

## **Credit constraints in low density regions: microcredit in Alentejo**

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### **Abstract:**

Regions of low demographic and economic density face major development challenges that greatly increase the struggle of local productive agents for subsistence. In such areas, domestic policies have traditionally been more focused on subsidising the less favoured than in bridging the gap between the poor micro entrepreneurs and the financial funds. Notwithstanding this, inspired by the Bangladeshi experience, many microcredit projects have been implemented around the world and became instrumental tools to eradicate poverty and social exclusion. There are, however, various microfinance models, applied in diverse social and economic contexts, and involving distinct micro entrepreneurs' profiles. In this work, we characterise the model implemented in Portugal and assess the level of development of one of its less favoured regions, Alentejo, from the point of view of microcredit. The analysis is performed with the objective of evaluating the strategy adopted and to identify the possible areas of improvement, in order to maximise the potential gains from microcredit.

**Key words:** Territorial development, Microfinance, Low density regions, Liquidity constraints

**JEL Classification:** G21; R11; R12.

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## **1. Introduction**

The level of a country's financial sophistication is often related to its economic and social development. More developed countries tend to offer a wider variety of channels to allocate savings to productive uses and, consequently, offer local firms a larger set of opportunities to fund their financial needs. However, regardless of the stage of development already attained, there are in every country a number of established and prospective entrepreneurs who fail to fulfil the usual creditworthiness requirements and are therefore excluded from the benefits of financial intermediation.

Prevented from access to formal credit sources, they are condemned to a state of permanent poverty, either by giving up plans to develop or to establish their own businesses, or have to rely on informal networks of local money lenders who exploit them and prevent the progress of even incipient activities. Typically, formal credit exclusion is justified by the incapacity to present formal guarantees and collateral, the absence of a personal credit history, a low level of education, or simply the need for very small amounts of money, that banks find insufficient to justify the operational costs of lending. In many countries, gender issues are also of remarkable importance and being a woman translates into being excluded from formal access to credit.

Traditionally, and especially in economies that can afford social security, society tends to react to poverty and exclusion by subsidising those who are unable to find the means to satisfy their basic needs. Nevertheless, at least part of the money channelled to subsidise unemployment in developed countries, should be diverted to the promotion of self employment and entrepreneurship. In fact, whereas the unemployed absorb subsidies, micro entrepreneurs pay taxes and generate their own income. This is a 'Columbus' egg' and even the most stubborn politician would agree with it. Why is it so poorly exploited then? Lack of individual entrepreneurship in societies that have successfully developed social security nets may be an explanation.

Social security, however, is not affordable for most developing countries and this is probably one of the reasons why microcredit practices were put into practice, for the first time, in one of the world's poorest countries. In Bangladesh, in the late 70s, an economics professor named Muhammad Yunus realised that poverty may often be eradicated simply by offering people access to the meagre funds needed to finance an incipient business project.

Following the successful implementation of microfinance programs in Bangladesh, microcredit became a well-known concept. The idea of giving credit to poor individuals presenting sensible business plans, or developing potentially profitable activities, regardless of personal history or of the amount of money needed, spread and conquered a global dimension. The universal consolidation of the concept gained momentum when the United Nations proclaimed 2005 as the international year of microcredit and Muhammad Yunus and his Grameen Bank (the village bank) won the 2006 Peace Nobel Prize. By then, the number of microfinance institutions had reached 3133, allocating credit to more than 113 million people (Daley-Harris, 2006).

The Bangladeshi experience shows that the practice of microcredit may have positive results in the most difficult of circumstances. It also suggests that the sustainability of the lending process may require that the initial framework evolve to become capable of fulfilling customers' other financial needs, beyond that of an initial loan. Around the world, distinct projects of microfinance were implemented, both in developed and in developing countries, producing a variety of mixed outcomes. The different geographical, economical and social contexts, and the knowledge gained with previous experiences, lead to the adoption of diverse strategies, adapted to the specific characteristics of the individuals targeted and to the territorial context.

It is nowadays possible to identify microcredit profiles that are typical of developed and of developing countries, and to anticipate which strategies have higher success probability in distinct environments. Therefore, it is interesting to introduce microcredit as a variable in development analyses, in line with the theories of endogenous development which stress the need to value intrinsic resources as a means of promoting a region's social improvement and economic growth. In fact, not only the outcomes of a microcredit project may be informative of the level of local development already attained, but the development profile of a region has to be taken into account when implementing a microcredit program.

