

# Development and the Effort of the Individual

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For me, the name of Blessed Josemaría Escrivá is almost inseparable from the concept of 'work'. That is because he showed me that work is meant to become a road that leads to God, that work is «an indispensable means which God has entrusted to us here on earth. It is meant to fill our days and make us sharers in God's creative power»<sup>1</sup>. My presentation today is built around this conception of work. Work is the essential ingredient of economic development — to put it bluntly: if you think of development without thinking of work you might as well stop thinking. I will try to outline some aspects of how I believe that the work of poor people in developing countries can suddenly become extraordinarily productive. The presentation finally talks about how work helps to create more than material wealth. Building on the insights of Blessed Josemaría, I will end with a brief consideration about how the spiritual dimension of work must accompany its economic impact if man is to truly 'develop' in the full sense of the word.

<sup>1</sup> *Friends of God*, 57.

## 1. HOW DO PEOPLE EARN THEIR LIVELIHOOD?

But first, let us consider the question of how people earn their livelihood. At first sight, the question seems trite: They work of course! But if one looks below the surface, one quickly sees that the situation is quite complicated. The question in fact touches on some of the most fundamental aspects of our society. In a purely material sense, man's ability to create wealth is the basic building block of any economy. After all, contrary to popular belief, wealth has little to do with natural resources — gold, oil, diamonds, etc. Wealth is exclusively the fruit of human effort! 19<sup>th</sup> century socialists thought of it as sheer bodily effort. Hence the workers with bulging muscles in socialist art. Today we see more clearly that the process of creating wealth does not only require physical strength. I believe that more than anything else, it requires creativity. Wealth is the result of man's creative capacity. I am saying this, not because I intend to explain how wealth is created — in fact economists have still not given completely satisfactory answers to that one — but to demonstrate that something so ordinary as work has depths of meaning which many hardly suspect.

In economic development for instance — the area I have worked in all my life — the central place of man's need to work, to shape his own destiny, is routinely ignored and consequently huge development efforts often are doomed to failure.

The palpable injustice in how wealth is distributed in the world has a natural fascination for young people — and so it did for me. Faced with impressions of poverty in developing countries, the natural instinct for many is to try and do something about it. It is a good instinct, and I am glad I followed it when I joined the World Bank as a university graduate over 30 years ago. But, I must admit that I had not much of an idea what I was doing. At the time it seemed a simple matter: use the surplus wealth of some parts of the world to overcome the poverty of the rest. The World Bank embodied that thinking well. It financed such things as dams, roads or irrigation projects, in short the infrastructure which, it was assumed, would allow poor countries to catch up with the rich ones. On the whole it did that job pretty well. Most of its dams, roads and irrigation projects were well designed and they worked. Yet the results were less than overwhelming. We still had to learn that 'things' by themselves do not create wealth. A good infrastructure helps of course. It makes a difference, whether people have access to electricity, whether they can transport their produce to the market, or whether they can irrigate their fields and double their crops. But it does not make nearly as much of a difference as we all thought and as our feasibility studies naively assumed. If you, say, import a power plant into a developing country you have made life easier, but you have not necessarily had much impact on the struggle of individual people to earn a living.

'Things' only create wealth if they are tools in the hands of man. Human beings are the key. Without them, the electricity remains unused, roads decay and irrigation systems disintegrate. But quite often, people in developing countries are not in the position to use the tools that more developed countries give to them. They do not have a place in their lives. And even if 'experts' are sent to make them fit, so to speak, no sooner are the experts gone, than the tools are abandoned.

In my own work I was involved in financing large industrial projects in developing countries. Here the problem was not so much that they weren't well used and cared for. The owners were private businessmen, who made sure that their new factory was well run. The problem was more that these expensive projects did not do much to lift the living standards of the large majority. The employment effect of these very capital-intensive projects is negligible. Of course it is usually good to produce such things as fertilizer or cement locally instead of having to import them from overseas, but chances are that the wealth created by such plants isn't reinvested in the local economy and that it doesn't trickle down very far. Distressingly often, this wealth finds its way into bank accounts in the United States or Switzerland instead.

As you can probably sense from these remarks, after 25 years in the World Bank Group, I had grown somewhat skeptical about what we were doing. It is not that it was all useless. Far from it. But the limits of our impact were clearly visible, and those limits turned out to be closer than I had imagined when I set out on this career.

At just about that time, I stumbled across microcredit, and I was struck by it because it seemed to succeed where our efforts often failed. How could these programs reach such large numbers of people, and how did they manage to improve the lives of those they reached? How was it possible that the comparatively small sums of money involved had such a large impact? Eventually, I decided to leave the World Bank Group to find out.

