

Two Different Poverty Reduction Approaches: Neoliberal Market Based Microfinance versus Social Rights Defender Basic Income

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ABSTRACT

Particularly for the last two decades along with the pivotal role of World Bank, microfinance has become one of the most popular poverty reduction strategies. There is a huge literature including empirical and theoretical studies on its efficiency and success on poverty alleviation. Despite this worldwide popularity, in a growing number of recent studies microfinance has been subjected to severe criticisms in that it has almost no success in solving inequality and redistribution problems deeply rooted in poverty. It has been accused of transforming the poor into the entrepreneur-client, being a poverty trap for the poor, reproducing the poverty cycle recursively and most crucially serving for neoliberalism. The first part of this study is allotted to these criticisms on microfinance policies. The main cause for poverty is lack of sustainable income. To generate this income for the poor to get out of poverty, there is one other alternative that has started to gain more interest in poverty reduction circle namely basic income. Basic income departs significantly from the microfinance model in that it is an income-generation suggestion based on the premise that the fight against poverty should be carried out within the context of social rights and inequality. This paper also aims to focus on the alternative paradigm of basic income poverty reduction by making a brief comparison between microfinance and basic income favoring the latter over the former.

Keywords: Microfinance, neoliberalism, poverty, basic income, social rights.

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INTRODUCTION

In the 20th century as in the previous ones poverty is the most important problem urgently needs a sustainable solution for the sake of society's own self existence. Whether it is conceptualized rural poverty, urban poverty, absolute poverty or relative poverty, millions of people in different parts of the world have to face it on a daily basis which makes the problem a global issue. There have always been attempts especially from the 'responsible' countries of the developed north to address the causes and effects of the issue in undeveloped countries. What these attempts have in common is that they hold the power to determine so called the

Poverty Reduction Programmes' main tenets and logic. In other words, reasons and solutions for poverty are prescribed by the western governments and institutions founded or supported by the very same countries. One of these institutions is the World Bank which plays a prominent role in positioning specific poverty reduction models and strategies over others; in this way the bank prioritizes few 'best' means and tools in resolving poverty. It also has the power to frame the poverty agenda the world over. Microfinance has been the most generously supported and funded poverty reduction instrument of the World Bank since 1990's. It is no coincidence that microfinance has such a major role in combatting poverty when we look at the World Bank's official ideology shift from welfare state funded poverty alleviation to market based strategies. Specifically this is the point where bitter criticisms of microfinance gain a loud voice; according to the opponents of microfinance such a neoliberalized profit -driven poverty alleviation model cannot be the panacea, it is nothing but a sheer poverty trap and it helps spread and impose neoliberal ideologies among rural areas in different parts of the world.

Whereas poverty is defined by the microfinance advocates as the lack of access to financial markets (Ledgerwood 1999) an alternative almost counter suggestion that has started to generate interest to break the cycle of poverty correlates poverty with social rights and structural inequality rather than market itself. This suggestion is basic income which means an income paid by a political community to all its members on an individual basis, without means test or work requirement. Thus basic income as an alternative remedy for poverty differing significantly from microfinance in its main logic and premises that are mainly based on social rights and decommodification unlike microfinance's free market principles. In the first part of the paper criticisms against microfinance will be given. Second part of the paper will be a brief summary of the basic income logic with a comparison between the two poverty reduction models.

PART I

UNDERSTANDING POLITICAL DYNAMICS OF MICROFINANCE

NEW DISCOVERIES IN POVERTY DEFINITIONS AND CAUSES

Microfinance has become popular in the early 1980's after Muhammed Yunus established Grameen Bank in Bangladesh. The idea of Yunus was very straightforward; that poor people lacked access to financial services from formal institutions was a barrier for them to enter the business market (Yunus 1999). After some years of experiment thankfully he discovered the main cause of poverty in rural Bangladesh; lack of financial services and entrepreneurship spirit (World Bank 2009:54). Following his discovery he announced the whole world that microfinance with an unprecedented success helped the poor in Bangladesh remove from poverty. The Grameen Bank then became the most appreciated poverty eradication model. But it underwent 'a commercial revolution' in the 1990s opening a new phase; second wave of microfinance. Along with the renovation it became an unsubsidized for profit business (Bateman 2003; Otero 1999; Rhyne and Drake 2002) which then was enthusiastically encouraged by World Bank and Bretton Woods Institutions. After this reconstruction it consolidated its place among international poverty community including researches, experts and practitioners at such a fast pace that when it came the 21st century we found ourselves communicating the year 2005 as 'the year of microcredit'. Just after a year the father of microfinance Yunus was crowned his success with the Nobel Prize and became a symbol against poverty. Not surprisingly this fast success of the phenomenon has also made it very popular almost all poverty stricken areas of the world from Bolivia to India, from Mexico to Bosnia. However it would not be fair to attribute microfinance's worldwide achievement solely to the efforts of Yunus or his Grameen Bank since microfinance became the dominant poverty reduction model all over the world with the great assistance if dare to say push of the world's pioneering institution; World Bank. The reason behind this unquestioned support of World Bank for microfinance lies in the fact that from the beginning it has been in accordance with the market led poverty resolutions including financial liberalization, commercialization and self-help. As Weber puts it "the particular policies of the World Bank were designed in a way to expedite the liberalization programmes in question while simultaneously attempting to reconstitute local social relations in line with the objective of the neo-liberal project"(Weber 2006:191). Especially after microfinance was reconstituted the model rightfully *deserved* to be called a neoliberalized practice (Bateman and Chang 2008) backed by World Bank.

