

LATIN AMERICA

Small credit means big investment

Opinion
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One of the appeals of President Hugo Chávez's "revolutionary socialism" is its stated commitment to significantly improve the standard of living of the poor, not only in Venezuela, but also throughout Latin America. Although much of Chávez's development agenda still remains rhetorical, there have been some tangible accomplishments, including the construction of schools and clinics, access to free healthcare and the distribution of land to landless peasants.

In contrast to Chávez's "revolutionary socialism," the so-called neoliberal approach to development, which the Venezuelan president takes every opportunity to criticize, has brought relatively few benefits to the region's poor. Instead, it has most benefited those with money and education, has not generated the anticipated number of new jobs and, in some sectors, has increased the already large gap between upper and lower classes.

The irony is that ultimately "revolutionary socialism" is a dead end that will do little to eradicate poverty or create sustained economic growth in Venezuela or other countries attracted to the Chávez model. "Neoliberal" economics, on the other hand, has a real chance of generating real development, if it finds a way to enable a larger share of the population to share in its benefits.

One obvious way to accomplish this is by making more credit available to small and medium-sized enterprises (SMEs). Within Latin America, SMEs account for 98 percent of all companies. Depending on the country, they also account for 40 percent to 50 percent of GDP and 40 percent to 60 percent of employment in the region. An estimated 70 percent of Latin America's poorest wage earners are either owners or employees of SMEs.

SMEs, however, do not have adequate access to credit to sustain themselves and, more important, to grow. There are a variety of explanations for this unfortunate situation. First, it is part of a general problem of insufficient access to credit by the private sector in the region. For Latin America as a whole, total lending to the private sector equaled only 25 percent of GDP, compared with a figure of 76 percent for developed countries.

Part of the explanation is that there are not good credit-recording systems for SMEs. This makes lending to them risky. Also contributing to the risk is a growing bias in the region in favor of debtors and against lenders, which combined with a poorly functioning judicial system further increases the risks of

extending credit to SMEs. Property rights are also not firmly established, which means that SMEs often do not have sufficient collateral to guarantee loans.

This is especially true of those SMEs that form part of the region's "informal economy," which accounts for an estimated 40-50 percent of economic activity in most countries in the region. Finally, Latin America's bureaucratic tradition is an impediment. SMEs do not have the time and often the expertise to fill out the great number of documents that must be submitted to get a loan, nor can they afford to pay for someone else to do such work for them.

In recognition of the need to increase support for "neoliberal" economics and help solve the problems facing SMEs, President Bush recently announced a new U.S. government initiative to make credit more available to SMEs. One part of the initiative would follow the model of the U.S. Overseas Private Investment Corporation and offer funds to banks use to help share their lending risks. The other part would use Inter-American Development Bank funds to train banks to evaluate clients' creditworthiness when the latter lack adequate collateral and a sufficient credit history.

This kind of initiative not only would help SMEs to grow and prosper; it also could be adapted and applied to the large number of microenterprises, usually consisting of one to three individuals, whose access to credit has made it nearly impossible for them to expand and transform themselves into SMEs.

The discussion of the pros and cons of the so-called neoliberal reforms has become extremely polarized and counterproductive. It is not necessary for Latin Americans to choose between the two extremes of a capitalist model that does not adequately benefit the poor and a state-controlled socialism that provides equality at the expense of liberty, while destroying more wealth than it creates. Helping SMEs get access to much-needed credit is an excellent first step in creating a more inclusive and socially just capitalism for Latin America.