The Alentejo region of Portugal is especially appropriate to be an object of such an analysis for it presents mixed development characteristics: it is one of the most deprived regions in one of the poorest countries of the highly developed euro zone. In such conditions, it is not immediately clear whether a microcredit program should follow the models of developed countries or, on the other hand, if the relative underdevelopment of the region makes it a suitable context for alternative scenarios.

The remaining of the paper is organised as follows: section 2 characterises microcredit models and briefly surveys the application of the different frameworks in distinct countries varying in level of development; section 3 presents the practice of microcredit in Portugal and in Alentejo, contrasting the latter with the rest of the country and classifying its development profile on the basis of microcredit characteristics; section 4 concludes and draws some policy implications, suggesting procedures that, according to the specific characteristics of the assessed territory, could expand microcredit and enhance its positive effects.

## **2. Microcredit models**

Although microcredit may be simply and generally defined as the informal sector provision of credit to poor people and small firms, otherwise considered not creditworthy, it may in practice assume a wide variety of models, adapted to local characteristics or favoured by its promoters. Even the term ‘informal sector’ may be sometimes questioned, if defined as loans by unregistered lenders, given the frequent intermediation of ‘semi-formal’ microfinance institutions such as the Grameen Bank. The aims of the programmes also vary, from the simple supply of small loans to credit constrained entrepreneurs, to a more ambitious and comprehensive development programme, including training and technical assistance.

These different models vary according to the primary financing source, which may be external, either intermediated through NGOs, for example, or directly channelled by conventional financial institutions, with programmes specifically directed at the informal sector, mostly in public sector banks or imposed or subsidised by the state. Funding can also be raised internally within the community, as happens with credit unions or the so-called ROSCAs (Rotating Savings and Credit Associations<sup>2</sup>) or the ASCRAs (Accumulating Savings and Credit Associations<sup>3</sup>). Some microcredit models, however, may equally operate with external funds, from different sources, or with own financial resources, using community savings.

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<sup>2</sup> Where an informal group of participants contributes periodically to a common fund, which is lent in each period to one of the participants in turn, either by lottery, negotiation or other previously agreed methodology.

<sup>3</sup> Where the member’s contributions keep accumulating until one of the members decides to take part of the pooled savings as a loan.

There may be therefore many alternative classifications of the different microcredit models.<sup>4</sup> One of them considers whether the initiative has emerged from within the community or was introduced from the outside. The former can take the form of an association, cooperative, credit union, ROSCA, community banking or village banking, depending for example on local regulations or fiscal advantages. These models may also be only one part of a more comprehensive community development programme. On the other hand, the initiatives proposed to the community from the outside may be directed at individuals, through direct lending or providing bank guarantees, or at creating peer lending groups with collective responsibility. This is the model originally introduced in Bangladesh by the pioneer Grameen Bank, where the traditional bank guarantees are substituted by collective responsibility and peer pressure, and it currently comprehends the majority of microcredit borrowers (Hermes and Lensink, 2007).

In peer group lending, the funding institution finances a group of individuals, either self-assembled or organised by the institution, who are by contract jointly liable for the payments and, therefore, voluntarily support and monitor each other. If a member of the group does not repay the loan, the others may have to pay for it or all group members will be denied access to further loans. This reduces the traditional problems of asymmetric information in financial markets and, consequently, the questions of adverse selection and moral hazard (as shown for example in Arnott and Stiglitz, 1991, or, more recently, in Chowdhury, 2005). This group support may further encourage, motivate and inspire its members, and provide a useful social network for marketing the goods and services produced. It has also the advantage of not requiring formal collateral or guarantees and/or a good credit record from the credit applicants.<sup>5</sup>

Given the differences between different microcredit models, it is important to assess which model maximises the probability of success of these strategic development initiatives in a particular location, whether rural or urban, in a developing or developed country, whether gender oriented or not. This assessment is crucial for the design of adequate and efficient microcredit policies, institutions and programmes.

