The Poor Don’t Need Another Prophet: A People-Centered Approach to Microfinance and Education in Bolivia

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Introduction

As international aid agencies increasingly embrace microfinance, the darling of international development, questions are beginning to surface. Who benefits from this savings and lending system that claims to target the poor? Does an increase in social capital of the poor lead to an enhancement of human capital in terms of socialization and education; does that in turn contribute to the fostering of microfinance practices? What kinds of linkages do these institutions need to sustain and replicate their practices? While these are pertinent avenues to investigate, in this essay I seek to address that which is of basic concern in terms of the perceived capacity and capability of the poor: can the poorest of the poor build on their existing social capital through microfinance? To address these questions, this article will examine the growing trend of microfinance practices in Bolivia, drawing out some of its pluralities and complexities as it intersects with the poor.

The concept of microfinance was pioneered around 1976 in Bangladesh by Dr. Muhammad Yunus who sought to make financial provisions to clients conventionally excluded from the financial system on account of their lower economic status. Perhaps most distinct from traditional banking is its ‘joint liability’ feature, which views a group of individuals as a single client to whom the credit is disbursed. While I acknowledge that microfinance as an institution serves as a legitimate and alternative banking system for the marginalized, I argue that it is still limited by its conventional institutional structure. I propose instead for increased targeted attention to the more informal networks of self-help groups, a novel savings and lending method that seeks to validate and leverage on local social capital for sustainable growth of the group and community at large.

Background

Microfinance is a relatively nascent and exponentially growing trend in development in Bolivia. The concept of formalizing banking practices specifically within rural pockets of poverty as a tool for mobility is energizing and innovative. Poverty can be seen as a multidimensional phenomenon of deprivation of basic human dignities (Narayan et al., 2000). Thereby, microfinance has laid the foundation for a new kind of dialogue in development with an eye on equity. However, new ideas are still trapped in old paradigms. Microfinance settings tend to be highly institutionalized: encased in a legal rubric, top-down approach, catering to people above or just below the poverty line (indicators that determine the minimum provisions necessary to live in humane conditions) and less on the extreme side of the poverty spectrum. In other words, while accommodative in expanding their client base through a restructuring of policies and practices, microfinance as a financial institution continues to adhere to the principles of traditional banking, which draws parameters of lending and borrowing around the risk-averse nature of individuals and groups. The need for efficiency still prevails as a prime measure of success within this fiscal domain. Meanwhile, "united under the banner of microfinance" (Mordoch, 1999, p.1569) lies the ambitious promise of providing new teeth to community development for social change, particularly amongst women who make up a majority of the world's poorest (Narayan et al., 2000). Fringe social benefits and spill-over effects of microfinance show signs of emerging as prime stars as multilateral agencies seek to use this institution as a common platform for adult education on health issues, legal rights, gender roles and other social agendas enmeshed in the development fabric.

For example, large microcredit organizations in Bolivia, such as Bancosol, Caja Los Andes, and the Private Financial Fund (PRODEM FFP), help to reduce some of the economic risks faced by the poor through a formal credit and savings system. These organizations primarily serve as a system of insurance to the poor who often lack collateral, steady employment and a verifiable credit history and therefore struggle to gain access to traditional credit. By offering small loans for housing, fishing or irrigational projects and by providing banking services such as savings accounts, these organizations are able to create alternatives to help the poor manage their financial resources. These services allow for greater predictability and stability in their day to day lives as well as help mitigate exploitation from local money lenders who often have a credit monopoly and thereby charge high interest rates for small loans. Yet, given the geographic, demographic and paralegal status of much of the poor in places such as Bolivia, development initiatives often merely flirt with the margins of poverty. Stretching from the tropical Amazon to the soaring Andes, Bolivia's diverse landscape and population offer amazing contrasts as well as significant challenges to economic and social development. While the Quechua and Aymara peoples reside mainly in the rural areas and make up the majority of Bolivia's population, microfinance institutions are able to serve primarily an urban-based minority.

The arms of microfinance can only go so far. Behind its seemingly unified front, there are budding camps in the approach of building credit and savings institutions for the poor. In the fervor of international discourse, the invisible intermediaries are often ignored. Typically this is evident with the ad hoc grassroots groups that attempt to create linkages between remote communities and microfinance institutions in their efforts to ensure true sustainability. Granted, there has been an evolution in theory and practice from the historic 'microcredit' approach, in which banking for the poor is viewed as a mere loaning mechanism, to 'microfinance,' in which there is a more proactive component in the utilization of savings for development. However, there is now a need for a new terminology and practice that better encompasses a more participatory approach and people-centered ideology – self-help groups as a means of self-development and (re)education through collective action.

Self-help groups refer to an informal network of banking and lending that seeks to address more successfully the poorest of the poor who tend to fall through the cracks. This first involves the formulation of small groups, which are particularly inclusive of women, followed by the creation of a system of savings and lending within each group. Critical here is the assumption that even the poorest do save and are open to lending among themselves. The appeal of this seemingly simple practice lies in the fact that not all members need to utilize their savings at a given time, thereby allowing for the constant flow of capital amongst their group unit. This fosters a healthy practice of accountability through peer pressure, a greater degree of fiscal autonomy from high interest moneylenders, and better risk management for those who are not eligible for microfinance loans.

