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**MICROFINANCE AND
THIRD WORLD DEVELOPMENT:
A CRITICAL ANALYSIS**

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Microfinance is emerging as an integral part of the new development paradigm, described by the phrase "participation and development." Although the idea has become quite popular among donor agencies, development practitioners, and academicians, theoretical premises on which this idea is founded seem entirely unexamined. Accordingly, this article investigates the academic merits, as well as potential consequences, of this popular poverty alleviating model from the supply-side perspective and asks a provocative question: Do the microfinance ventures have features which suggest that the establishment of this new finance industry in the Third World countries might further complicate their pervasive poverty problems? The answer to this question appears affirmative to be affirmative. First, the microfinance idea is founded on two theoretical premises, both of which are very controversial. Second, the lack of microcredit is not the cause of the Third World's deplorable poverty situation--a fact that suggests that the supply of microcredit cannot alleviate poverty in these countries. Finally, the promotion of the microfinance ventures in the Third World has potentials to create private groups, which have vested interests in perpetuating their prevailing poverty situation.

Third World (TW) development is now half a century old and coincides with a period of substantial Northern economic aid to the economies of Third World countries. Despite this assistance, TW poverty continues. This situation has been caused by several critical factors, yet current literature mainly blames the orthodox development approach, which fosters channeling foreign aid and loans through state and para-state agencies. Accordingly, traditional/orthodox development ideas have been challenged and new ones conceived. Two of these ideas, microcredit and microfinance, have become a worldwide movement. Currently, there are about 7000 micro lenders who serve about twenty five million micro entrepreneurs all over the world, most of whom are poor women in rural areas (Pearl and Phillips, 2001). In spite of this huge popularity, microcredit and microfinance remain very controversial conceptions. Their contributions as well as effects on TW poverty have come under question.

This article explores the nature of this controversy with a very provocative question: Do the microfinance ventures have features which suggest that the

establishment of this new finance industry in the TW countries might further complicate their pervasive poverty problems? This analysis was motivated by the fact that the microcredit-microfinance literature, which has burgeoned over the past two decades, deals mainly with the demand side of the microcredit-microfinance programs. The literature describes eloquently why the poor need small loans (microcredit), the factors that constrain them from getting these loans, and the benefits they receive from these small loans. But the literature is almost silent about the motives, means, and abilities of those who are supposed to run these small loan programs. More specifically, the literature does not examine the theoretical foundation of the microcredit and microfinance industries. As a result, the theoretical soundness and policy implications of the proposed microfinance revolution are questionable.

The article has been organized as follows: The first section describes the differences between microcredit and microfinance ventures. It is followed by an account of the arguments that treat microfinance as a special case of infant-industry and social consciousness driven enterprises. The next section reviews the literature with a view to examining the nature of these arguments. The concluding section offers an assessment of the microcredit and microfinance industries.

MICROCREDIT AND MICROFINANCE

In the current development discourse, microcredit and microfinance are two popular buzzwords. Although they are ordinarily used synonymously, these concepts have significantly different meanings. Proper appreciation of the key differences is very important to assessing their theoretical soundness and policy implications.

The microcredit idea became popular in the development discourse of the early 1980s when the currently famous Grameen Bank was founded in Bangladesh. In general, microcredit provided by Grameen Bank and similar private lending ventures has five features that distinguish it from credit supplied by the conventional financial institutions (Grameen Bank, 2002). First, the loan size is small, averaging about US \$100.00. However, this general feature differs from one country to another and depends upon the differences in the levels of the country's socioeconomic development. Second, the primary customers of these loans are the rural poor, women in particular, who have little access to conventional banking facilities. Third, the purpose of these loans is to create income-generating activities in the rural non-formal sectors through self-employment. Fourth, tangible collateral is not required for taking this kind of loan, meaning that microcredit is collateral-free. Finally, there is another aspect of the microcredit programs that distinguishes them from conventional banking: The micro lending ventures have integrated loaning and savings mobilization functions. In other words, regular savings are a pre-condition for getting loans from the Grameen type financial

enterprises. Savings with the borrowing institution is not a requirement for taking loans from conventional banks.

Small-scale private lending programs intended to meet the credit needs of the poor are not necessarily a novel idea- an issue that has received attention from both economic historians and anthropologists (Dalton (ed), 1968; Homer and Sylla, 1991; Polanyi, Karl, C. Arensberg and H. Pearson (eds.), 1957). In prehistoric times, credit probably existed before the development of common measures of value or mediums of credit. Anthropological evidence shows that the system of credit in kind had existed in communities where no trace of any medium of exchange or even standards of value could be discovered. In historical times, credit preceded the coining of money, which is dated from the first millennium BC, by over two thousand years. In our time, different kinds of informal creditors, including money lenders, mainly met the credit needs of the poor before the international donor community helped TW governments to become involved in the rural credit market.