Some studies have shown that peer group lending is more difficult to implement in developed countries (e.g. Frankiewicz, 2001), exhibiting higher operational costs and delinquency problems, and weaker overall results. In these countries, individual lending

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<sup>4</sup> Muhammad Yunus suggests a broad classification into ten categories (in [www.grameen-info.org/bank/whatismicrocredit.htm](http://www.grameen-info.org/bank/whatismicrocredit.htm)), from the traditional local moneylenders to the Grameen Bank type microcredit.

<sup>5</sup> Stiglitz (1990) calls it 'social-collateral'.

may be more successful since it is more flexible and adjustable to the applicants timing and financial needs, it guarantees more confidentiality, and it is less time demanding in terms of group meetings and peer monitoring.

However, Gomez and Santor (2003) show that group lending reduces default rates relatively to individual lending, due to the group selection and incentive procedures. The authors analyse two large Canadian microfinance institutions, using a credit-scoring model and estimating a probit model, and obtain high but quite different default rates of 21.2 per cent in group borrowers and 41.4 per cent in individual borrowers. Yet, according to the literature, default rates are typically much lower in developing countries, where single figure values are not uncommon.

Ideally, microcredit should be handled by commercial banks, which have a long tradition in credit supply, the know-how, the resources and the physical infrastructure to reach every potential user through their widely disseminated network of branches. However, commercial banks would have to change some deeply rooted habits such as, for example, traditionally favouring men in credit applications. Although women are usually in majority in microcredit programmes, the figures are reversed when microcredit is managed directly by commercial banks (see, for instance, Berger, 1989).

### **3. Microcredit in Portugal: the specific case of Alentejo**

Portugal is the poorest member of the euro zone and one of the less developed EU countries, registering a GDP per capita, in PPP terms, of 74,8% of the EU27 average. However, the country's relative underdevelopment is not uniform and a number of major regional asymmetries persist. Some areas, such as Lisbon and its surroundings, have attained a level of development typical of the EU core, while others still exhibit evident signs of economic and social delay.

Alentejo is Portugal's largest and less densely populated NUTS II,<sup>6</sup> occupying an area of 31.600 Km<sup>2</sup> (34% of the national territory) and comprising a resident population of 767.679 inhabitants (7% of the country's population).<sup>7</sup> Its demographic density of 24,3 inhabitants per Km<sup>2</sup>, relatively low by comparison to the national figure of 114 inhabitants per Km<sup>2</sup>, results among other factors, from an historical model of landscape management and planning based on extensive agriculture, a practice usually

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6 In NUTS III classification, Alentejo comprises Alto Alentejo, Alentejo Central, Baixo Alentejo, Alentejo Litoral e Lezíria do Tejo.

<sup>7</sup> INE data, 2004. INE stands for Instituto Nacional de Estatística (National Statistics Institute).

incompatible with a high level of human concentration. Rural exodus has been affecting practically all inland populations in Portugal and especially in Alentejo. According to the last two population census, between 1991 and 2001 there was a 0,7% decrease in Alentejo's population, whereas that of Portugal increased by 5%. Due to a relatively recent phenomenon of Eastern European immigration, the local population reduction may be nowadays less dramatic.

The high median age of Alentejo's population and its low level of qualification greatly restrict the success of any development strategies. The progressive aging of the population in particular, is well reflected in the region's aging index which represents the number of inhabitants of more than 65 years for 100 youngsters of less than 15 years. In 1991 the region's aging index was 107 but increased to 168 in 2004. The local average qualifications level is quite low, in relation to European standards, and most of Alentejo's inhabitants present very basic schooling levels. In 2001, 50,4% of the population had attended school for, at most, four years. The Portuguese average was 46,2%. Only 6,1% of Alentejo's population concluded high education courses, in contrast to a national average of 8,4%.

The regional GDP per capita, which is six percentage points below the national average, also mirrors the fragile relative conditions of the region, in spite of the prevailing intra regional asymmetries.<sup>8</sup> The region's contribution to the country's wealth is modest, though in line with the relative weight of its population, and accounts to 7,2% of the domestic GDP. As in developing regions, the relative dimension of the primary sector is rather important, with 20,8% of local firms developing primary sector activities such as agriculture, sylviculture and fishing. The weight of such activities is only 6,4% at the national level. The specialisation pattern is however services' oriented with an emphasis in low added value activities related to public services such as education, public administration or social security. Industry is scarce and local government institutions are, in many places, the main local employers.

