

**Microfinance and the Human Condition:
A Bottom-Up Approach towards Promoting Freedom and Development**

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"...poverty may be defined as a human condition characterized by sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights"

(United Nations Committee on Social, Economic and Cultural Rights, 2001)

Introduction

One of the arguments leveled against practitioners of both development and human rights disciplines is the amassment of academic or theoretical work lacking in practical and pragmatic grounds. Peter Uvin, for instance, is vocal about governments and international institutions giving disproportionate attention to their visions while lacking in such diligence in the execution and implementation of said visions. Could it be possible to adopt a strategy that offers a middle ground – one where the details of execution of development methodologies are taken care of while preserving the big picture goal of freedom and human rights? Such a strategy would need to consider a Rights Based Approach to development, where the means and the processes of implementation can change while preserving the goals. [Uvin, 2004, p. 129, 140] And the answer to this reconciliation may lie with microfinance.

Microfinance or microcredit is the provision of credit and other financial services to those that are incapable of availing them through traditional channels, often the result of poor financial and social conditions. Given the nature of microfinance wherein it operates at an individual and a social level, it has the surprising ability to effect changes at a national or even international level. As a result, its role and its merits deserve further examination in this pursuit for reconciliation.

The Argument for Choice

The goal of microfinance is to provide individuals with a means of freedom to pursue enterprises that can lift them out of poverty. The availability and access to such facilities is often critical to improving the economic entitlements of the population. Furthermore, these entitlements also have the ability to be *instrumental* in affecting other similar entitlements such as political and social freedoms. [Sen, 1999, p. 38-39] But most importantly, the advantage of increased economic entitlements is that it increases the range of human choice. [Lewis, 1965] And pursuing the question of how these choices tie into greater freedom and development behooves us to answer the question of how and why does microfinance work.

Simply put, economics is the study of choices and incentives, given limited resources. These incentives could take two forms – compliance incentives and reward incentives. [Pogge, 2008, p. 78] The fact that microfinance operates at an individual and social level plays a major role in its ability to enforce both the incentives. Why is this so? Liberty of the individual implies an implicit and corresponding liberty on any number of individuals. [Mill, 1859, p. 102] This usually translates into “social rights” which define the transactional relationships between the individual and the society. [Mill, 1859, p. 89]

Taking a Rights Based Approach to microfinance would mean that any behavior on part of the society that is harmful to the individual would jeopardize the society’s ability to obtain future loans. Therefore, the incentive to the society is development and increased choices through the facilities made available. The same applies to the individual. If the individual defaults on any payments, not only does he or she risk losing funding, but he or she also risks jeopardizing the society’s financial facilities. Therefore, if the individual abuses the system, he or she is ostracized by the society as well as the loan provider; if the individual is genuinely unable to pay, there is a strong incentive for the community to help the individual. The immediate incentive to the individual is greater economic freedom and the protective security offered by the community. Adam Smith remarked on the “enlightened self interest” of the individual, and poverty as a form of social exclusion. [Smith, 1776] [Smith, 1759] In that context, both the individual and the society have strong incentives to comply to improve their respective entitlements and expand their economic freedoms.

Furthermore, these incentives can also take the form of ethics and justice. The reward of increased entitlements to both the individual and the society enforces ethics, while the fear of non-compliance enforces justice. [Pogge, 2008, p. 77] Such justice may be at the social level; but there is no requirement for justice to be enforced by the state. [Sen, 2009]

Caveats

Uvin talks about how good development or humanitarian work does not automatically guarantee freedom or human rights; that only happens with social and legal guarantees. [Uvin, 2004, p. 123-166] We see that microfinance has the ability to provide both the individual and the society with the capabilities for various freedoms through incentivized processes as well as increased opportunities through entitlements. [Sen, 1999] [Uvin, 2004, p. 137] However, while microfinance can come with social guarantees and be an enabler for legal freedoms, it may be unable to guarantee legal freedoms in themselves.

The successful execution of microfinance initiatives would also require cooperation from both the private sector and from NGOs. Indeed, even the UNDP behooves the private sector’s responsibilities in “creating an enabling economic environment”. [Uvin, 2004, p. 127] [UNDP, 2001, p. 116] The former would benefit from newer and richer markets while the latter could function as objective watchdogs for benefit-harm analysis. [Uvin, 2004, p. 151]

The nature of microfinance is such that it would help with not just economic, social, and cultural rights but also civil and political rights. This could very well entail a redistribution of power and resources, which may not be well received by world governments. [Beetham, 1995, p. 43] However, contrary to some views that the political nature of human rights puts the state at the center [Robinson, 2005, p. 32], microfinance has the ability to operate

independent of the state. Private sector enterprises both inside and outside a state have more power than the average individual to challenge the state through economic incentives.

Post Scriptum

Sartre said that hell is other people. However, adopting such a view with development and human rights is disingenuous at best, given the poverty even in the developed world. [Sartre, 1994] [OECD, 2010] Microfinance may provide us with the possibility of more fairness in a world that desperately needs it. [Sen, 2006, p. 137]

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