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Microcredit programs: Objectives and functions

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Abstract

Microcredit programs mostly target poor women who do not have access to credit in the formal financial system because they lack the necessary collateral or formal employment, which secure a stream of future income. It is believed that the poor women can use the credit as some sort of seed money to turn themselves into entrepreneurs, even at a small scale. Since the founder of the microcredit programs Muhammed Yunus won the Nobel Prize in Economics, we have been hearing about the success of the programs. It is widely argued that this is not only an institutionalization of a welfare mechanism, which otherwise would be a burden on the state resources, but also a means to empower women. However, there are also serious criticisms against these programs. One group of critics argues that there is no solid evidence that supports the success of microcredit programs in reducing poverty and those successful examples we hear are only a few exceptions to the majority of the credit users who do remain impoverished. Another group of critics draw attention to a particular subjectivity created by these programs in the developing countries. Such subjectivity can be described as agents responsible for their own well-being, as woman entrepreneurs who invest wisely, work hard, and rely only on their own efforts to take care of themselves and their families. Yet, such critics continue, neither this subjectivity nor access to finance through microcredit can challenge existing social hierarchies as ideological barriers to gender transformation are quite strong.

Keywords: *Critiques of Microcredit Programs, Poverty Reduction Through Financialization, Gender Hierarchies*

1. Introduction

Microcredit programs target poor families who do not have access to credit in the formal financial system because they lack the necessary collateral or formal, permanent employment, which secure a stream of future income. It is believed that these poor people can use the credit they obtain through these programs as some sort of seed money to turn themselves into entrepreneurs, even at a small scale. The United Nations announced the year 2005 the International Year of Microcredit, and the UN Millennium Project emphasized access to microfinance and building of inclusive financial sectors, which aimed to catalyze the achievement of the Millennium Development Goals (UNCDF, 2005). Muhammed Yunus, an economist from Bangladesh, is the person behind the idea of microcredit programs. He had been providing small loans to the poor since 1976 and founded the Grameen Bank in 1983 for this purpose. He won the 2006 Nobel Peace Prize for his idea would contribute to economic and social development by struggling against poverty, which he believes, is a threat to peace and denial of human rights. According to him, human beings are wonderful creatures full of limitless qualities and capabilities. His suggestion was to make room for the blossoming of those qualities, which the current capitalist system fails to do because it imposes restrictions on the players in the market. This restriction, he argues, is the source of many of the world's problems. If we can do away with the idea of profit maximization and the assumption that entrepreneurs are one-dimensional beings, who are only concerned

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with profit maximization, we will be able to change the "character of capitalism radically, and solve many of the unresolved social and economic problems within the scope of the free market" (Yunus, 2006).

Since then, we have been hearing about the success of the microcredit programs and microfinance institutions, which aim to hit two birds with one stone: as the microfinance institutions serve to expand and deepen the financial sector, they make it possible for the poor to pull themselves out of poverty, include them in the market system not only as consumers but also as active economic agents. It is widely argued that this is not only an institutionalization of a welfare mechanism, which otherwise would be a burden on the state resources, but also a way to generate economic growth. One of the arguments of Yunus is that the poor people are a good source of investment and profit for the banks and the financial sector should take this into account; this is because the poor pay back their loans, at a rate that approaches to hundred percent (Karim, 2008, p. 14)

2. Microcredit programs

According to the Microcredit Summit Campaign Report 2012, the number of poor families receiving microcredit has increased 18-fold from 7.6 million in 1997 to 137.5 million in 2010. In 2010, more than 190 million, of whom 113.1 million were women, received microloans. Although the microcredit programs target the poor, especially poor women in developing countries, we see their dissemination in the developed world as well. As stated, the birthplace of the microfinance programs is Bangladesh, but today we see them in effect in all Southeast Asia, a large share belonging to India, Africa, Latin America and the Middle East.

It is very difficult to assess empirically whether or not microcredit programs do really achieve what Yunus claimed to achieve, that is providing employment and income to the poor though their entrepreneurial activities and reducing poverty. It is, nevertheless, quite clear that there is now a huge microfinance sector providing not only microcredit services to the poor but also services such as micro-insurance and micro-saving, which are all interconnected with the financial sector at large. The success of microcredit programs in reducing poverty probably changes from program to program and place to place depending on the other economic resources as well as cultural and social environment of the localities in question. There is, however, serious criticism about these programs as we have been reading in the news about the relationship between increasing suicide rates and microloans (Biswas, 2010). There are also researchers such as Milford Bateman (2010), who argue that there is no solid evidence that supports the success of microcredit programs in reducing poverty and those successful examples we hear are only a few exceptions to the majority of the credit users who do remain impoverished. Bateman adds that the idea of poor people pulling themselves out of poverty is an illusion, which may have negative effects if the development planners choose to spend the money on microcredit programs instead of healthcare, education or infrastructure to the poor. The very same point is made by Bugra (2007), who argues that neither the market conditions nor social and cultural context in which the poor people live are conducive to entrepreneurship activities that will help them to pull themselves out of poverty. It would be a far way better support for the poor to improve their living conditions by investing in healthcare, education and infrastructure.

Another point made by Yunus and other microcredit programs was about the benefits of targeting poor women in these programs. As evidence on higher rates of poverty among women

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became more and more visible, the idea that poverty alleviation should target women had emerged and adopted by many development planners. According to the planners, giving credits to women rather than men also hit two birds with one stone as this would not only lead to more effective poverty alleviation but also would increase pay-back rates of the loans because it was suggested that women cared more about the livelihood of the children and family and therefore would be more reliable borrowers. Rankin (2001) argues that development planners' interest in feminist economics spiked as they found out that decades of research in this area show that in the agricultural sector, it is the women who do more of the work, contribute more to the household economy and are more royal to their loans when compared with men (Kabeer, 1994; Rankin 2001).