In Alentejo, a minority of high productivity industries, such as those located in the Sines' industrial complex or some agro-industries, progress side by side with a variety of very low productivity activities, as for example subsistence agriculture, petty trade and the low qualification segments of public administration. Another typical feature of underdevelopment, also shared by the country as a whole, is the high proportion of

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<sup>8</sup> GDP per capita in Alentejo Litoral is higher than the national one, registering an index of 135 (national GDP pc =100), whereas in the sub-regions of Baixo Alentejo and Alentejo Central the index is 86.

micro enterprises and of self employment. In fact, according to official data, 87,7% of local firms have less than 10 workers (at the national level, the figure is 84,5%), and 70% employ less than 5 workers (65,2% at the national level). In global terms, in developed countries, micro enterprises account for 8 to 20% of employment, whereas in Portugal the figure reaches 30%.<sup>9</sup>

The labour market also reflects the relative fragility of the region. Alentejo registers an activity rate of 49% that contrasts with a national average of 52,2%. This indicator is particularly unfavourable for women whose activity rate in Alentejo is 41,9%, contrasting with a national figure of 46,7%. The regional unemployment rate of 9,6%, in the first quarter of 2007, is the highest in the country and surpasses the national value in 1,1 percentage points. Again, women are very badly affected, though unemployment is also particularly high amongst young people, regardless of gender.

According to the characteristics described, Alentejo appears to be a particularly suitable region to the implementation of micro financing projects. The average educational level of its population and its relative poverty, the scarcity of large firms, capable of absorbing local unemployed and the relatively recent phenomenon of Eastern European immigration, create a social and economic environment that is usually disregarded by the formal financial intermediaries and is therefore appropriated for micro financing.

In Portugal, microcredit was introduced by a non profit organisation denominated Associação Nacional de Direito ao Crédito (ANDC), created in 1998, and functioning from its inception in institutional cooperation with IEFP (Instituto do Emprego e Formação Profissional) and with a private bank (Banco Comercial Português), supplier of the funds and responsible for the majority of the eventual losses. The loans are only conceded to persons selected by ANDC and the first lent funds date from 1999. At the beginning, a maximum of 5000 euros, reimbursed in thirty six monthly instalments, could be lent at a time, to each person. Nowadays, the maximum loan amounts to 7500 euros and another two banks (Caixa Geral de Depósitos and Banco Espírito Santo) have joined the process of conceding microcredit through ANDC. The latter remains the sole responsible for certifying the intrinsic qualities of each business proposal and for accompanying micro entrepreneurs during the life of the loan. According to Universidade Católica Portuguesa (2007), in January 2007, the delinquency rate was

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<sup>9</sup> See Frankiewicz, 2001 and DEEP (2004).



18,1%. Up to August 2006, ANDC registered 141 delayed credits, accounting for 167978,54 euros.

A number of strategies have been tried by ANDC in its attempt to make microcredit well known in Portugal. At first, the collaboration of local institutions was thought but, in the majority of cases, the connections failed following their revealed incapacity to understand the non-charitable nature of microcredit. Subsequently, a policy of contracting local microcredit agents in the various regions was tried, but also failed due to a generalised lack of specific qualifications on the part of most agents. Microcredit as a tool in the combat to poverty can only work for those having the capacity to conceive potentially profitable business activities. It is therefore crucial that microcredit agents are able to distinguish between a person capable of implementing a good business idea and another that needs help but cannot generate his/her own income. Nowadays, there are very few, but qualified microcredit agents, which consequently are responsible for larger geographical areas than they can effectively and consistently cover, and who work with local associations and institutions whenever the appropriate links may be established.

In the seven years of full activity, ANDC has granted access to credit to around 700 micro businesses,<sup>10</sup> with a job multiplying effect of 1,2. As it would be expected, following the relative underdevelopment of Alentejo, the local percentage of financed projects should be relatively high. However, it accounts for just over 10% of the total micro businesses, which is not too relevant, given the region's contribution to the country's GDP.