In order for a clear and better understanding of what lies behind microfinance it is necessary to make a brief comparison of the past and

present poverty conceptualization of the international community in the developed countries. Before 1970s fight against poverty was mainly conducted by the national state economic models including taxation, subsidizing, social security spending and other structural regulating mechanisms either at the national or local level (Censes 2009). It was then widely conceived that poverty was a consequence of structural inequality and the state was the main actor responsible for protecting its citizens by taking necessary precautions and/or finding the solutions. Parallel to this conception, poverty analysis was mostly related with concepts like redistribution, free access to public services, land reform, solidarity and cooperatives. However by the experiences of the 1970s and 1980s this view was no longer credited and left its place to propositions of neoliberalism (Stiglitz 2002; Young 2006; Roy 2009). This period was a transition from state-driven instruments to market led policies. This ideological paradigm shift regarding poverty led to a new discourse namely neoliberalization. Not surprisingly this was when microfinance started to gain popularity over other models. Put it differently, premises and ideology of microfinance are similar to that of neoliberalism and according to Bateman a closer look at the logic behind neoliberalism will absolutely unmask the premises of microfinance (Bateman 2010:165). Neoliberalism rests on the idea that human interest is best served through the withdrawal of the state from welfarist policies (Karim 2011:14). Firstly, within socioeconomic context it is characterized by a lessening function of the state not only in economic but also in social affairs (Harvey 2007:2). Another profound aspect of neoliberalism is the rise and spreading of market values which then diffuse into the every single cell of social and economic relations; commodification in other words. Last but not least neoliberalism cultivates the individual by pointing him the one and only responsible for his own action including to act and adapt according to the changes in market conditions (Harvey 2007). That the individual's being unsuccessful or having no capacity to make the right choice even in fluctuating markets will result in his poverty would be his own failure and the state should feel not much if none obligation to intervene in. As the state withdraws, market along with its ideas and institutions fill in. One of these ideas is financial liberalization in poverty alleviation (Cammack 2010). This was where microfinance came in. According to Yunus people were poor because "financial institutions did not help them widen their economic base" (Yunus, 1999:50). As stated above it was the discovery neoliberal advocates had long waited for to open the gates for financial liberalization and commercialization. It did indeed. After all dedicated efforts of neoliberals, the idea that only a liberalized financial system can ensure the exit from poverty has been welcomed almost all over the world providing a solid ground for legitimization of core neoliberal values.

Another key dynamics of neoliberalism that intersects with microfinance is profit orientation. Free market is based on for-profit model, so is microfinance. Microfinance is about the profitable banking with the poor. The banking sector is run by private, profit oriented /maximizing enterprises. Despite appearances microfinance sector is not altruistic but it is motivated by the same profit- driven motive (Khandakara 2004). It was discovered with the help of microfinance that poor families can repay their debts even if the rates were relatively high (Chowdhury 2009). Interest rates charged by microfinance institutions have reached such a high level to justify the accusation that its main principle is profit maximization. This principle caused serious destructive problems in Morocco, Nicaragua and Pakistan microfinance markets (Bateman and Chang 2008). The poor or now better to call them 'clients' were pushed into overdebt and failed to repay their loans which then led microfinance institutions to collapse. One of the worst pictures was seen in 2009 in Bosnia where the poor clients in great numbers who failed to repay their credits forced to sell family assets and even use remittance income and pensions of the relatives to pay the debt (Bateman and Chang 2006). Looking at the disastrous picture it would not be wrong to say that a financial liberalization moved the poor into deeper poverty in many parts of the world. According to Bateman a ferocious critique, microfinance operates on the same motives with Wall Street and how much Wall Street cares about the poor so much does a microfinance institution (Bateman 2010:212). Therefore a sector whose main motive is profit creates not only its own millionaires but promotes over accumulation of capital in few hands rather than eradicating poverty. Scholars who favor microfinance strongly believe commercialization at the expense of the poor. In Prahalad's words there is a fortune at the base of the bottom of the pyramid and it is possible to eradicate poverty through profits. What Prahalad supports is "the real solution is local development of the private sector and the world is for sale" (Prahalad 2007). This implies a re-conceptualization of the poor as financial consumers. Finally microfinance fits with neoliberal idea that unless a poor becomes an entrepreneur and helps himself he cannot get out of poverty. Individuality as the foremost norm of neoliberalism is also the key motto of microfinance in combatting poverty. As Fernando puts it is "the methodological individualism of neoclassical economics" (Fernando 2006: 19). In short in the logic of microfinance the poor's one and only chance to get out of poverty is to become small entrepreneurs in informal sector. It is apparent that putting the financial responsibility burden over the poor's shoulder by making them small business owners rather than a collective fight for redistribution has provided not much value in poverty reduction (Weber 2006). As the number of small scale businesses pop up thanks to microfinance in a local economy the situation gets worse due to hyper competition which then pressurizes

