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Item Type	Preprint
Authors	Kyando, Eusebius
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Download date	2026-11-15 16:42:09
Link to Item	http://hdl.handle.net/20.500.12424/4263348

"CARITAS IN VERITATE" AN ALTERNATIVE APPROACH OF MICROFINANCE FOR POVERTY ALLEVIATION

By

KYANDO Eusebius (Fr)[1]

Abstract

On the eve of the New Year 2023, the Catholic Church and the world lost a great and brilliant man, Pope Emeritus Benedict XVI. He was known for among many things, in his writings on the Catholic faith, economic and social life. One of the Encyclicals touching economic lives is the so called Caritas in Veritate of 2009. In memory of his academic contributions, this paper attempts to marry the Encyclical with microfinance as a tool of poverty alleviation. The reason for this is to justify that business is not bad in all its respects. However, money when is taken in absolute terms it tends to reduce man as an instrument and puts him to a certain social role and it becomes the instrument of its own destruction (refer to the financial crisis of 2007/2008). Therefore, the author attempts to bring together business and charity in truth for the expected results of genuine human development as a common good. This is what to be expected from services and products of microfinance institutions (MFIs) wherever they operate in poor countries. The paper explores also the current trend of some MFIs being involved in capital markets. It is clear today that Microfinance has become a very potential investment opportunity for private and institutional investors as well. The question which the author would like to put forward is whether microfinance institutions will remain in their original mission of poverty alleviation by serving the financial excluded marginalised households or are drifting away from this mission in order to meet the goals of private investors and clients who can absorb larger loans even at the sacrifice of outreach to the poorest segments in a community for the sake of commercial viability. The principle of subsidiarity as employed by the Holy Father Emeritus Benedict XVI, who passed away on the 31 December 2022, has been explored contributing to good values that can be used in microfinance institutions which intend to be at the service of the poor.

Key words: Microfinance, "Caritas in Veritate", Poverty Alleviation, Human Development, Principle of Subsidiarity

JEL Classification: G22-23, H81, H132, L31, N86, 016

[1] Eusebius Kyando is a doctorate student (DBA) at the Catholic University of Eastern Africa in Nairobi-Kenya

1. INTRODUCTION

The Consultative Group to Assist the Poor (CGAP) defines the role of Microfinance as, inter-alia, to build sustainable, long-term financial institutions for the provision of financial services to significant numbers of low-income, but economically-active people in order to improve their conditions and local economies. Microfinance is also described as an umbrella that provides banking services through poverty focused financial institutions namely, microfinance institutions to poor parts of population that are excluded from mainstream financial services such as commercial banks (Dieckmann, 2007).

Microfinance is believed to be a tool of poverty alleviation even by the United Nations (UN) General Assembly which declared the year 2005 as the International Year of Micro-credit. The UN General Assembly holds that Microfinance is one of the significant tools in reaching the Millennium Development Goals, one of which was to halve the proportion of the people living on less than a dollar by 2015.

According to the World Bank reports the world attained the first Millennium Development Goal target to cut the 1990 poverty rate half by 2015-five years ahead of schedule, in 2010. However, the number of people living in extreme poverty globally remains unacceptably high. In 2013, 10.7% of the world's population lived on less than US$1.90 a day. The extreme poverty being in the developing countries of which 9% are from East Asia and the Pacific and 41% are from Sub-Saharan Africa. For this reason, there have been worldly spread and growth of microfinance institutions with the aim of fighting poverty.

Microfinance industry is estimated at US$60-100 million with 200 million clients (World Bank Newsletter, 2015). The Microfinance Gateway report of Trends in Microfinance 2010-2015, shows that there are 10,000 microfinance institutions worldwide with charters ranging from non-profit NGOs to credit unions and commercial banks.

Despite of the boom of microfinance institutions, the demand for microfinance services is also relatively high. There are more than 1 billion borrowers worldwide. Therefore, microfinance involvement in the capital market seems to have a paramount importance to fill the gap. The issue here is whether microfinance will drift from its original mission of serving the poor.