In Portugal, as well as in more developed countries, microcredit is mainly an urban phenomenon.<sup>11</sup> Half of the financed micro entrepreneurs are located in the areas of Lisbon and Porto, the former accounting for 38,3% of the total. In contrast, in Alentejo, microcredit is of a more rural nature, thus probably justifying the adoption of a specific microcredit model, capable of taking into account the regions' distinct characteristics. This suggestion is reinforced by the analysis of the geography of financed projects in Alentejo. As may be seen in figure 1, Beja absorbs 45% of the total. However, Beja's sub-district of Moura, a predominantly rural area, absorbs on its own 31,7%. In this case, the relative success of microcredit is directly related to the activity of a local development association (ADC Moura), which has been instrumental not only in

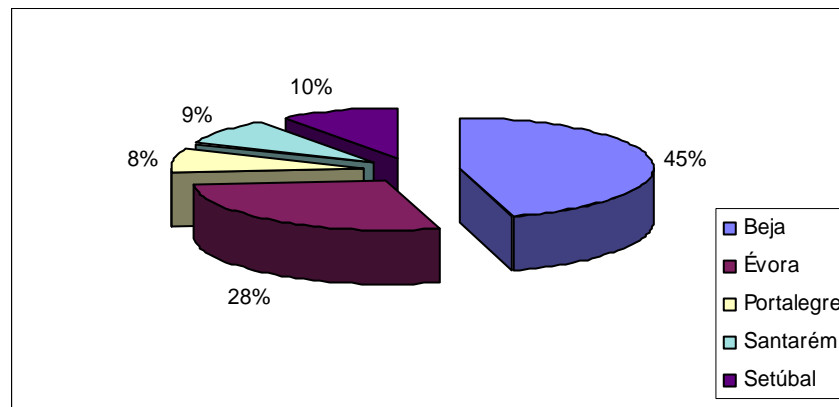
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<sup>10</sup> Figures relative to the association's activity up to March 2007.

<sup>11</sup> See, for instance, Frankiewicz, 2001.

marketing the concept, but also in providing help and advice to entrepreneurs throughout the whole process of applying and reimbursing the funds. Alentejo's other cities and villages are much less represented in microcredit terms, in spite of comprising larger numbers of inhabitants living in precarious conditions and a higher density of economic activities. There is probably a much richer environment for the development of micro businesses. Yet, the fact that the hypothesis of applying to microcredit has been proposed by outsiders, in contrast to what happened in Moura, has led to a relative failure, perhaps due to a lack of proximity between microcredit promoters and the potential micro entrepreneurs.

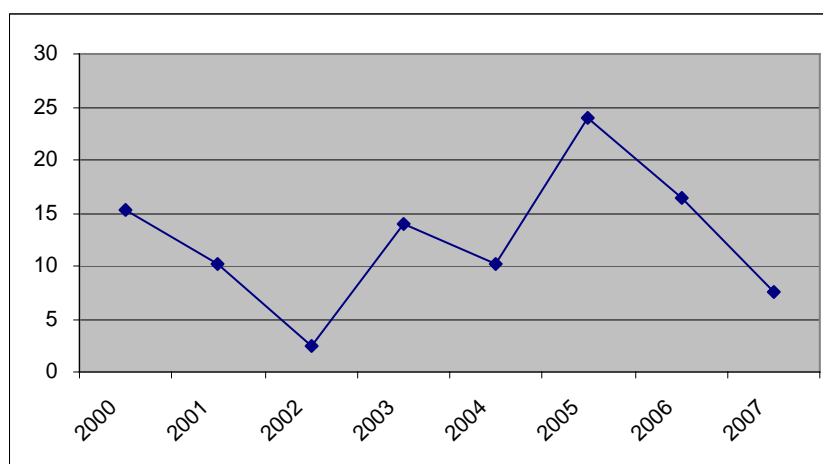
Figure 1: Microcredit projects in Alentejo



Source: Own calculations based on data collected from ANDC.

As may be seen in figure 2, the number of projects financed in Alentejo displays a somewhat irregular progress but with an increasing overall trend. The figure for 2007 corresponds to the number of loans conceded during the first quarter. The years of 2005 and 2006 represent the periods of higher dynamics in number of financed projects, since the beginning of ANDC's activity in Portugal. Coincidentally, in 2005 the annual GDP growth rate decreased from 4% to 3% and the unemployment rate reached a 20 year high maximum.

Figure 2: Evolution of financed projects in Alentejo



Source: Own calculations based on data collected from ANDC.

