ELEVEN

MAKING THE WORLD A BETTER PLACE

APPLIED CASE STUDY

In Chapter 11, micro-finance is mentioned as the possible basis for alternative, community-based economies, and as a means of poverty alleviation. In this case study, we will consider the ongoing debate for and against micro-finance as a tool for alleviating global poverty.

Micro-finance can be roughly defined as the supply of small loans to individuals, often in groups, to enable income generation of one sort or another, usually the setting up of a small business. As micro-finance is normally used in poverty-stricken areas of the developing world, traditional requirements for collateral and good credit records are generally eschewed in favour of less formal guarantees, and the loans may be provided by banks, NGOs, or local moneylenders or shopkeepers. Although one of the earliest micro-finance success stories, the Grameen Bank of Bangladesh, was established in the 1970s, the concept only gained popular currency from the 1990s onwards, when it became part of the globalizing discourses of 'trade not aid', alleviating poverty through stimulating economic growth at the micro level.

Proponents of micro-finance argue that it is an improvement over aid-based poverty alleviation schemes. Aid creates dependency on the part of developing countries, encouraging them to seek handouts rather than self-improvement and furthering colonial relations. Aid also often comes with attached conditions which serve the needs of the donor, whereas micro-finance usually does not have such formal connections. Micro-finance also targets the informal sector, where, as noted in Chapter 10, there are problems with undocumented or vulnerable workers being exploited, but, due to the lack of formal institutions, a lot of vulnerable individuals fall through the cracks and fail to benefit from aid or from more formal, macro-level development loans. Micro-finance is recognized as a way for individuals without much in the way of social or financial resources to obtain money quickly and easily, allowing them to participate in the economy on their own terms rather than be exploited, and can encourage local cooperation as entrepreneurs go in on loans together. Micro-finance thus has a number of advantages over traditional tools for addressing developing world poverty.

Opponents of micro-finance, however, argue that it is just another way of furthering the opening up of the economies of developing countries in the guise of altruism. They argue that setting poverty alleviation into a discourse of loans and payback legitimizes neo-liberal strategies, and that the concept mirrors the neo-liberal rhetoric of development through trade. Micro-finance schemes are heavily endorsed by the World Bank and the IMF who, as Chapter 11 indicates, are hardly the most socially conscious organizations, with the World Bank's stated aim in supporting micro-finance schemes being to broaden financial markets by introducing new financial instruments, not to set up a new community-based financial system. In 2010, an epidemic of suicides in the Indian state of Andhra Pradesh was blamed on debtors being unable to pay back micro-credit loans. Some argue that the use of micro-finance is a way of forestalling political action on the part of the poor, by providing a short-term measure which appears to be addressing the poverty issue, and it can in some cases be used as part of a wider privatization initiative, as a means of absorbing the surplus labour generated by such initiatives through loans for entrepreneurial activities. Other critics point out that the number of people helped by such schemes is limited, as many potential micro-entrepreneurs do not have the type of guarantees needed to secure a micro-finance loan, and, in practice, paying the loan back can be difficult, trapping the beneficiary in a web of cross-borrowing or forced to make sacrifices in order to meet his/her obligations.

This is not to say, however, that micro-finance could not present an alternative way forward under the right circumstances. Financial initiatives focused on helping individuals or small groups need not necessarily be tied in with neo-liberal initiatives, and, with the support of a different institution – a reformed World Bank, for instance – might be better able to support impoverished communities. A micro-finance system which did not have strong links to privatization, or which does not present entrepreneurialism as a panacea, but instead simply acts as a means of credit provision, might be more effective; ways might also be found to make payment easier and guarantees less rigid. One might also argue that, given that the global economy has strong roots in neo-liberalism, any form of poverty alleviation must at least have links to such discourses, and that as such it could allow impoverished groups to participate in global economic discourses rather than simply being acted upon by them. Micro-finance is also a participatory model, encouraging people to become active parts of the local economy, which can be used as a lever for further change.

Micro-finance is thus not a panacea for poverty or a way of eliminating all socio-economic inequality. Although it helps some people under certain circumstances, its limitations must be recognized. As it stands, it is closely tied to neo-liberal discourses and institutions; however, it is possible that it may form the basis of an alternative, community-focused, form of global economics.

QUESTIONS

1. Compare and contrast micro-finance systems with advanced business systems (as outlined in Chapter 16).
2. Suggest ways in which micro-finance systems might be adapted to assist recession-hit areas of the developed world as well.
3. Could micro-finance form the basis of an 'alternative economy', or is it too closely tied up with neo-liberal economics to operate as such?
4. How might micro-finance systems, directly or indirectly, benefit transnational corporations?

FURTHER READING

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