The mission of serving the poor is an agenda which was dealt also by Pope Benedict XVI in the Encyclical "Caritas in Veritate" of 2009. The Pope emphasized the importance of putting humankind at the centre of development. The Encyclical of the pontiff identified the principle of subsidiarity as one of the significant principles in the world of today's economies and micro-credit. For this reason, the author has sought to employ the Encyclical to search for a new approach to microfinance effort of poverty alleviation by serving the marginalised and poor population of the world. It is an attempt to put money and love in one basket. The underlining assumption is that, MFIs can do better not only by doing what is required but also by doing beyond that, by being good to the poor.

2. THE ORIGINAL MISSION OF MICROFINANCE

2.1 The Original Mission

The original mission of microfinance is clearly stated in the definition of microfinance by the Microfinance Gateway as the provision of financial services to those excluded from the mainstream financial services with a long-term view of poverty alleviation. The main services provided by microfinance include, microcredit, insurance, and savings.

Microfinance is traced back to 1800s when theorists like Lysander Spooner wrote about the benefits of small credits to entrepreneurs and farmers as a way of helping people get out of poverty. However, according to Global Envision, it was until the 1990s the concept microcredit began to be replaced by a new term that included not only credit but also savings and other financial services.

In 1970s organisations like that of Grameen Bank, pioneered by Professor Yunus to address banking problems faced by the poor people in Bangladesh, emerged to provide financial service to the excluded poor marginal population. The initial success of Grameen Bank also stimulated the establishment of several other giant microfinance institutions like BRAC, ASA, and Proshika[2] with the same aim of providing financial services to those who were excluded by commercial banks.

[2] These are the three largest Microfinance-NGOs in Bangladesh

According to *Imp-Act*[3], most Microfinance Institutions have a social mission of seeking to reduce poverty, to reach people excluded from financial services and to empower women. They use SPM[4] to improve the effectiveness of MFIs in achieving this goal and hence develop products and services that bring real benefits to the poor. For example; CARD[5] in the Philippines has an overall mission to empower the poor with a particular focus of lifting poor women out of poverty.

2.2 The Original Mission of Microfinance and "Caritas in Veritate"

As it has been stated above, the original mission of microfinance is to reach poor people excluded by traditional financial streams with the aim of poverty reduction. Most MFIs start from donations from institutions and individuals with philanthropic spirit of supporting the underserved people, not suitable to mainstream institutions.

In his Encyclical, Pope Benedict sees the significance of microfinance from its original goal of serving the poor. The Pope finds its significance especially today when financial difficulties can become severe for many of the more vulnerable sectors of the population, who should be protected from the risk of usury and from despair. He argues that the weakest members of society should be helped to defend themselves against usury, just as poor people should be helped to derive real benefit from micro-credit, in order to discourage the exploitation that is possible in these two areas. About new forms of poverty experienced even in rich countries, the Pope suggests that micro-finance should give practical assistance by launching new initiatives and opening up new sectors for the benefit of the weaker elements in society, even at a time of general economic downturn.

There are common ideas that can be derived from both the Encyclical and Microfinance Mission. While in microfinance the concepts such as "the excluded underserved poor", the Encyclical on the other hand calls this group, "the more vulnerable sectors of the population" and "the weakest members of society, the poor". The Pope calls for the assistance of the poor and weakest members of society. This is in fact the original mission of microfinance. However, some mature MFIs deviate from this original mission when they become commercialised. They hardly work for the weakest

[3] *Imp-Act* (***IMP****ROVING THE IMPACT OF MICROFINANCE ON POVERTY:* ***ACT****ION RESEARCH PROGRAMME*) is a global action research programme designed to improve the quality of micro finance services and their impact on poverty.

[4] Social Performance Management

[5] Centre for Agriculture and Rural Development

members of the society and the poor because the mission is no longer to serve this weakest sector of the population but they work for profit as it is evident in Latin America, Asia and Eastern Europe.