the prices and incomes, wages in the end worse living conditions for all (Bateman 2010). According to the one of the other forthcoming critique Dichter, microfinance cannot be an antipoverty tool because it wide opens the informal sector door for the poor (Dichter 2010). For all aforementioned reasons, microfinance functions as a diffuser of neoliberal values into the hearts of the poorest rural areas of the world in that it prescribes financial liberalization and private entrepreneurship in informal sector. To put it briefly microfinance introduces neoliberalism at the grass root level.

PART II

BASIC INCOME VS. MICROFINANCE

Poverty is defined by the UN as deprivation of necessary power, source and capability to have a decent live and to actualize the political, economic and social rights. However as stated above microfinance refuses the notion that poverty has structural reasons. According to Feiner and Barker neoliberals favor the Grameen Bank and microfinance precisely because they do not change the structural conditions of globalization – such as loss of land rights, privatization of essential public services, or cutbacks in health and education spending – that reproduce poverty in poor regions of the world (Feiner and Barker 2006). Therefore antipoverty tools should not be evaluated independent of their macropolitical dynamics. If it is believed that poverty is the consequence of many structural factors, one should seek a poverty reduction model that sees a survival free from market. The notion that poverty is a problem of structural inequality makes it closely linked to social rights. Search for a social right defender poverty eradication model brings us one other alternative; basic income. Basic income recently been attracting so much attention defined as an income paid by a political community to all its members on an individual basis, without means test or work requirement conceptualizes poverty and inequality as injustices. As Forst does we have to point the correlation between injustice and redistribution mechanisms (Forst 2010) while analyzing poverty. Unlike microfinance basic income suggestion centralizes and priorities social rights in poverty combat. "One of the great moral strengths of supporting basic income is that it not only draws attention to evidence of the appalling inequalities of the contemporary world but also, and in particular, to the erosion of freedom that goes hand-in-hand with huge disparities of income and wealth" (Raventos 2007:20). That is to say poverty of individuals is not within only their control and responsibility but collectively consequential through a variety of other external inequalities (Offe 1992). Therefore suggesting an unconditional regularly paid income has the potential to challenge dominant poverty definition of the neoliberals that the poor is to be blamed for their situation. Needless to say from basic income perspective making the poor clients of

microfinance institutions is of no use in getting them out of poverty. Another argument of basic income is that nobody can be forced to employ in informal sector. The suggestion that no matter how dangerous, repulsive, exhausting jobs are poor people have to make businesses of their own in informal sector in order to deserve the loans and credit for leaving poverty behind can be considered as violation of human rights in that it is against the right to have a decent job. Furthermore basic income has a transformative power to dissolve the present presumptions serving for neoliberal market - dependent social order. That social security and welfare can only be protected by the state involvement points a significant logical difference between state hands off neoliberals and welfare state supporters. In addition it is very apparent that basic income can also function as a defensive instrument to preserve social justice against welfare backlash (Offe1992:74).

DISCUSSION

Poverty combat models have always been very closely linked to macroeconomic policies in that they are either presented even 'sold' or conducted by international institutions such as World Bank which had the power to determine their direction. From this perspective the popularity of microfinance among other poverty reduction models can be depended on the policy shift of the Bank's from welfare state supported tax regulations, land reforms or subsidies to neoliberal policies including financial liberalization, self- help and entrepreneurship. Microfinance criticisms are mainly based on this transition of poverty reduction strategies to neoliberalism. The microfinance model is therefore accused of being a local neoliberalism propaganda emerging among the poor in rural poverty stricken areas of the world. The neoliberal motives behind microfinance are pointed as its being a tool for private individual entrepreneurship, market values and employment in the informal sector at all costs. Most importantly it is blamed for being an instrument providing a clear ground for state minimization ideology. In fact from the very beginning microfinance has been conceptualized around free market capitalism which justifies the presumptions of its supporters that poverty is caused by the lack of entrepreneurship spirit and the solution is not the state intervention but the free market and commercialization. Therefore microfinance is not a poverty cure related with social rights. On the contrary the basic income suggestion which can also act as a poverty reduction model is built on social rights. While microfinance puts the blame on the poor and sees them as the rationale actors who should make responsible choices in the market, basic income points structural inequalities for the reasons of poverty and does require state involvement as part of the solution. For microfinance supporters poor individuals are to find the exit of their poverty in the

informal market whereas according to basic income people should be free from any kind of dominance which pushes them in inhumane employment conditions especially in informal sector. As a conclusion politics and ideology of microfinance is deeply rooted in neoliberalism but basic income's alleviation of poverty requires putting inequality and most importantly social rights on the agenda.

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