Table 1 resumes the main characteristics of microcredit in both Alentejo and Portugal. There are a number of distinct features in the two areas, contributing to the establishment of distinct development profiles in the microcredit context. In both cases, the majority of micro entrepreneurs are Portuguese, married and living with families of up to three persons (figure 3). In Alentejo, there is a male predominance, in contrast to what happens in the rest of the country where, for the class of 35-45 years, around 80% of the financed projects are promoted by women. In contrast to other aspects already described, the gender characteristics of microcredit in Portugal are in line with the reality in developing countries, whereas those in Alentejo are more common in developed countries. However, this situation should be taken into account by microcredit agents since in Alentejo women are also relatively more affected by unemployment.

**Table 1: Comparative main characteristics of micro entrepreneurs benefiting from microcredit: Portugal and Alentejo, %**

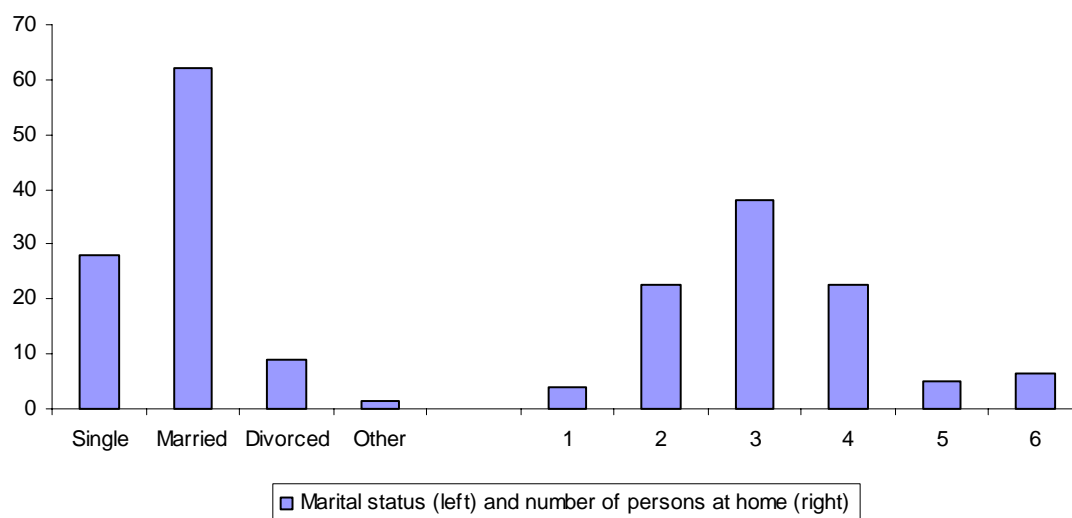
Entrepreneurs		Portugal <sup>(1)</sup>	Alentejo <sup>(2)</sup>
Gender	Males	47,1	50,6
	Females	52,8	49,4
Age	18-25 years	11,6	13,9
	26-35 years	30,4	41,8
	36-45 years	34,9	26,6
	46-55 years	19,8	13,9
	> 56 years	4,2	3,8

Nationality	Portuguese	n.a.	97,47
	Other	n.a.	2,53
Schooling	No formal education	1,5	
	1 <sup>st</sup> cycle	22	29,11
	6 <sup>th</sup> grade	22	20,25
	9 <sup>th</sup> grade	22	21,52
	12 <sup>th</sup> grade	22	26,58
	Higher Education	10	2,53
Other qualifications	E.g. professional training	n.a.	37,97
	No	n.a.	62,03

Sources of data: <sup>(1)</sup>Mendes et al. (2007). <sup>(2)</sup>Collected by the authors from the individual credit records at ANDC.

In Alentejo, most microcredit beneficiaries have between 26 and 35 years of age<sup>12</sup> and many are already legally established as individual entrepreneurs, in spite of the fact of not owning a functioning business at the moment of applying to a loan. The fact that unemployment in the region is especially pressing in this age group may justify the stronger entrepreneurial attitude and a higher propensity to assume the risk of creating one's own job. In comparison to Alentejo's patterns, the average Portuguese microcredit beneficiary is older and better qualified, but in both cases, only 1/3 of the persons were enrolled in professional courses, mainly provided by the Local Job Centres.

