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**Micro-finance: 'Sustainable Development or Economic Band-aid?'**

**A thesis presented in partial fulfilment of the requirements for the degree of Master of Philosophy in Development Studies, Massey University, Palmerston North campus, New Zealand**

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## **Abstract**

The simple question which this thesis set out to answer is whether a Micro-Finance intervention, either in isolation or as part of a wider programme, is capable of facilitating a development process which can be truly effective in alleviating the poverty of the very poor. Essentially it seeks to clarify whether there is a place for Micro-Finance in initiating and sustaining an effective process of community development.

The hypothesis has been tested through a 'Rapid Impact Assessment' carried out within two urban poor communities in Manila, Philippines.

The evidence gathered is simply the actual thoughts and feelings of the 'poor' community members. I have tried to accept their responses with respect and to avoid any sort of ethnocentric second guessing as to supposed underlying cause. It is only they who can truly attest to the impact of the programmes, and it is only by accepting their spoken responses as genuine and valid that I believe that I can forge a body of analysis and discussion which may in some way genuinely add value to the community (urban poor communities surveyed) and to the academic sector of 'development'.

The key lens through which the analysis of the impact of these programmes has been viewed is that of the relationship between micro-finance/ economic capital and social capital.

The evidence obtained from the research, suggests that what I have termed 'higher level' indicators of social capital (generosity, self-sacrifice) can - and do - manifest when the physical, material and 'lower level' social foundations (including personal confidence, collective solidarity, household and community status) are provided by micro-finance programmes. It also appears clear from the evidence of this research that a key element of these higher level social capital indicators is the 'willingness to make sacrifices and to commit to the needs of the wider family and the wider community'.

The question however still remains, however, as to whether the micro-finance programmes are in some way indirectly responsible for leading them down this path towards improved social capital. It would appear reasonable to assume from the previous discussion that certain lower level aspects of social capital (such as the focus on the values of trust and discipline) may be the glue that, to a certain extent, bonds

individuals to the community, and - in turn - to higher level aspects of social capital. However, this point, given the constraints of the research, cannot be fully validated.

What is clear is that the micro-finance programmes surveyed in this thesis have facilitated the economic and social platform necessary that the people are able to choose, and confidently act upon, a design for their own development.

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# **Introduction**

## **Background**

Following the successes of micro-finance organisations such as the Grameen Bank, Sewa, ASA, BRAC and Banco Soul (through the 1970s and 1980s) in reaching large numbers of poor people, micro-finance was, for a time, held up as a 'panacea' for the world's poverty. Grandiose claims were made regarding the potential of micro-finance to effectively remove the entire world from the effects of poverty.

The late 1980s and early 1990s, however, brought a series of studies which were sceptical of the potential for micro-finance to function as this "panacea". Academics and practitioners alike produced evidence of supposedly imperfect processes and imperfect developmental outcomes. A similar fervour to that which was brought initially to promoting micro-finance was then adopted in critiquing it. This has in turn led to a situation where micro-finance, in many quarters, has been dismissed altogether as an option for poverty alleviation. It appears, in essence, that that the baby has been thrown out with the bath water .

There is a key problem with this apparent dismissal of micro-finance as a vehicle for poverty alleviation. That is: the ideology being applied in determining the benchmarks for impact success (or successful impact) against which the gathered data (regarding micro-finance) is analysed, is often somewhat contrary to that which predominates in the target communities (Brohman 1995, Townsend 1993). Concepts such as 'conscientisation' underlie an approach to analysis of 'impact' which ensures that the responses of poor community members are often dismissed as invalid (Kabeer 1994). They are invalidated on the basis that their responses reflect a lack of 'awareness' of their situation. This lack of awareness is assumed because the respondents have communicated a personal acceptance of, and perhaps a degree of comfort with, social norms that the external interviewer believes to be oppressive. This thesis is an attempt to allow the community to speak for themselves, without any ethnocentric second guessing, about what they believe to be important (for their own development) and how they believe the Micro-finance programmes, in which they are involved, have impacted on these factors (as identified by the community members)

## Hypothesis

The simple question which this thesis seeks to answer is whether a Micro-Finance intervention, either in isolation or as part of a wider programme, is capable of facilitating a development process which can be truly effective in alleviating the poverty of the very poor. Essentially it seeks to clarify whether there is a place for Micro-Finance in initiating and sustaining an effective process of community development. This is the central theme and the one which will provide the backbone for the thesis.

It is hypothesized that it may be possible, that a micro-finance programme, appropriately tailored, is capable of creating the conditions necessary for people to achieve their own sustainable development. It is assumed that an analysis of impacts based on an acceptance of the actual responses of programme members may confirm this assumption. It is hoped also that it will bring some balance to an academic trend which has limited the possibilities for micro-finance as a tool in poverty alleviation.

It is important to distinguish the above hypothesis from the idea that micro-finance has all of the ingredients necessary to actually 'complete' a process of sustainable development. The hypothesis as presented proposes something quite different. In simple terms it suggests that micro-finance may have the potential to remove all of the key barriers to people pursuing their 'own' sustainable development. It accepts then that micro-finance is not capable of actually achieving sustainable development outcomes (as represented by actual impact on poor people) in and of itself. Rather it proposes that it may be capable of creating the conditions and providing the accompanying support which ensures that people are able to move safely to achieve the key 'outcomes' for themselves. It accepts that sustainable development can only actually be achieved through the activity and force of will of those actually affected by poverty.

