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Towards transformative microfinance?

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Macro crisis, micro solutions?

On microfinance as a lever against poverty

UCSIA U-turn series - Webinar – 9 February 2021

0. Microfinance and the COVID-crisis

U-turn webinar: Reflections about a world after corona

The role of microfinance → Poverty & Eco-destruction
(*transformation to sustainability – T2S*)

A critical and ambitious development studies perspective

Historical context: Microfinance as a neoliberal assemblage

1980s:

Crisis developmental state (state banks)

→ Structural Adjustment = austerity + liberalisation/globalization

~desagrarianisation/desindustrialisation = growth informal sector

→ (financial) liberalisation/privatisation + financial market gap

Microfinance revolution = address gap + mitigate social impact SAP

End 1990s: (Washington summit): start of worldwide co-ordinated effort (CGAP)

NGOs~MFIs, banks, regulators, donors, rating agencies, consultancies ... and academics

Phases: **Sustainable MFIs** (*microcredit*) → **financial system** (*microfinance*) → **financial inclusion**

~ **gradual mainstreaming** MF & FI

Huge success: microfinance industry >200 m clients (> 100 m poor), 2bn target for FI

Strong focus on ‘poverty/social impact’ (some mission drift)
+ recently added **‘green objectives’**

Original promise: effective tool for massive poverty reduction ~ ‘heroic (female) micro-entrepreneur’

+ justified donor subsidies & investments (mainstream regulated MFIs)

+ social/NGO origin of MFI → undercurrent of resistance (**hybrid assemblage !**)

~ reluctance to regulate

~ social performance management & indices (CERISE)

~ SPI4 ‘green index’

→ focus on intentions/outcomes – quid impact? Greenwashing?

Today (mainstream):

initial promise ‘oversold’ – poverty alleviation/financialisation of poverty – credit/poor = (over)indebtedness -

‘no transformative role of microfinance’ – jobs in mainstream economy = key

1. How effective is microfinance in the fight against poverty/eco-destruction?

70% poor = **rural/agricultural livelihoods**

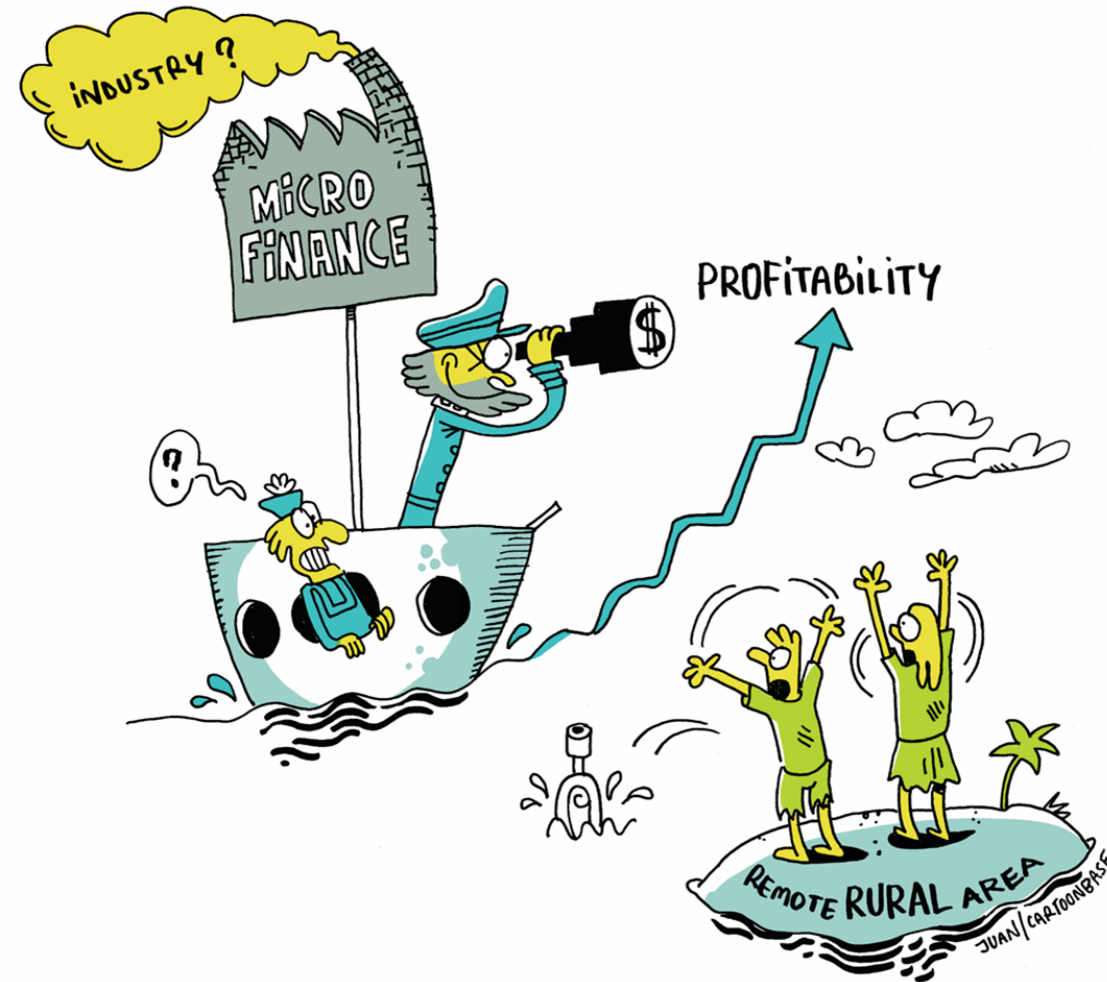
Current MF = (peri)urban, commerce/services, unproductive, missing middle