But before going deeper into microcredit let me digress to describe a deep shift that has reshaped the structure of societies in the developing world. This shift in turn has created the conditions to which microcredit is responding.

## 2. THE INFORMAL SECTOR: THE NEW CORE OF SOCIETY

Developing countries are urbanizing. In fact they are urbanizing at break-neck speed. People are moving from the countryside into the cities. In Latin America, where this process is particularly pronounced, societies have already changed from being predominantly rural to being overwhelmingly urban. Roughly 80% of

Latin America's population lives in cities today. Not so long ago, 80% lived in the countryside. These are dramatic shifts indeed, and they have led to equally dramatic shifts in what people do to maintain themselves and their families.

In 1970, when I started to work for the World Bank, about two thirds of the urban labor force had a 'job'. They received a more or less regular salary from an enterprise or a government. These two-thirds made up the so-called formal economy. Even then however, there was that other third; the third of the labor force which somehow eked out a living at the fringes of the formal economy, by doing whatever they could to scrape together some money and survive. Our expectation at the time was that, as the formal economies grew, they would gradually absorb this informal fringe and that sooner or later developing countries would look much like the richer ones.

But since 1970, unexpected things have happened. The formal economy did grow, but in most countries it grew slowly. The public sector, which in 1970 still employed a sizeable part of the labor force, often shrank outright. As a result, the formal economy was overwhelmed by the double impact of population growth and migration to the cities. More and more people simply did not find 'jobs' in the conventional sense of that word. A generation later, in the mid-nineties, the people eking out a living at the fringes accounted for half of the entire Latin American urban labor force and if this trend continued, as it probably did, by now well over half work outside the formal economy.

This has profound implications. For one, it means that the laws and institutions created by the more developed nations are irrelevant to over half of the people in the world. These laws and institutions were created with the formal economy in mind. They were designed for enterprises which pay taxes and follow rules laid down in commercial codes and labor laws. But the people on the fringe do not pay taxes; they are well outside the reach of commercial codes and they may not even know that labor laws exist.

True, most of the wealth is still in the formal economy. But if *people* create wealth, then I believe that wealth will increase where there are creative people. In that sense it is not exaggerated to think of the economies of many developing countries as the inverse of what we used to think: They no longer follow the pattern of a formal economy at the center and an informal sector at the fringes, pushing to be absorbed into the formal economy. Rather, the informal sector, the majority of people who are earning a living by selling things on the street, or by making things in the slums, have become the center and the world of factories, supermarkets and complex structures may well be moving to the fringes. In that sense many large cities with their decaying centers full of people struggling to make a living, and their more suburbs with lawns and shopping malls, may be an apt image of what is happening in these societies and economies.

### 3. MICROCREDIT

Microcredit appeared just about as these changes in the structure of the labor force became apparent. I remember my first encounter with it in the early nineties. At the time I was a manager in the World Bank's private sector affiliate, the International Finance Corporation (IFC). One of our teams came back from the Dominican Republic with the news that they had found a charitable foundation which was lending to street vendors and was making money doing so. This did not seem credible. Street vendors usually do not have collateral to secure loans, and — so conventional wisdom went — they therefore are poor credit risks. Yet this case seemed to prove otherwise and it did so at a time when formal banks were suffering large losses in the wake of a general recession.

When we investigated, we discovered that this charitable foundation and others like it had found ways to tap into the explosive growth of the informal economy and that they were doing it in ways which can teach us all something about the nature of work.

First, we observed that many urban poor people are highly creative in their quest for survival. They have to be, because failure means not having enough to eat for oneself and for one's family. Many of these are women who must provide for their children. They therefore have the strongest possible motivation to succeed.

Then we found that even a tiny amount of money — \$50 or \$100, say — will produce huge returns, if someone uses it to build a livelihood. We have often asked ourselves how an uneducated person in the slums can afford to borrow at interest rates of 40%, or 50% — rates which would quickly bankrupt most larger enterprises. The answer has to do with man's creative capacity. For example, a jobless woman in the informal economy is desperate to support herself and those who depend on her. With a small amount of working capital she can suddenly put her energy, her intelligence and her knowledge to work. The flower stand she operates, or the little sandwich business on the sidewalk, are a priority for her. She knows her customers and what they want and when they want it; she will be at the wholesale market before dawn to buy flowers; she will arrange them into the right bunches and she will know where people are most likely to buy them. She did not need anyone to teach her these things. She has found out, driven by the need to provide for her family. The tiny amount of money which was needed to buy flowers at the wholesale market has by the end of the day been converted into three or four times the original amount.