3. MICROFINANCE AND "CARITAS IN VERITATE"

3.1 Microfinance Key Issues in Fighting Poverty

The CGAP aiming at building a financial system for the poor, it prepared key microfinance principles that can guide the practice of microfinance worldwide. They unveiled various key issues in fighting poverty. First, they address the prevailing exclusion of the poor from financial services by traditional commercial banks. Banking sector is not ready to offer financial service to the poor, also known as the "unbankable", because Commercial Banks are not ready to expose to what they might think to be risk returns. Secondly, microfinance needs to be sustainable and permanent in order to serve more poor people. Microfinance will not continue to be subsidized forever. However, at their early stage need international support until when they reach a level of self-sustainability. Thirdly, high interest rates should not be for the cover of operational inefficiency of microfinance. Most of microfinance institutions have their interest rates above 15%. This is mainly because of the high costs of management of the microloans granted to the poor. Lastly, there is a need of capacity building for the microfinance to operate efficiently. This will be enhanced by transparency of microfinance financial and social performance to all stakeholders especially the poor. The capacity building also includes the activities of intermediaries. These may be governments or government agencies and other organisations.

3. 2. Charity and Microfinance

Proponents of social entrepreneurship define charity by reducing it to a mere temporary measure of solving a problem through donation of funds to buy food to ease the poor's hunger, albeit only temporarily. For instance, Gregory (2009) differentiated Charity from social entrepreneurship. He suggests that more value be placed on social impact and success than on good intentions or effective marketing or the severity of the need one may claim to serve. He would like to see that people are not honoured on the ground of what they give but whether what they give has an intended impact.

It is true that Charities support communities in the cases of natural calamities such as tsunami, floods and hunger. However, it should be made clear that today there are many examples were charity organisations like Caritas have implemented sustainable projects like sustainable agriculture, women

economic empowerment through micro-projects which most of them have been successful in developed countries. These initiatives have shown social impacts in some poor countries including Africa. They are indeed social entrepreneurships even if they do not make use of such terminologies.

Such social entrepreneurial initiatives of supporting organisations and individuals without compassion for humankind (charity) becomes a social action that ends up serving private interests and the logic of power. For this reason, charity in truth as Pope Benedict puts it, is the principle driving force behind authentic motive of supporting human development of both social entrepreneurs and charity organisations including in a special way microfinance institutions.

Pope Benedict links charity and truth because charity can be recognised as an expression of humanity and as an element of fundamental importance in human relations. Without truth charity becomes a product of sentiments and subjective emotions. While Truth makes human kind move beyond cultural and historical limitations, Charity goes beyond justice. Charity (love) makes people to go beyond what is just, that is, not just by giving to others what pertains to them in justice. Likewise, many microfinance institutions were able to start and operate because initially they got funds (donations) from philanthropic individuals, governments and institutions. Some of the donors are illumined by the light of their faith and reason to be charitable which in fact according to Pope Benedict leads to authentic human development which is the common good *(§60).*

Unethical money lending practices such as usury are against not only the principles of microfinance but also the virtue of love. For instance, in the Philippines loan sharks often charge an annualised interest rate of up to 1000% for a monthly loan (Economist, November, 2005 as cited in the Deutsche Bank Research, 2007) or in Tanzania where a private microloan lender charges interest rate up to 100% followed by aggressive follow-up of the loan including the confiscation of the property of the borrower in case of delay of repayment of the loan. The highest interest rate charged by a Mexican Banco Compartamos (Focus Note, 2007) which led to super-profits is still questionable.

When profit become the exclusive goal can be achieved in improper means and without common good as its ultimate end hence world's wealth growing in absolute terms while on the other side inequalities are on the increase, and new forms of poverty are coming into being. Microfinance that desires for profit at the expense of social return will lead to a widening gap between the rich and the poor who are normally the majority (Mission drift).

True love of a human person is about being “real good” not “feeling good” as authors like Fisher & Starr (2009) once wrote. When microfinance institutions respect human dignity, will stick to the mission of microfinance of serving the poor. They will stick to their mission of poverty alleviation and human development and minimise the growing gap between the poorest and the richest. The argument here is, MFIs do not lose by being good but they gain and may perform better. This is the value which commercial banks might have overlooked when they excised financial exclusion.