**Figure 3: Marital status and number of persons in the family home of the Alentejo's microcredit borrowers, %**



<sup>12</sup> The age is reported at the beginning of the loan period.

Source: Collected by the authors from the individual credit records at ANDC.

More than 2/3 of microcredit beneficiaries in Alentejo applied to this source of financing in order to start a business and create their own job, as many have experienced unemployment, sometimes for long periods (see Table 2). 81% had other sources of financing, besides microcredit, mostly from local job creation initiatives and from relatives.

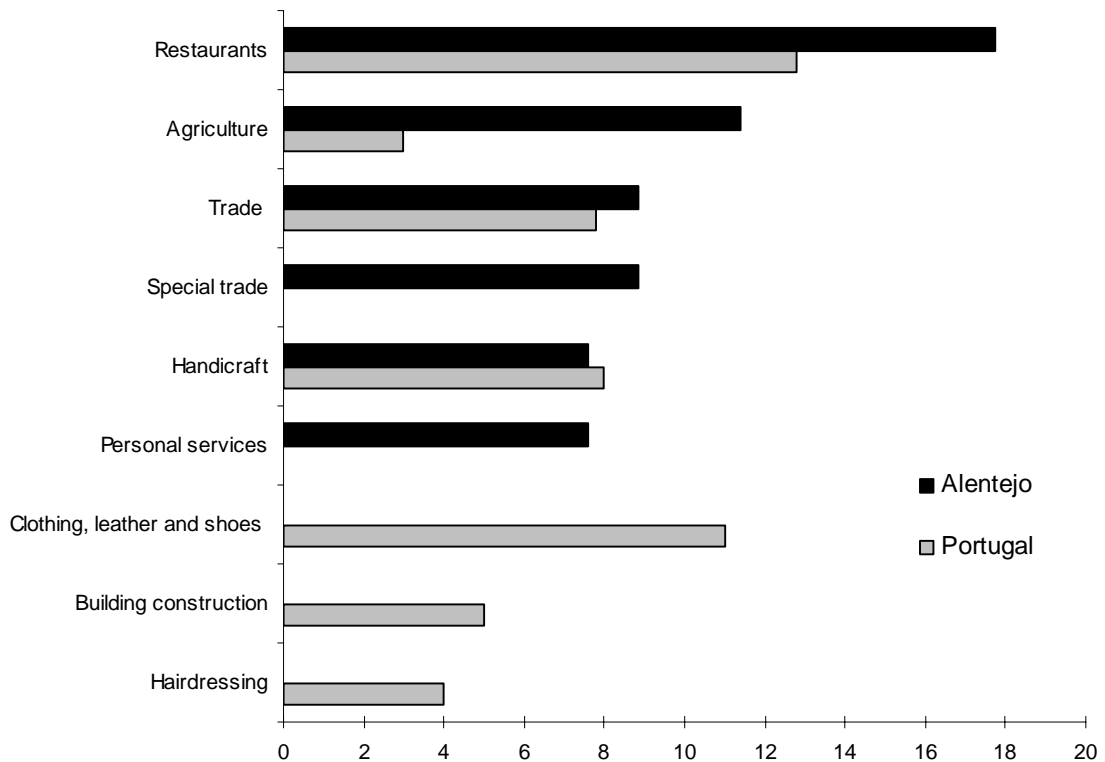
**Table 2: Motivation, funding and employment created by microcredit projects in Alentejo**

Question	Answer	%
Reasons to apply to microcredit?	To start a business	67,09
	Reinforcement of existing business	31,65
	Other	1,27
Previous labour situation?	Employee	8,86
	Self employment	50,63
	Unemployed	27,85
	Long term unemployment	12,66
Number of created jobs?	1	77,22
	2	20,25
	Other	2,53
Other funding sources for this particular project?	Yes	81,01
	No	18,99

Source: Collected by the authors from the individual credit records at ANDC.

Financed activities are often proximity services, such as the supply of food and beverages, petty trade and handicraft. In the case of Alentejo, and reflecting the historical tradition, agriculture and other rural activities are also important (see Figure 4).

**Figure 4: Sector of activity of the microcredit projects, Portugal<sup>1</sup> and Alentejo<sup>2</sup> (%)**



Sources: <sup>(1)</sup>Mendes et al. (2007). <sup>(2)</sup>Collected by the authors from the individual credit records at ANDC.