The microcredit idea, which meets poor people's needs for small loans through private people, is as old as the recorded history of humanity. There are, however, several features of the current microcredit movement that differentiate it from the traditional informal credit facilities. First, the microcredit movement is a Non-Governmental Organization (NGO) approach to poverty alleviation. NGOs have their origin in nonprofit value-based voluntary organizations and have been working throughout the world for centuries, particularly in the developed countries of the North (Hall, 1987; Korten, 1987). Unlike the traditional informal credit agencies, the microcredit lenders do not have profit motives. Second, the microcredit movement is also non-judgmental. For years, charity organizations helped the poor with small loans under the assumption that their poverty was due to personal failings (Robson, 1997). The current NGO approach is different from the theory of personal failure because it believes that poverty is created through social processes that deprive the poor of access to social resources. One of these social resources is credit, which microcredit leaders treat as a human right. Finally, microcredit leaders believe that they can inspire social and economic revolutions in the TW by organizing the poor under the banner of Grameen type microcredit organizations.

The tremendous success of the microcredit programs in outreaching the poor, particularly women, and recovering outstanding loans (95%), has attracted world attention. The Microcredit Summit of 1997 was organized to consolidate and accelerate this attention. The Summit brought together 2,900 delegates from 137 countries in Washington DC, representing 1,500 organizations from all over the globe (Microcredit Summit, 2003). The response to the Summit's declaration was quite quick (United Nations, 1997). The importance of the microcredit idea was reaffirmed in summits and conferences of major intergovernmental and international bodies, including the following: Twelfth Ministerial Conference of the Non-Aligned Movement (New Delhi, 4-8 April 1997), Ninth Asian Association for

Regional Cooperation Summit (Male 12-14 May 1997), Organization of African Unity Summit (Harare, 2-3 June 1997), the UN Economic and Social Councils' substantive session (Geneva, 30 June and 25 July 1997), Commonwealth Heads of Government Meeting (Edinburgh, 24-27 October 1997), and the Group of Seven (Denver, Colorado 21 June 1997). As noted above, there are about 7,000 micro lenders who serve about 25 million micro borrowers worldwide. Even more important to note is the fact that microcredit has become a very popular poverty alleviating idea in some Northern countries, including the United States (Carr & Tong, 2002).

The Microcredit Summit inspired the development of another related concept, microfinance. Although the operational principles and practices of the two micro lending ideas are similar, the two differ fundamentally in their motives and means of operations.

A bank is a financial institution whose main function is to collect deposits from different sources and invest them with prospective borrowers for profit. In other words, a bank acts as a middle person between those who need safe keeping services for their funds and those who need to borrow funds for personal or public reasons. The banking function is financial intermediation. The proposed microfinance industry is supposed to be involved in the same kind of financial activity, with one critical difference. While conventional banks normally serve larger enterprises and wealthier clients in urban areas, the market of microfinance ventures consists exclusively of poor households and very small enterprises in rural and informal sectors (Harper, 1998; Ledgerwood, 1999; Remenyi, 2000).

In addition to financial intermediation, there are two other features which microfinance and conventional banking share. These are also the features that distinguish microcredit programs and microfinance ventures. The first is the motive of operation. If nationalized commercial and specialized banks are excluded, the banking sector is run by private, profit-oriented/maximizing enterprises. Despite appearances, microfinance is not altruistic, but it is motivated by the same profit motive. In addition, like banks, microcredit programs depend upon external help for their operations. Unlike conventional lending institutions, however, microfinance enterprises intend to become self-financed and end their dependence on external assistance. Joe Remenyi is correct when he argues that "the conventional wisdom has always favored the view that banking with the poor cannot be undertaken unless it is heavily subsidized. Microfinance, which is about profitable banking with the poor, challenges this view. Subsidized credit and subsidized banking with the poor are inimical to best practices in microfinance" (Remenyi 2000: 27). This suggests that, unlike microcredit, the ultimate objective of the microfinance ventures is to be self-funded.