4. THE PRINCIPLE OF SUBSIDIARITY

4.1 The Principle of Subsidiarity

The Oxford English Dictionary defines subsidiarity as the idea that a central authority should have a subsidiary function, performing only those tasks which cannot be performed effectively at a more immediate or local level.

According to the Catechism of the Catholic Church, the Principle of Subsidiarity is opposed to all forms of collectivism. It sets limits for state intervention. It aims at harmonizing the relationships between individuals and societies. It tends toward the establishment of true international order (#**1885).** In accordance with this principle, neither the state nor any larger society should substitute itself for the initiative and responsibility of individuals and intermediary bodies (#**1894)**.

The teaching of the Catholic Church has elaborated the principle of subsidiarity, according to which "a community of a higher order should not interfere in the internal life of a community of a lower order, depriving the latter of its functions, but rather should support it in case of need and help to co-ordinate its activity with the activities of the rest of society, always with a view to the common good (#1883).” For instance, the family must be helped and defended by appropriate social measures. Where families cannot fulfil their responsibilities, other social bodies have the duty of helping them and of supporting the institution of the family. Following the principle of subsidiarity, larger communities should take care not to usurp the family's prerogatives or interfere in its life (#2209).

Pope Benedict describes the Principle of Subsidiarity (§137) as a particular manifestation for fraternal cooperation between believers and non-believers. He calls it an expression of inalienable human freedom (§57).

Pope Benedict requests more economically developed nations to do all they can to allocate larger portions of their gross domestic product to development aid, thus respecting the obligations that the international community has undertaken in this regard. He suggests that one way of doing so is by reviewing their internal social assistance and welfare policies, applying the principle of subsidiarity and creating better integrated welfare systems, with the active participation of private individuals and civil society. In this way, it is actually possible to improve social services and welfare programmes, and at the same time to save resources — by eliminating waste and rejecting fraudulent claims — which could then be allocated to international solidarity (§60).

4.2 Microfinance Institutions and the Principle of Subsidiarity Approach

Microfinance institutions do act as intermediaries between donors and poor communities. They subscribe to social aid agreements in support of the poor as many start as charitable foundations oriented forwards social welfare. They operate initially using funds they get from philanthropic individuals, organisations, and governments moved by compassion to contribute to fight poverty. Therefore, the poor are the major stakeholders of these microfinance institutions.

Subsidiarity principle requires that microfinance institutions use the bottom up approach by allowing the grassroots take part in decision –making particularly on the type of products, micro-loan rates, and mode of loan repayments which are friendly and suitable for the poor civil society. This demands microfinance institutions to review their welfare policies without interfering in the internal life of communities of lower order by depriving their functions, but rather should support them in case of need of help to coordinate its activities with view of the common good.

According to the principle of subsidiarity, the bottom up approach can be advocated also with interstate aid. Aid cannot deprive the bottom, the grass roots to make decisions for their development. The aid given does not imply that a higher order which gives aid should interfere in the internal life of a community of a lower order, depriving the latter of its functions. Pope Benedict argues aid programmes to increasingly acquire the characteristics of participation and completion from the grass roots (§59).

Subsidiarity is about autonomy of individuals and intermediaries. The poor, by being recipients of assistance does not mean that they are deprived of their autonomy and dignity because subsidiarity is first and foremost a form of assistance to the human person via the autonomy of intermediate bodies.

Such assistance is offered when individuals or groups are unable to accomplish something on their own, and it is always designed to achieve their emancipation, because it fosters freedom and participation through assumption of responsibility. Subsidiarity respects personal dignity by recognizing in the person a subject who is always capable of giving something to others (§57).

The Holy Father sees the Principle of Subsidiarity as the most effective antidote against any form of all-encompassing welfare and that it is well suited to direct microfinance institutions which aim at human development. Even in the case of international aid, a recipient society should not be locked into a state of interdependence but should be involved in its own development with the support of the aid. Therefore, microfinance institutions and other development projects may go ahead but being based on subsidiarity so that they are planned, managed and aimed at affirming rights at the same time providing for the assumption of corresponding responsibilities.