Microcredit programs employ one more strategy to increase the pay-back rates of the loans; this was to give the loan to a group of women rather than to individual borrowers. The idea behind this strategy is to economize on the cost of gathering information about the creditworthiness of potential borrowers in the group. Furthermore, because one's chances of getting credit depend on the others in the group, people in the group feel responsible towards each other. This is a mechanism to increase pay-back rates of the loans. The strategy seems to be inspired by those who use the term social capital to refer to the trust and norms such as honesty, reliability, and reciprocity that are characteristic features of any social group (Putnam et al. 1993; Fukuyama, 2001). The argument is that such features of social groups reduce transaction costs and increase efficiency of economic activities by facilitating coordination, cooperation and therefore enforcement of contracts. For example, according to Fukuyama, formal coordination mechanisms such as contracts, hierarchies and bureaucratic rules would be much more costly to set up such mechanisms and keep them working.

As Mayoux (2001) suggests, the view depicted above is based on the paradigm of "financial self-sustainability", which argues that microcredit programs will not only alleviate poverty as they keep the states from engaging in welfare spending that might lead to financial imbalances in the budget but they will also lead to empowerment of women, who borrow from microfinance institutions as groups rather than individuals. The "social capital" has two roles in this schema; it helps to create financially sustainable poverty alleviation programs and at the same time the programs enhance social capital of the poor women, which will lead to their empowerment.

The idea that women do and should play an important role in development has been on the agenda since the 1970s. Since the declaration of 1975 as the International Women's Year and the next decade as the United Nations Decade for Women (1976-1985), many prominent international organizations and development agencies have been stressing the need to improve women's educational and employment opportunities and increase women's participation to markets and access to credit. This approach, known as the WID (Women in Development), drew attention to women's productive capacities and the need to involve women to the development agenda because of their potential to be active participants in the development process (Razavi and Miller, 1995, p.2.) Another approach, GAD (Gender and Development), emerged as a criticism to the WID and the development discourse and process as a whole, which did not lead to a change in women's lives or their subordinated position in society. GAD challenged the WID, with the argument that the source of women's problems lies in the unequal power relations between men and women. This approach underscored that gender roles and differences between men and women are entrenched deep in the social structure and without challenging the existing social norms and institutions, we cannot do away with the subordinated position of women. Hence, we need a redistribution of

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power among genders and re-evaluation of social, political and economic structures as well as development policies from a gender perspective (Pillai et al., 2009).

Although GAD's criticisms to WID was crucial as it drew attention to gender equality for the sake of equality as opposed to the instrumental approach of WID, which talked about the need to empower women so that they can contribute to the development process, in practice the primary institutional perspective of many development agencies remained as WID. The goal is not really to have a society in which men and women are equal; this is just an instrument to achieve 'development', and 'fight with poverty in an efficient way' (Reeves and Baden, 2000). For example, UN, for whom the gender issue has been central for decades now, declares "UNDP focuses on gender equality and women's empowerment not only as human rights, but also because they are a pathway to achieving the Millennium Development Goals and sustainable development" (UNDP, n.d., par. 1.) Similarly, in a policy research report by the World Bank in 2001, the Bank's President James D. Wolfensohn puts forward that gender inequalities hinder development:

> "While disparities in basic rights; in schooling, credit, and jobs; or in the ability to participate in public life take their most direct toll on women and girls, the full costs of gender inequality ultimately harm everyone. Evidence brought together in this report shows this unambiguously. A central message is clear: ignoring gender disparities comes at great cost-to people's well-being and to countries' abilities to grow sustainably, to govern effectively, and thus to reduce poverty" (World Bank, 2001, p. xi).

Rankin (2001) draws attention to two other functions that microcredit programs fulfill. Microcredit programs also contribute to deepening financial markets, reaching to populations who cannot be considered as participants to the capitalist market economy because of the scale of their poverty. As it is found out that women are reliable borrowers, even if they are poor, they can now become participants of financial markets. Rankin (2001) also argues that the programs create the image of "rational economic woman" in the developing countries, an image that is not a part of the culture there (p. 29). These programs aim to create women as agents responsible for their own well-being, as entrepreneurs who invest wisely, work hard, and rely only on their own efforts to take care of themselves and their families (Rankin, 2001, p. 20). Yet, she underscores, neither this subjectivity of "rational economic woman" nor access to finance through microcredit can challenge existing social hierarchies in South Asian cultures as ideological barriers to gender transformation are quite strong. As she puts forward:

> "Obstacles to women's empowerment (and emancipatory social change), then, lie not in lack of finance capital per se, but in the persistence of subordinating gender ideologies. It follows that access to capital – of any nature – can be liberator only as long as it procedurally facilitates spaces for women, and others in subordinate social locations, to develop critical consciousness of cultural ideology as a foundation for collective action" (Rankin, 2001, p.32).

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3. Result

Nevertheless, emphasis on the potential of microcredit programs to strengthen social capital is a wise strategy used by the architects of the neoliberal order. Thanks to this, the neoliberal view can present itself as a progressive one that defends reconfiguration of state's relationship with the society in a way that would give more power to the people, to local capacity building and local self-reliance. At the same time microcredit programs serve to disseminate market rationality to the people and regions that have been beyond the reach of global capitalism and/or capitalist mentality. Within this framework, social capital becomes the discursive tool that manages the social costs of neoliberalism as it is expected to fill the vacuum left by the dismantling of the welfare state (Rankin, 2002, p. 11).

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