MICROFINANCE, INFANT INDUSTRY, AND SOCIAL CONSCIOUSNESS DRIVEN CAPITALISTIC ENTERPRISE

As stated, microfinance refers to profit-making financial ventures that intend to serve the rural poor. Since profit-seeking activities are not supposed to get support from public and nonprofit organizations, these new financial ventures promise to be self-financed eventually. For at least two reasons, these propositions provoke serious skepticism. First, as noted above, informal credit agencies are used to meet the credit demands of the rural poor, but these agencies normally charge usurious interest rates by taking advantage of the helpless conditions of their clients. Because no reasonable ways were found to stop or regulate the business practices of these informal lenders, the international donor community helped TW governments to establish para-state credit agencies from the 1950s through the 1970s.

The second point relates to the initial funding of the microcredit ventures. Capital required for establishing private financial ventures is of two types: equity capital supplied by the main owners of these ventures and share capital collected from the members of the public. Individuals interested in microfinance enterprises have little equity capital and they can expect little public interest in investing in their businesses. In addition to problems of seed capital, it is quite unlikely that micro lending would prove profitable at the outset. Because of this, microfinance enterprisers need assistance from private (mainly non-profitable) and public donor agencies for seed capital as well as for running micro lending operations, especially in the initial stages.

In order to justify this assistance, micro-financiers are required to give two kinds of rationale: one social and the other economic. From the social perspective, microfinance entrepreneurs need to show that they are different from traditional informal creditors. Owing to vast differences in education and wealth, micro lenders should not be as greedy as traditional bankers in doing business with the poor. The economic rationale demands that the would-be entrepreneurs should be helped with outright grants or low interest loans, but reality is different.

Microfinance theoreticians have advanced two theories regarding their aims--an economic and a psychological. The economic theory treats microfinance institutions (MFIs) as infant industries, while the psychological theory differentiates microfinance entrepreneurs from traditional money lenders by portraying them as "social consciousness driven people." According to Remenyi, the gist of the economic argument is that success in any business venture, including MFIs, is determined by the entrepreneurs' ability to deliver appropriate services and profitably. However, studies conducted in different parts of the TW show that there are no successful MFIs by this definition. At best, some MFIs cover their operating costs while some of the better known among them are able to cover in part the

subsidized cost of capital employed. This situation suggests that the MFIs will not become financially viable in the long run.

One solution to this problem is to treat MFIs as infant industries, so that micro-lending businesses can be subsidized during their initial stages of operation. This subsidization would be beneficial to both the economy and society because this will help micro lenders realize economies of scale and the productivity fillip that comes with profitability. The logic goes as follows: Over time, as clients of MFIs, micro entrepreneurs will establish their economic contracts with banks, retailers, government employees, and suppliers of production inputs, which will improve their skills dealing with money management, contractual obligations, and resource management. These skills should reduce the cost of transaction, disseminate information, and increase the micro entrepreneurs' ability to assess effectively available information to make sound business decisions. In this respect, society benefits from what is, in effect, a productive process leading to the creation of public goods as spin-offs from the growth of microfinance. To the extent that these public goods have value, they are a legitimate basis on which to provide subsidies to MFIs while the transition to widespread outreach to poor households is ongoing (Remenyi, 2000: 46).

The psychological component of the micro credit theory – known as social consciousness-driven capitalism – has been advanced by the most ardent promoter of micro finance, Muhammad Yunus (1998). His theory argues that a species of profit-making private venture that cares about the welfare of its customers can be conceived. In other words, it is possible to develop capitalist enterprises that maximize private profits subject to the fair interests of their customers.

The rationale of the theory is straightforward. Although altruism is not totally absent, capitalism is founded mainly on the premise that human beings are selfish by nature. Accordingly, individuals interested in businesses are naturally motivated by the principle of profit-maximization, with little consideration for the interests of their clients. This premise is too limited to be a general model for capitalism, however, because it excludes individuals who are concerned about the welfare of their fellow human beings. A more generalized principle would assume that an entrepreneur maximizes a bundle consisting of financial return or profit and social return. This assumption creates three groups of entrepreneurs (Elahi, 2002). The first group consists of traditional capitalists who mainly maximize financial returns or profits. The second group consists of philanthropic organizations (like traditional microcredit NGOs) and public credit agencies that mainly maximize social returns. The third group consists of entrepreneurs who combine both rates in making their investment decisions under the additional constraint that financial return cannot be negative. This group includes the microfinance enterprisers who are to be treated as socially concerned people, and microfinance, which is to be treated as a social consciousness-driven capitalistic enterprise.