=mitigating effects of SAP

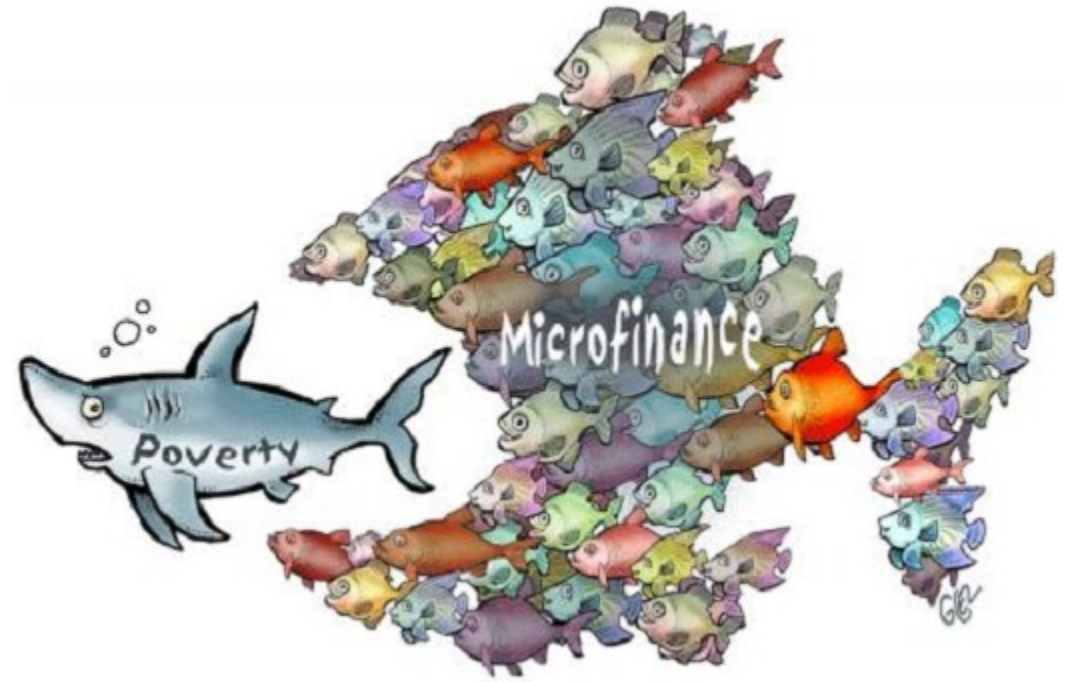
limited questioning of the model

~ causes of poverty & eco-destruction ?

(e.g. dispossession of peasant farming for plantation monoculture /cheap imports; lack of SME industrial policy)



(neoliberal) **‘Microfinance narcissism’**:
financial service delivery focus;
passive ‘demand-driven’ vs
transformative ‘demand-creating’



Some exceptions: cooperatives – farmer organizations – agricultural value chain approach
→ **structural transformation**: inclusion, control over processing & value added

= minority (not so profitable, mismatch financial market approach)

Insights from *impact assessment*? (donor-led: value for money)

A complicated conceptual/methodological challenge:

- "microfinance" (FI) = a variegated landscape (*short term-small loans*)
- **social** impact? (*income, business, gender, health, education,...*)
- **green** impact: incipient (*what is 'green' ~ T2S*)
- variety of contexts, timeframes? ...

Duvendack-Mader (2020): **Review of Systematic Reviews**

- positive > negative results, but heterogeneous and inconsistent (context)
- no transformative effect (superficial improvements, liquidity mgt > investments)

Hulme (2000s): significant initial impact on self-employed poor – but rapid plateau (corona!)

Narcissism reflected in impact assessment:

Quest for **attribution** to MF, missing **context-dependent complex interactions**.

(e.g. RCT – poorly equipped to identify context-dependent impact mechanisms of variegated MF-FI)

Microfinance is not the panacea, only part of transformative strategy

~ socio-institutional processes – poverty & ecodestruction

Current MF = little transformation , poverty alleviation

Microfinance Plus approaches – (e.g. value chain perspectives, SME) ... > transformation

Articulate with **broader socio-institutional transformation**

→ a new assemblage: neoliberal liberalisation/globalization → systemic change?

~ re-inventing old-style cooperative banking ~ social/environmental movements /political power ?

~ state-led transformation banks ?

2. Can microfinance cope with this type of crisis?

Short term:

- support survival/rapid recovery (petty commerce, services)
... yet how to deal with debt and overindebtedness?
- how to recapitalize the (M)Fis in crisis? (global responsibility: who pays?)

U-turn ?

- conditional recapitalization; adjusted assemblage? (~ global Green Deal)
- where to focus? (saturated urban/petty comm → agriculture/industry; energy ?)

Key question: is there a need for a transformation of the current economic model and can/should microfinance contribute to this?

3. Does microfinance need to be revisited?

YES: Microfinance is only part of 'transformation to sustainability' (T2S),
today = articulated to neoliberal project in crisis → T2S

Evolve to transformative role (not passive 'market demand' taking)

Abandon 'microfinance narcissism' ~ articulate to broader change & alliances
= new global assemblage for transformative microfinance

Avoid 'throwing the baby out with the bathwater'

Not a grand revolution, build on existing initiatives/questioning others

THANK YOU