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Mitigating regional disparities through microfinancing: An analysis of microcredit as a sustainability tool for territorial development in Italy

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ABSTRACT

Despite the rapid growth of the sector, academic research on microcredit programs is still limited. In the economic development literature, the prevailing thesis is that the inadequate regulatory context is the main factor that explains the untapped potential of microfinance industry in developed economies. In this context, this paper proposes the use of microcredit not only in order to achieve social inclusion, but also above all to promote the socioeconomic development of a territory, according to sustainable development principles. Thus, the study meets the need to rebalance a territory through a stable programming approach. This research uses a multi-objective programming model, as it allows better representation of decision problems, describing the impacts on the pursued objectives, and finding a solution for reaching the best possible compromise among them. The paper sets out to examine the economic benefits of a microcredit proposal in relation to a specific project for the development of the female entrepreneurship in an Italian region. The findings reveal that multi-objective methods allow evaluating the impacts on the objectives associated to the chosen solution, to compare them with those associable to different solutions, and, finally, to reach the best compromise possible among the pursued objectives, according to external and internal constraints established by policy makers.

1. Introduction

The global financial crisis (GFC) has entailed high socioeconomic costs, governments have further focused their attention on creating innovative entrepreneurial mindsets (Secundo et al., 2015; Bontje et al., 2017) and in most cases in the leading sectors—biotechnology, information technology (Romano et al., 2014; Tremblay, 2016). Dealing with healing the impacts of economic crisis also requires specific actions aimed at both supporting weakest projects and contributing effectively to the re-launch of our economy to create new job opportunities. However, these actions have to be developed considering the sustainability of local context in which people live. In order to pursue these objectives, among the various tools, microcredit has the potential to be the answer to this requirement in developed countries—for equitable and sustainable development both directly and indirectly (Arbolino et al., 2017; Busch et al., 2016; Stevens and Morris, 2001; Yigitcanlar et al., 2017). In fact according to Garcia-Pérez et al. (2017) sustainability is multidimensional and highly complex. Sustainable development includes four dimensions (Dizdaroglu and Yigitcanlar, 2014; Yigitcanlar and Teriman, 2015) that we can also find in the microfinance tool—economic, environmental, social welfare (Gladwin et al., 1995; Starik and Kanashiro, 2013; Szopik-Depczyńska et al., 2017) and governance (Kolk, 2008; Lenssen et al., 2014; Aquilani et al., 2017).

In fact, on the one hand, microcredit offers to recipients of funds the opportunity to earn money and to recover one's human and social dignity. On the other hand, it guarantees very quickly an effective injection of liquidity in the productive system and a fast assimilation of human resources by the labor market (Jayo et al., 2008), also taking into account the protection and the respect for environmental limits. Finally, it requires a transparent participation and accountability in its governance systems that can help with addressing regional disparities (Ioppolo et al., 2016).

The process through microcredit, however, is currently implemented does not allow to achieve both these objectives, but it mainly focuses on each individual target. This concept is easily explained considering that developed countries have introduced two separate services, social microcredit and remittance services (Lorenzi, 2016).

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The latter represents a small niche, but it is expected to grow (Garrido et al., 2009). Social microcredit, already present in various European countries (France, Spain, UK and Italy), refers to a form of credit that usually does not exceed €10,000 and applies interest rate lower than the rate used in traditional microcredit (Jayo et al., 2008). While traditional microcredit aims to business and start-ups, social microcredit serves individuals in temporary economic difficulties due to unemployment or to unexpected expenses, offering a 'small loan intended to assist excluded persons to borrow money for expenses facilitating their social and economic integration' (Garrido et al., 2010). In the USA, in contrast, microcredit programs are mainly implemented to sustain micro–small enterprises, especially in minority communities (Bhatt and Tang, 2002; Schreiner and Woller, 2003).

As highlighted by the theoretical and empirical studies (Armendáriz and Morduch, 2010; Bendig et al., 2012; Cozarenco and Szafarz, 2016; de Koker and Nicola, 2011; Dittus and Klein, 2011; Esnard-Flavius and Aziz, 2011; Giusti and Estevez, 2011), this tool should be designed to achieve jointly the objectives in order to maximize the benefits for the society. The wide diffusion of microcredit is a highly relevant strategic objective since it is a tool for planning the socioeconomic development of a territory, also supporting networking and innovation in order to conserve natural resources and reduce consumption (Taddeo et al., 2017). This is clearly reflected in the World Bank suggestion (Beck et al., 2008), that not only finance fosters economic growth, but that it also reduces the wage differential and benefits the poor. The main idea here is that the development does not involve all the territories, but once it started, a group of forces (economies of agglomeration, Marshallian external economies) determines both polarization (investment attraction, capitals, qualified work) and propagation effects (purchase of intermediate goods, raw materials, incorporation of disguised unemployment by a strong area) (Carlucci et al., 2017a; Flora and Arbolino, 2013; Wang and Li, 2017). Obviously, to make it possible, an efficient use of the microcredit is necessary.