If this generalized principle is accepted, then these socially concerned individuals can be encouraged to accomplish many socially desirable activities in

capitalist economies. Under this principle, an entrepreneur can run a health care service for the poor. Other enterprises could include financial services for the poor, educational institutions, training centers, renewable energy ventures, old-age homes, facilities for people with special needs, recycling enterprises, and the marketing of products made by the poor. This economic system would replace the current one in which there is a wide chasm between the people who live for profit and those who lose in the capitalist system. In this new system, society's predominant means of improving the plight of the poor is not private, public, or corporate charity, but rather doing business with the poor in a way that gives them the opportunity to earn at least a small financial and a much larger social return (Yunus, 1998: 62-63).

THEORY OF CAPITALISM, SELF-INTEREST, AND THE INFANT-INDUSTRY ARGUMENT

Microfinance is part of a mega project that proposes to add a new chapter in the theory of capitalism. As noted above, this project is founded upon economic and psychological ideas. The economic idea is the orthodox infant industry argument that justifies protectionist measures within the framework of the classical theory of free trade. The psychological idea is a criticism of the capitalist entrepreneurs' profit maximizing motive. This suggests that the psychological and economic arguments need critical evaluation to judge the academic virtue of the microfinance theory. With this objective, the relevant literature is briefly reviewed below, beginning with the psychological idea, for this idea forms the foundation of the theory of capitalism.

SOCIAL CONSCIOUSNESS, SELF INTEREST, AND THE CREATION OF PRIVATE WEALTH

According to Adam Smith, considered the main theorist of capitalism, the system is based on the assumption that continued prosperity critically depends upon the progressive creation of private wealth. In Smith's view, the prime mover behind the creation of private wealth is human self-interest. This maxim is best summarized in Smith's own words. In his classic *An Inquiry into the Nature and Causes of Wealth of Nation*, published in 1776, Smith states: "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their self-interests; we address ourselves not to their humanity but to their self-love and never talk to them of our own necessities but of their advantages" (Smith, 1939: 26-27).

The *Wealth of Nation* says little about the psychological aspect of the theory. Smith articulates the psychological components in his other book, *The Theory of Moral Sentiments*. Published seventeen years before his *Wealth of Nations*, this book deals with moral theory. Smith advances the maxim that human

self-interest acts as a prime mover of the capitalist development. *Moral Sentiments* is an inquiry into moral psychology, for which the main concern is the nature of moral judgment (Raphael, 1985; Sprague, 1967). Smith finds the original source of moral judgment in the conception of sympathy, which he makes sufficiently clear in the first paragraph of the book:

How selfish soever, man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it. Of this kind is pity or compassion, the emotion, which we feel for the misery of others, when we either see it, or are made to conceive it in a very lively manner. That we often derive sorrow from the sorrow of others is a matter of fact too obvious to require any instances to prove it; for this sentiment, like all other original passions of human nature, is by no means confined to be virtuous and humane, though they perhaps may feel it with the most exquisite sensibility. The greatest ruffian, the most hardened violators of the laws of society, is not all together without it. (Smith, 1976: 9)

This opening paragraph is both an attack on the ethical theories of Thomas Hobbes and Bernard Mandeville and an indication of the central idea of his work on moral philosophy (Weinstein, 2001). In *The Leviathan*, Hobbes, a die-heart materialist in his methods of philosophical investigation, paints a very negative picture of human nature. His materialistic conception of human nature may be understood from his interpretation of human life. He sees human life simply as motion of limbs. The human heart is simply a spring; nerves are nothing but a complex system of strings; and joints are just wheels which give motion to the whole body (Hobbes, 1960). In other words, Hobbes conceives human beings as nothing more than living machines.

These living machines are moved to actions by two natural passions, appetites and aversions. There are different kinds of appetites, some of which are innate and others social. The most important social appetite--the main source of conflict and chaos in society--is the desire for power. Everyone desires it, naturally, but all cannot have it at the same time. This situation leads to a perpetual condition of war of every man against every man in society. In this situation, the notions of right and wrong, and justice and injustice have little meaning. Where there is no common power, there is no law, and without law, there are no injustices. Force and fraud are two cardinal virtues in war. Consequently, reason, which basically means prudence of self-preservation, dictates that human beings must submit themselves under the care of civil authority through a voluntary social contract. In other words, the foundation of Hobbes' political theory is his conception of human nature: by virtue of their natural constitution, human beings are propelled only by self-interest.

Mandeville gives similar description of human nature in his book *The Fable of the Bees*. He believes the production of necessities does not lead to national prosperity. To get his point across, Mandeville goes to the extreme, stating that the encouragement of vice benefits society as a whole because envy, vanity, and other sentiments result in excessive spending, which in turn bring employment and wealth. Even crime keeps locksmiths and police employed (Weinstein, 2001).