The principle of subsidiarity is best suited in microfinance practices. Microfinance aims at taking side with the marginalized poor people by expressing subsidiarity. Microfinance's inspiration for solidarity with poor strengthens it to stand up for the poor and promote a fair society. The subsidiarity derives from trust in peoples own strength. Hence it is committed to create conditions to faster and strengthen participatory development among these vulnerable groups. The vision, mission and activities of microfinance are based on this principle and moved by its strong belief in strength and dignity of every human being, irrespective of religion, belief, sex and age.

This principle is also significant even for Non-governmental organisations (NGOs) that provide development aid to the poor as it demands cooperation from both parties. It is through cooperation that it is possible to understand the real need of the poor. The same way applies to governments which are responsible for the creation of legal framework for the activities of microfinance and other NGOs.

5. MARKET ECONOMY AND MICROFINANCE

5.1 Market Economy

Following the growing gap between the rich and the poor, the northern and southern hemispheres of the globe it is crucial here to discuss the role of ethics in market economy and microfinance. According to Ratzinger (1985), the global economic crisis and the growing misery of poverty in the world is clear evidence that the economic methods and measures which have been employed seem to be inadequate.

Economists like Adam Smith and Peter Koslowski objects the role of moral ethics in the market economy. According to Adam Smith, the market is incompatible with ethics because voluntary moral actions contradict market rules and drive the moralising entrepreneur out of the game as economy. According to him market was held to work on efficiency through self regulated laws of supply and demand but not morality.

According to Ratzinger (1985), the presuppositions brought by Adam Smith are neither universally applicable nor correct as this is proven by the problems in the economy (even today). It is implied in the above determination that man is completely controlled by the binding laws of the market while believing he acts in freedom from them. This includes a presupposition that natural laws of the market are in essence good and necessarily work for the good, whatever may be true of the morality of individuals (Ratzinger, 1985).

In addition, economist Kosloski (1985/1986) saw the economy as governed not only by economic laws, but is also determined by men. Ratzinger (1985) objects this illustration because it takes man superfluously or excludes his moral freedom from the world of economics. In fact, the development of the world economy has also to do with the development of the world community and the universal family of man with his/her spiritual powers which are also a factor in the economy: the market rules function only when a moral consensus exists and sustains them. This would be the good approach to poverty reduction through microfinance, the approach to development which deals with human development with his entire being, that is, his/her spiritual powers that shape his/her life.

The microfinance that concentrate on the common good depends on a determinant ethical system which in turn can be born and sustained by strong religious convictions of the participants in the microfinance projects. The microfinance should work for the common good of the family of man. This demands a maximum ethical discipline and hence a maximum of religious strength (Ratzinger, 1985).

Our modern world needs not only a maximum of specialised economic understanding, but also a maximum of ethos so that specialised economic understanding may enter the service of the right goals for the development of mankind (Ratzinger, 1985).

5.3 Commercialisation of Microfinance: A Mission Drift?

CGAP outlines key principles of commercialisation: The first principle is competition which forces microfinance institutions to begin to make changes in product design, pricing, delivery mechanisms or other basic features of classic/formalised businesses to preserve or increase their market share. The second principle is that microfinance institutions must be regulated. This is a condition for receiving deposits and being licensed. The third principle is that microfinance institution must be profitable.

For commercialisation purpose, it is evident today that the microfinance sector is moving from donor-driven NGOs towards capital market driven sector. According to Dieckmann (2007) this transition is due to two reasons. First, some MFIs have begun to explore new funding opportunities such securitising microfinance loan portfolios. Some MFIs have even gone public, for instance the Banco Compartamos of Mexico. Second, private sector investors increasingly appreciate microfinance investments for their dual nature that they allow investors to adopt a social development strategy geared toward poverty alleviation and social development in developing countries. In addition, that they offer an attractive risk-return due to stable financial returns, low credit default rates and low correlation to the mainstream financial assets as well as the general domestic economy.