#### 4. THE LIMITS OF INSTITUTIONAL CHARITY

Finally, people often wonder why those with less economic resources repay their loans much more reliably than those who have more. Partly it is a consequence of high motivation. A borrower of a microloan will not jeopardize his or her livelihood by being careless about repayment. But, in the context of this panel another reason seems to me to be the most interesting of them all. It has to do with the distinction between business and what we know as institutional charity.

Most microcredit programs have charitable origins. However, the people who worked for them discovered that in some situations, loans can be better than alms in that loans can be ‘recycled’, allowing the same amount of money to reach many more people. These programs thereby inadvertently stumbled upon a profound insight into the nature of work and productive effort. They discovered that while alms may give the impression that the recipient is in an inferior position, a loan does not. A loan is merely a business transaction between equals, which does not threaten the dignity of the recipient. For the borrower in turn, it can become a matter of pride to honor the terms of that transaction.

Programs that seem to give things away for free are often less successful for the same reason. Government programs have easily the worst performance record. Microentrepreneurs assume that they were organized for political reasons to enhance the government’s popularity and to obtain votes. They therefore feel within their rights when they accept the loans but then fail to repay.

All this points in the same direction: those microcredit programs which respect the dignity of their clients by requiring them to pay what is justly owed are the most successful. Those which do not, find themselves swiftly punished through high loan arrears.

It is certainly not that I intend to downplay the importance of institutional charity. Such programs are driven by a nobler motivation than are commercial microcredit schemes. But I believe that this type of charity has its place where the individual cannot help himself. If he can, charity may demean the recipient. The woman who asks for loan to buy flowers in the wholesale market is not asking for a favor. She is buying a service for which she pays. This gives her rights as a client, and it imposes obligations which she must honor.

Looking back at 30 years in development, it seems that success has always been linked in some way to the very basic truths about man. First of all, it helps to remember that development is about people, not about GDP, or infrastructure, or ‘things’. Development must indeed be conducted because ‘People Matter’, to paraphrase the subtitle of ‘Small is Beautiful’. Worthwhile development projects build on the aspirations of people to build better lives. In my opinion, the very best go one step further. They recognize the dignity man acquires

through his power to create — the dignity of work. And they build on it by saying in effect: “I believe that you can do something worthwhile. You tell me what it is, and I will lend you money to do it”.

This approach has been spectacularly successful. Microfinance institutions today lend to millions in the slums. They pay their way and they routinely have higher credit quality than conventional banks. Demand for their loans is huge because they offer what the majority of people in developing countries need: a means to create a livelihood for themselves and their families. Their success is partly explained by the wave of urban migration which has obliged a majority of the labor force to improvise their own tiny business in order to survive. But it is mostly a consequence of the extremely high motivation of those ‘Microentrepreneurs’ and of their determination to squeeze as much as possible out of the very limited means they have.

## 5. BEYOND ECONOMICS

Before I conclude, allow me for a moment to look at an aspect of work which goes beyond creating wealth, which far transcends the material. For me, the most fascinating aspect of microcredit is its intimate link to man’s dignity. Blessed Josemaría was not an economist, and as a priest, he certainly did not offer any opinions about strictly economic matters. Nevertheless, he understood better than most how work — any honest work — raises man to a level of dignity which is proper to him. His unique contribution to our time is his affirmation that work is nothing less than a path to perfection — to union with God. “Work, all work, bears witness to the dignity of man, to his dominion over creation. It is an opportunity to develop one’s personality. It is a bond of union with others, the way to support one’s family, a means of aiding in the improvement of the society in which we live and in the progress of all humanity”<sup>2</sup>.

The impact of microcredit on the productivity of wide segments of society in poor countries is observable; its impact on the dignity of those who are thus able to pass from grinding poverty to relative economic security is observable as well. However, from the supernatural viewpoint, an economic and social tool like microcredit, suddenly acquires a deeper dimension. I believe that helping people in the developing world out of extreme poverty is the first frontier. And we are still far from conquering on that front. Much remains to be done. But beyond that, I already see a second frontier which challenges us even more directly than

<sup>2</sup> *Christ is passing by*, 47.

the first one did. Helping millions to raise themselves out of poverty is quite an achievement, but that achievement will remain hollow if those millions are then left with nothing but a bit more wealth. Microcredit has such a direct link to the values of dignity arising from work, that it all but cries out: ‘Build on those values’! Don’t misunderstand me. As I see it, microcredit is just a financial instrument. However, it would not surprise me if people who manage to pull themselves out of poverty through their hard work and their industriousness, would also be more open to Blessed Josemaría’s message of the ultimate meaning of work and human life as a whole. As he said, work is not only “the background of man’s life, it is a means and path to holiness. It is something to be sanctified and which sanctifies”<sup>3</sup>.

<sup>3</sup> *Ibidem*, 47.