Further it hypothesizes that it is only in situations where the community has both the material and social platform necessary (as provided by the micro-finance programme) and the opportunity to decide for themselves what development outcomes are important to them, that genuine sustainable development can be achieved. It is proposed that the absence of either the material and social support or the opportunity to decide on the form of development outcome will inhibit genuine sustainable development.

The hypothesis focuses therefore on the relationship between micro-finance (economic capital) and social capital. As is explained in Chapter 1, the commonly assumed relationship between social capital and human development i.e. that a certain level of social capital is necessary before economic development outcomes can occur, is challenged. It is proposed that these social outcomes are the purpose of development, and that economic intervention and outcomes are simply the platform from which these social outcomes can effectively be achieved.

It is proposed then that the key development outcomes (and, by extension, definitive indicators) of development impact are social in nature and can be defined as elements or manifestations of social capital. This by no means negates an acceptance that the foundations of absolute poverty are physical and material. It is accepted that this physical/ material deprivation has a direct causal relationship which impacts on levels of social capital. Further it is accepted that the relationship between the material and the social is a hierarchical one; in which the fulfilment of the physical and material needs provides the foundation, for what we might call the 'higher level' social outcomes. Or, turning it around: it accepts that the key foundation of absolute poverty is the deprivation of the material (or basic) needs and that the absence of social capital naturally occurs as a result of this basic physical deprivation.

The thesis, then, is to use indicators of social capital as the measurement points for assessing the effectiveness of micro-finance in initiating an effective and sustainable development process.

This means that 'social capital' is the lens through which this thesis will assess whether the community has managed to achieve their own sustainable development after the barriers to these outcomes have been removed by the micro-finance process.

### **Philosophy behind Hypothesis**

Much of the aforementioned criticism around the impact of micro-finance programmes has been based on the assumption that micro-finance addresses only the economic aspects of peoples' lives. Marxist ideology has been critical of a model which they suggest assumes that we are purely economic beings; that economic impact is an indicator of a successful and sustainable development process. They have proposed that micro-finance is an ineffective tool for initiating sustainable development in that it does not impact directly on all of the key sectors or on oppressive social norms. At the same

time the neo-liberals have hypothesised that we are economic beings and that a successful sustainable development process will be illustrated by economically centred intervention and economic outcomes. In some cases, as with the 'social capital' theorists, they accept the place of social harmony; but view this only as a function of providing the conditions necessary to implement effective 'economic development'. At the same time however, they propose that certain social norms must predominate if this economic process and the economic outcomes are to be achieved. Theoretically then, this group assumes that micro-finance can be directly responsible for achieving sustainable development (which they assume to be centred in economic outcomes), provided a certain stock of social capital is prevalent in the target community on commencement of the programme (Smelzer 1966).

This thesis does not accept any one of these schools of thought as a whole. It does however accept what amounts to half of the argument of each of them. In the case of the Marxists it accepts that people are far more than economic beings; that they are multi-dimensional beings for whom the economic is only a function of assisting them to meet their basic physical needs. However it rejects the idea that effective development programmes must intervene directly to transform all of the sectors and key social norms. Instead it suggests that healthy social norms can only develop when people gain the freedom to determine them for themselves (Pieterse 1998).

In the case of the neo-liberals perspective, this thesis accepts the part of the argument which suggests that economic intervention can have a central place in initiating a process of sustainable development. However it rejects the idea that sustainable development is illustrated by purely economic outcomes. In essence then the thesis hypothesis could align with the neo-liberal perspective as to the ideal process but would not agree on the ideal set of outcomes.

## **Thesis content**

**Chapter 1** will provide background on Micro-Finance. Initially it will look at it's origins and then at the history through which the present day programmes have evolved. Then, the key models of micro-finance, in place around the world, will be summarised. The bulk of the chapter will focus on discussing key debates around microfinance. All of these debates will then be threaded throughout the analysis and discussion which will be covered in Chapter 6.

The primary research for the case study was carried out within two displaced people's communities in Quezon City, Philippines. The respondents are participants in the programmes of two separate non-profit, non-government Micro-finance providers. **Chapter 2** will provide a brief cultural, political and socio-economic background on these communities. Particular emphasis will be brought to outlining the nature and causes of the informal workforce in this context. It is this group which microfinance largely seeks to assist and we must therefore understand the causes of their predicament and their specific needs in order obtain an effective analysis of the impact of the programmes.

. **Chapter 3** will outline the methodology adopted to carry out the research. The methods utilised to ensure objectivity will be outlined along with a discussion of some of the key challenges faced in carrying out and completing the process.

**Chapter 4** will present a summary of the results of the primary research and a series of summary observations. This will include a brief background on the two organisations which were responsible for the two Microfinance programmes on which this research is based. Particular attention will be placed on defining and comparing the key features of the two programmes.

**Chapter 5** will bring the context of the socio-economic summary together with these results and the impact of the programme will be assessed relative to the concepts and indicators of 'Social Capital' and basic physical and material needs as defined earlier in the introduction. The relationship between micro-finance interventions and social capital will be analysed in -depth. Also threaded throughout this discussion will be a consideration of the key debates around micro-finance as presented in Chapter 1

The summary and conclusions will then be presented in **Chapter 6**. It will present the thesis conclusions as to the potential for micro-finance to facilitate the emergence of social capital and by extension, sustainable development.