The average loan, of around 4804 euros in Alentejo, is a bit higher than the average figure for the whole country (4375 euros). However, in both cases, these are values much lower than the GDP per capita of Alentejo and Portugal and thus, in relative terms, in line with the pattern of more developed countries. In many Asian, African and Latin American areas, the average loan is high in relation to GDP per capita and, in occasions, over crosses this variable.

#### 4. Concluding remarks and implications

In this work, an analysis of the model of microcredit as a tool in the combat to poverty and social exclusion in a low density region is developed. Microcredit programs give poor micro entrepreneurs the right to obtain credit to finance their business projects and, therefore, operate directly on the key variables of the vicious circle of poverty. It allows an increase in personal income and in productivity, and increases the probability of an augment of personal savings and capital accumulation.

Initially implemented in Bangladesh, microcredit was exported to the whole world and is currently in application in all continents. In spite of its globalisation, microcredit is a concept that encapsulates many distinct realities and presents dissimilar characteristics in developed and in developing countries. In the latter, the percentage of micro

enterprises and self employment is higher and the social environment is more compatible with the implementation of group models. The dimension of the typical loan is high in relation per capita income and women are especially targeted as potential credit customers. This is mainly the case in countries where women's social status and level of education prevent their access to credit, irrespective of their key role in the family's economy and of their privileged position to break the poverty circle and, with very small investments, begin a consistent path towards social and economic upgrade.

In developed countries, microcredit targets are usually not gender determined and tend to be less favoured groups such as unemployed or persons risking unemployment, ethnic minorities or immigrants.

Irrespective of level of development in the areas where the projects are implemented, microcredit may involve a direct contact of loan consumers and suppliers, which may or may not be banks, or recur to organisations that intermediate between the parties, help in the presentation of business plans and accompany beneficiaries throughout the life of the loan.

Although the literature shows that microcredit may have mixed results, the positive impacts tend to be more relevant in less developed areas. In fact, in situations of extreme poverty, very small amounts of money may lead to substantial personal income increase and, subsequently, to remarkable improvements in general living conditions: increase in the number of meals per day, access to medical care and to education, improved self esteem. In more developed areas, and especially where social security nets are able to minimise the effects of extreme poverty, the positive psychological impacts of microcredit are of uttermost importance.

The stronger quantitative impacts of microcredit in less developed areas is to some extent anticipated, as it is expected that the marginal returns are higher where capital is scarcer. Success tends to be more significant in regions of higher demographic and economic density and is reinforced by the existence of support beyond assistance in access to credit.

Delinquency rates are usually low and inferior to those registered by formal banks, thus suggesting that credit worthiness is not correlated with individual wealth or the amount of money borrowed. These rates are usually lower in developing countries, perhaps due to a lack of social safety nets that support individuals in case of business failure and of incapacity in serving the debts.

In terms of microcredit characteristics, Portugal may be classified as a developed country, whereas Alentejo displays features that are both common in developed and in developing countries. The former are, for instance, the gender characteristics and the fact that the average loan is lower than the region's GDP per capita. The latter are mainly related to the rurality of the activities financed.

On the basis of what has been established, there are a number of strategies that could enhance the probability of maximising the positive impacts of microcredit projects in Alentejo. The most important is the adoption of a microcredit model sufficiently flexible to take into account the distinct characteristics of the region. Microcredit promoters should be recruited within the different local communities, in order to augment the psychological proximity between promoters and credit consumers. Such promoters should be trained to be able to supply the support needed to complete credit applications, but also during the period of reimbursement. As the experience of Moura suggest, physical and psychological proximity may be crucial in terms of microcredit success.

As a final note, it should be stressed that this analysis is a first draft. The authors remain deeply involved in the study of the regional aspects of microcredit in Portugal. Consequently, this preliminary assessment will be further developed by:

- comparing the effects of microcredit projects promoted by ANDC with those of an alternative microfinance framework, FAME, also in practice in Alentejo;
- applying questionnaires to unemployed that have applied to microcredit and to those who have not – registered in local job centers – in order to try to assess the determining entrepreneurial factors in Alentejo;
- evaluating the degree of financial sustainability of the Portuguese microcredit.

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