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 $\rightarrow$ 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
  → (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