Dieckmann (2007) classifies MFIs into four categories according to the degree of commercialisation. The first category is the top tier MFIs that have transformed themselves into more formal structures and thus attracting the interest of commercial banks, institutional and individual investors because they are profitable and have a more experienced management. For instance, in 2006, there were already about 30 MFIs with a loan portfolio in excess of USD 100. The second category is Tier 2 MFIs are made of up of smaller, younger MFIs predominantly NGOs that are in the process of converting themselves into regulated MFIs. Some of them receive funding from foreign investors but to a lesser extent than the top tier. The third category is Tier 3 MFIs are in the process of approaching profitability while suffering from a lack of funding. The fourth category is Tier 4 MFIs are made up of start-up Institutions where microfinance is not the primary focus.

In the long run it is hoped that most MFIs will reach tier 1 where they will be able to finance themselves from domestic funding sources by taking deposits or/and raising capital through the issue of bonds and equity. It is believed, that through the mobilisation of domestic financial resources the domestic investors will be able draw on domestic savings and the foreign investors will invest more into MFIs' bonds and shares rather than funding the MFIs as in the case of tier 1. The more MFIs become independent from initial subsidies the more they will be able to build their own capacity to create their own growth which equips them in their fulfilment of their original development mission (Goodman, P.2006).

Commercialisation has brought many actors in the market. This has brought competition which in turn lowers the loans' interest rates. It seems to be good news to the borrowers. However, crisis in the microfinance market like that of Bolivia in the 1999-2000 cannot be overlooked.

5.4 Microfinance Mission drift?

Mission drift is defined as a phenomenon whereby MFI increases its average loan size by reaching out wealthier clients. It arises because MFIs find it optimal to reach out wealthier individuals while at the same time crowding out poor clients (Beatriz & Arieane, 2009). For example, Bolivia's Bancosol deviated from its mission by serving the larger loans to wealthier clients for the sake of self-sustainability however at the expense of the poor who request smaller loans.

The move of microfinance institutions of inviting other investors to participate in their capital and liability structure has created fear to some stakeholders that their social and development mission may be at risk. The main concern is that; will microfinance institutions move away from serving the poorer clients in pursuit of commercial viability? Is it in the composition of new clients, or re-orientation from poorer to wealthier clients (scaling up) among existing clients who can absorb larger loans ("crowding out" effect), even at the sacrifice of outreach to the poorest segments in a community? Pope Benedict also sees this as a threat to the social responsibility of these institutions when they become exclusively answerable to their investors (§40).

There are different views on this issue. There are some authors who argue that there is no mission drift in this transition. According to Christine (2000), there is no evidence of MFIs Mission drift brought by commercialisation. She holds that MFIs generally continue to be committed with their

origin mission and target group. However, Christine admits that MFIs could cut off the lower part of their target group (the poorest) as part of a strategy to enhance their financial performance.

According to Dieckmann (2007), the original mission can still be maintained as there is a complementary between commercial and social funds in their investment approaches. Two examples are sited namely, the joint funding of the European Fund for the Southeast Europe and the guarantee from the International Finance Corporation for a bond issue of Compartamos in 2004. Hence there is a division of roles whereby, the public investors would focus on less developed MFIs nurturing their path to market-based funding while the private investors focusing on the already developed MFIs.

Dieckmann (2007) reports that, in the recent years public investors have been targeting the strongest and most successful MFIs refraining from investing in riskier and smaller MFIs.
When larger loan sizes become a deliberate strategy, then there may be no mission drift. For instance, in Latin America some NGOS are established with the objective of generating employment in the urban micro-enterprise sector so that their initial mission was not reaching the poorest of the poor but promoting small enterprise development (CGAP, 2000). However, there are those Microfinance Institutions which were established mainly for reaching the poor who did not have access to the main financial streams of the traditional banking sector. When these institutions become successful and strong economically, they tend to deliberately target larger sized loans.

Here below there is an example of a very famous Mexican Bank which started as a microfinance institution with the aim with the poor as its target group. There are many questions still need to be answered about the move of this microfinance institution. Banco Compartamos is a microfinance institution that was launched in 1990 being originally funded by grants from various sources as shown in the following figure.

