead, he found the women would co-guarantee each others' loans and were faithful in timely repayment. The social capital of the group replaced the financial collateral familiar to most financial institutions. The Grameen ('village') bank together with Prof. Yunus went on to win the Nobel Peace Prize in 2006, in recognition of the economic and social transformation that financial services had brought to their communities. A truly remarkable achievement: an innovative solution to a serious market failure.

Many organisations have picked up the microfinance story with their own emphasis and model. Most share the focus on poverty alleviation. Many prioritise women's empowerment - or simply allow women to self-select and demand the services themselves. The group-based methodology is fundamental in keeping costs down and building social capital, although some institutions now offer individual loans to their most faithful clients. The 'old-fashioned' banking values of knowing your client - mitigating risks by lending small amounts of money to groups with diverse business activities - echo the friendly or mutual societies of western economies, the building societies and cooperative groups.

In fact, microfinance can be shown to have a biblical basis if we examine the parable of the talents in Matthew's gospel, chapter 25. Jesus told the story of a master going on a journey, who entrusted his three servants with his 'talents' - money. On his return, one of the servants had traded five talents and earned a surplus of five more, for which he received the heart-warming affirmation: "well done, good and faithful servant".

Meanwhile, the servant with one talent had buried it in the soil and returned it dutifully to the master who gave a retort along these lines: "At least you could have deposited it in the bank and earned interest. Away from me, to the place of wailing and gnashing of teeth." A stern and chilling message, intended to emphasise our responsibility to use our God-given talents "each according to our abilities".

For me, I find it amazing to think that there were banks in first century Palestine where you could earn interest on your savings. Clearly the history of Jewish banking with which we are familiar (e.g. Rothschild, Goldman Sachs, Lehman Brothers) goes even further back than we thought!

This biblical example of enterprise, accountability and investment strategy inspired the formation of Five Talents as a microfinance initiative at the Lambeth Conference of Anglican Bishops in 1998. Since then, the charity has supported 12 microfinance programmes in 11 developing countries from Peru to the Philippines, and from Bolivia to Burundi - each linked with the local church to reach poor communities based on need not creed. The programmes are now serving 20,000 members worldwide, each with families and employees dependent on the business enterprises.

The Five Talents' microfinance programme in Sudan - referred to in the video interview here - is a fantastic example of a small programme reaching places where commercial (for-profit) microfinance or formal banking services are unlikely to reach for many years to come. There is no electricity, no mobile phone signal, no tarmac roads, no piped water and no fair opportunity to save or borrow cash. The entrepreneurs are now selling coca cola in the village (is that progress?!), opening tea-shops, stocking their general kiosks, tailoring, carpentry, hair-dressing and much more - building the local economy and social cohesion at the same time.

The microfinance method is dignifying, empowering, and most of all sustainable. I like to call it an "enterprise solution to poverty". Admittedly it is not a panacea - but I am definitely a fan - and you need that in the 40 degree heat of S. Sudan!