It is clear that a massive increase in the application of microcredit requires also an adequate organizational effort concerning the simplification of procedures, their standardization on the national territory and a coordination regarding the programming goals among the regions. In what follows, the research applies an optimization multi-objective model (Cruz-Reyes et al., 2017; Wang et al., 2017) to allocate the available resources between the different types of receivers, areas and sectors in order to support such a procedure aimed at assessing choices and assigning resources. This model allows quantifying the impacts associated to the socially relevant objectives, chosen by policy makers in order to reach the best solution among the pursued objectives.

The suggested approach will be illustrated referring to a specific project for the development of female entrepreneurship in an Italian region (Lazio), but it represents a model that can be applied in every area for reaching a sustainable development (Yigitcanlar et al., 2015). By using our approach, microcredit can become a powerful instrument in a policy that aims at remedying the economic situation and fostering the startup of new businesses and self-entrepreneurship. Moreover, the resources that are allocated by means of this instrument can be used shortly to become productive investments and generate employment. The additional expenditure, thus, generated can trigger a virtuous multiplier effect that is able to stimulate the local economic development.

The paper is organized as follows. Following this introduction, Section 2 focuses on the literature related to the microcredit highlighting the differences between developing and developed countries. Section 3 presents some data on the female entrepreneurship in Italy. Section 4 shows the potentiality of the decision support system. The results are explained in Sections 5, where Section 6 entails a discussion and concludes the paper.

2. Microfinance: from developing to developed countries

In its original version, microcredit identifies a specialized, group-based financial service (collateral free loans, where conventional collateral is replaced by group guarantee and peer monitoring) designed for the poor and the marginalized, who cannot gain access to loans from conventional banking services (Jahiruddin et al., 2011).

In recent times, microcredit has become an integral part of poverty alleviation in many developing countries and is gaining momentum in the development discourse (Chowdhury, 2009). Currently, microcredit is subject of several treatments not all convergent among them, as well as it is subject of so many experimentations (but still sporadic and insufficient) that introduce variegated results, confirming the conviction that we are still enough far from a homogeneous model of microcredit. The main differences inside the various studies are attributable to the context in which the tool is used, developing or developed countries. The wealth of these countries generates various results linked to the last goal to pursue, such as efficiency of the market or its civilization:

- In the developing countries, microcredit contributes to poverty eradication. Microcredit has to stimulate the transformation of the 'vicious circle' of poverty into a 'virtuous cycle' of economic advancement (Gauri and Galef, 2005; Weber, 2002);
- In the developed countries, it allows the access to the credit, filling a gap of the financial system.

At the end of 2013, in developing countries, the microfinance community reached to 211 million clients, where 114 million of them were living in extreme poverty (Reed, 2015). Due to the growth of the microfinance industry, a broad stream of research on Monetary Financial Institutions (MFIs) in developing countries has been developed (Banerjee and Jackson, 2017). Scholars mainly discussed the benefits and pitfalls of group lending compared with individual lending (Goldberg, 2005; Moss et al., 2011), the trade-off between self-sufficiency and profitability of MFIs (Lopatta et al., 2017; Ofeh and Jeanne, 2017) and the social efficiency of MFIs in different developing countries (Huq et al., 2017; Ramaswamy and Krishnamoorthy, 2016)

Despite its successes and global recognition as an effective tool for poverty alleviation in developing countries (Hulme and Moore, 2007; Santoso, 2017), many scholars are also skeptical about microcredit's universal effectiveness (Armendáriz and Morduch, 2010; Vaessen et al., 2014), even if several studies highlight a positive impact on women's empowerment, household consumption and children's education (Ahmed et al., 2011; Chari-Wagh, 2009; Chowdhury and Chowdhury, 2011; Mosedale, 2005). Despite current research on MFIs in developed countries is still limited, there is a growing interest on the topic, even if researchers have analyzed specific issues, such as microenterprise development programs in the USA and Canada (Bhatt and Tang, 2002; Salt, 2010; Schreiner and Woller, 2003), focusing on selected experiences in Australia and New Zealand (Bhuiyan et al., 2011; Dale et al., 2012), Eastern Europe (Bateman, 2003), UK (McHugh et al., 2014; Mosley and Lenton, 2012) and also in Western and Southern Europe (Barinaga, 2014; Prior and Argandoña, 2009).

Microfinance institutions, at least on the short- and long-term in Europe, are not able to achieve a financial sustainability and they depend on subsidies disbursed by governments or foundations (Hulme and Moore, 2007; Karnani, 2017; Kurosaki and Khan, 2011; Littlefield et al., 2003). In the literature, there are also criticism accusing microcredit practitioners of leaving out the poorest of the poor as non-prospective customers (Datta, 2004; Hulme and Arun, 2011). Others assign to lending procedures main obstacles to the growth of the sector in developed countries (Pedrini et al., 2016; Prior and Argandoña, 2009). Some other studies argued that microfinance undermines sustainable development (Bateman and Chang, 2012; Boje and Hillon, 2017). Following Karnani (2017), it might have some modest impact on consumption smoothing, risk management, and female empowerment;