.	Figure 2. Grants and soft loans for Compartamos Operations	
Year	Source	Amount ($000)
1990	USAID	50
1993	IDB grant	150
1993	IDB Loan	500

1995	Alfredo Harp & Family	1,300
1995-98	Other private Mexicans	300
1996	CGAP	2,000
2000	USAID (to ACCION)	2,000
	Total	**6300**

(Source: Focus Note June 2007)

It went into public offering in 2007 and came out with Initial Public Offering (IPO) which was 13 times oversubscribed. The price of shares went up and the book value of these shares increased by $120 million from 1998-2000 to 2006 this was due to high profits Banco Compartamos earned from the highest interest it charged. Shareholders received about $450 million for 30% of their shares which represented more than 12 times the book value of those shares. The question is whether this move of Banco Compartamos constitutes mission drift. Did the profit help the institution reach more people who are poor in Mexico?

When microfinance institutions shift from serving the lower-end of the market to the middle and upper end of the market, in fact they are going back to the commercial banks behaviour of excising financial exclusion and the issue of poverty alleviation becomes an old agenda. Goals like the Millennium Development Goal of halving the proportion of the people living on less than $1 a day by 2015 will never be achieved.

6. CONCLUDING REMARKS

Microfinance has been perceived as one of the main tools for fighting poverty. With this perception, there have been a growing number of microfinance institutions in the poor countries with the aim of alleviating poverty. In Latina America and the Caribbean in 2005 there were already about 336 Microfinance Institutions (Sergio & Luis, 2006). In 2015 there were more than 10,000 worldwide microfinance institutions with total loan of more than US$ 25 billion (Microfinance Gateway, 2016). Some microfinance institutions have transformed into commercial banks and entered into financial

markets taping capital from a wider range of stakeholders for sustainability reasons. These microfinance institutions have moved into tiers 1 and 2. Therefore, they seem no longer to be able to serve the large population who are at the bottom of the pyramid (mission drift). This move aims at sustainability of the microfinance institutions. It is believed that microfinance activities only fail when they were not conceived or designed to be sustainable. When microfinance is set up with sustainability in mind, microfinance programs are much more likely to succeed in providing financial services to the poor over the long term. This is largely due to the fact that these programs are actually conceived as sustainable microfinance institutions, not credit components of some larger project.

USAID and CGAP experience has shown that providing credit through non-financial service providers is rarely sustainable. This is because the technical expertise and operations systems necessary to properly manage financial services are usually beyond the capacity of organizations that do not specialize in such activities. In the absence of a supportive regulatory and supervisory environment, offering sustainable financial services can be difficult. Additionally, like any industry, microfinance requires an infrastructure and level of cooperation amongst key players that is not always available especially in developing countries of Sub-Saharan Africa.

The principle of Subsidiarity as has been advocated in the Social Encyclical of Pope Benedict is of great value when applied appropriately in microfinance. For the microfinance to be sustainable it must be rooted in the people it serves. Microfinance, must acknowledge its responsibility not only to recognize the rights of individuals but also to promote their rights and assist them in the same pursuit of a full life. It must respond by granting economic opportunity to clients through provision of important financial services and by supporting the very work that clients (the poor) deem most meaningful. In addition, Microfinance must respond by viewing the local role in connection with larger social structures. It should advocate for systemic change in legal, political and government policies to foster the institutions it supports so that financial services for the poor may find a permanent home (the real sustainability) within the greater framework of the local socio-political environment.

The principle of subsidiarity calls for microfinance institutions to place more power of making decisions to those who are most affected by the consequences of those decisions. For instance, the village banking method should rely on the community to decide the composition of the village bank itself and the nature of its services. The nature of services needed by the poor people cannot be

determined by donors who depend on researchers who travel around the poor countries and come out with a report for implementation. As a consequence, microfinance may provide services which might not be of paramount interest for a particular sector of the poor.

Although microfinance alone cannot solve the problems of poverty in the world, its contribution in poverty alleviation is very crucial. When microfinance is embedded with the principle of subsidiarity its impact will no longer be measured by credit default rates or the enormous figures of loans granted, but its impact on the economic lives of the people. As Pope Benedict insists in the Encyclical, the impact is measured in terms of human development- putting a human person at the centre of development because a human person is supposed to be the core feature in the strategy of the value creation chain of any microfinance institution.

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