While a relative fledgling in the microfinance world, the conceptualization and practice of self-help groups has pervaded health and community development literature since the 1970s, through organizations such as Alcoholics Anonymous (AA), as support groups for social change (Katz, 1981). Much has been borrowed from this domain, including the assumption that group identity is an extension of personal identity and that engrained within the paradigm of self-help is the practice of help-seeking for learning and growth. Thereby, self-directing individuals shape and are shaped by the diffusion of knowledge, ideologies, and cultural practices that circulate and reference the self and the other in tandem. The organizational structure of these groups mirrors that of self-help groups within the microfinance world in that they are characterized as spontaneous entities (not set up by outside groups), non-bureaucratic and self referencing, organizing, and directing, with common goals aimed at a shared desire for social change. Interestingly, the Western perception of help-seeking as 'dependence' gives way to social enterprise in learning for group self-sufficiency (Nelson-Le Gall, 1985). The unique marriage of self-help and help-seeking is the model within the microfinance world.

Self-help Groups in Practice

Initiatives such as self-help groups can be viewed as a social movement with people taking (co)responsibility: "The days of the prophets are over. People don't want any more prophets coming into their community and telling them what to do," remarks Aaron Ausland, a project manager for a reputable self-help group NGO near La Paz (Interview, May 20, 2004). Since the financial self-help model is primarily based on group savings, members work with their assets and not with loan liabilities owed to an external agency at the initial stage. Members are compelled to educate each other and seek help on accounting practices, and in the process tend to share resources on health, education and other knowledge that benefit the group as a whole. Perhaps the help-seeking of the past has now been reconfigured through the Freirean thinking that involves critical consciousness for co-constructing knowledge with one another as a means for liberation from structures that define and confine. In other words, by seeking to perceive and expose inherent oppressions and deprivations, individuals can seize upon this 'conscientization' and act upon it to transform and better their lives (Freire, 1994). Thereby, consciousness is no longer the prerogative of the individual. Additionally, interest earned on loans goes to the group and not to an external service provider. Hence, this is the most cost effective and sustainable method to reach the poorest that enables them to take charge of their own development, building the financial and social capital required to address poverty.

"Banking has never been a new concept…it's like bread…it's universal, for everyone knows intuitively how to manage their savings" says Ausland, when speaking of community resourcefulness in his NGO's implementation of self-help groups near La Paz (Interview, May 20, 2004). Hence, the power of harnessing the preexisting informal banking practices for sustainable development seems to be key in this process. With this shift in paradigms, NGOs are compelled to re-examine their role in this development process. From a conventional capital-granting mechanism, NGOs are starting to function more like a catalyst in providing legitimacy to community initiatives of self-development.

Self-help groups, however, cannot be treated as the nirvana pill for development practices. There are genuine challenges these groups must face to attain mobility and sustainability. The reality is that given this practice, the amount available for loans is small, especially at the beginning. This amount is limited by the participant's capacity to save; some consider this an advantage because it prevents over-borrowing, especially in the early stages of a group's life. Yet, the short loan period limits investment in long-term activities and as a result makes development an excruciatingly slow process. Furthermore, loan funds are not always available at the appropriate times.

Maintaining group cohesion requires constant effort. Given the fact that financial self-help groups are based in regions of extreme poverty, they tend to encounter more seasonality in participation and, at times, a perpetuation of existing social hierarchies within the communities. Additionally, the circulation of knowledge can become claustrophobic as referencing the group becomes a closed and insulated practice. The metamorphosis of education to propaganda is after all a real threat and a persistent reality to even the most meaningful solutions to social change. It is also expensive and often unfeasible to measure social change and community participation to gauge the impact of people-centered practices on alleviation of poverty.

Conclusion

To circumvent some of these hurdles, it is necessary to strengthen the linking initiatives made by grassroots NGOs between these self-help groups and microfinance institutions. This is best achieved through the restructuring of formal banking policies and legal frameworks towards a more inclusive space that provides a forum for the poorest of the poor. The idea is to not create a parallel system of finance but rather to expand the existing parameters of legal and fiscal structures to best encompass this neglected and marginalized majority. This is best achieved through genuine participation and dialogue among various stakeholders, (community members, local NGOs, microcredit institutions and international aid agencies), to provide legitimacy and scalability to these grassroots initiatives. Similarly, social learning within self-help is best achieved through simultaneous vertical and horizontal sharing and help-seeking from within and from outside of the group. While not asocial in nature, genuine change requires a constant dynamism of the social and the individual that allows for reframing and reexamining parameters of popular discourses and practices in knowledge production and consumption.

In the end, true success of NGOs in the development field needs to be measured by their ability to form relationships within the community they choose to serve. The rationalization, impartiality, and reduced opportunities for corruption introduced by formal organizations tend to be viewed as desired developments. Yet informal social groups do have the capacity to do a better job at allocating resources and the dynamism for seeking current knowledge for contextual practices. In essence, the aim is for equity to achieve scale, where efficiency and equity are two sides of the coin rather than diametrically opposed paradigms. After all, when people become their own prophets, prophets will cease to be.

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