Both Hobbes and Mandeville argue that naturally selfish human beings care for others only in so far as it benefits them. The main objective of *Moral Sentiment* is to discredit and disprove this unsocial and non-scientific argument. Smith sees a fundamental virtue in human nature. He underlines the importance of this original virtue in moral judgment using the word *sympathy* in a somewhat unusual way. In the Smithian view, the notion of sympathy explains two kinds of moral judgment or approval. The first kind of judgment concerns the propriety of an action, which determines whether the action is right or wrong. The second kind of judgment refers to an action's merit or demerit that determines whether the action deserves praise or blame. According to Smith, the feeling of approval, expressed as a judgment of right or wrong, is the result of sympathy with the agent's motive.

Although in *Moral Sentiments* Smith develops a convincing moral theory of sympathy and social consciousness, he identifies human selfishness as the key to material progress in the *Wealth of Nations*. These seemingly polar perceptions about human nature by the same author are described in the literature as "Das Adam Smith Problem"--an accusation that *Moral Sentiments* and *Wealth of Nations* are incompatible. In the first and second books, Smith ascribes human actions to sympathy and to selfishness respectively, leading critics to argue that his fundamental ideas of human nature, which form the foundations of his philosophical and economic theory, are mutually exclusive.

The above discussion demonstrates that, what Yunus describes as a weakness or narrowness of the theory of capitalism has, in fact, been identified as an inconsistency in Smith's conceptualization of human nature. This controversy over Smith's moral and economic theories has a long history. It was first suggested by German scholars in the 19th century. Since current scholars still find reasons to dwell on the issue (Evensky, 1998; Witztum, 1998), it stands to reason that the controversy is far from a satisfactory resolution.

PROTECTIONISM, INFANT INDUSTRY, AND NATIONAL DEVELOPMENT

National development is the fundamental objective of trade policy. Accordingly, international trade theory and policy are basically founded on a normative criterion that seeks to improve the economic health of society. Trade policies either facilitate or impede the flows of voluntary exchanges of goods and services between nations undertaken by private nationals. The generic term, free

trade policy, is used to describe government measures that facilitate these exchanges. Government measures aiming to do the opposite go by the generic term "protectionism". It follows that discourses in international trade theory and policy revolve around two thematic ideas--free trade and protectionism--both of which seek the same objective, national development.

Historically, protectionism is regarded as a conservative economic idea that precedes the liberal economic idea of free trade. Protectionism is often traced to the 16th century, while the history of free trade definitely begins in the 18th century (Ellsworth, 1950). The original protectionist argument is mercantilism, while the French Physiocrats are the original authors of free trade that received its fuller exposition in the able hands of Adam Smith. The infant-industry argument was developed later to accommodate mercantilist sentiments within the framework of Smith's liberal economic theory. Since the infant-industry argument has been invoked to justify the establishment of the microfinance industry in the TW, the following brief discussion of the theory of mercantilism is in order.

MERCANTILISM

Mercantilism is associated with five leading features (Allen, 1987; Blaug, 1978). First, bullion and treasure are the essence of wealth of nations. Second, foreign trade should be regulated to produce an inflow of specie. Third, domestic industries are to be promoted by inducing cheap raw-material imports. Fourth, the importation of manufactured goods is to be discouraged through custom duties, while the exportation of domestic manufactured goods is to be encouraged by exempting them from such duties. Finally, population growth is to be encouraged to keep wages low. These features suggest that the core doctrine of this trade theory is the favorable balance of trade as desirable and essential for national prosperity. This theory, however, clearly involves a dual policy regime of taking advantages from trading partners. This is the reason mercantilism is popularly described in economic literature as the "beggar thy neighbors" policy.

Mercantilism is without a doubt a very unfair trade policy regime; it might, and it did, trigger trade wars. In addition to its negative political implications, the theory is economically unsound as a policy for national development. Adam Smith was the first to expose this weakness. He argued that "mercantilism is nothing but a tissue of protectionist fallacies foisted upon a venal Parliament by our merchant and manufacturers, grounded upon the popular notion that wealth consists in money. Like an individual, a country must spend less than its income if its wealth is to increase. What tangible form does this surplus over consumption take? The mercantilist authors identified it with the acquisition of hard money or treasure. Money was falsely equated with capital, and the favorable balance of trade with the annual balance of income over consumption" (Blaug, 1978: 10-11).

THE INFANT INDUSTRY ARGUMENT

The publication of *The Wealth of Nations* was a severe blow to the mercantilist idea of improving national economic welfare through protection. Yet, this idea soon reappeared under different designations, the most influential of which is the infant-industry argument. Modern writers (Chacholides, 1978; Ellsworth, 1950) credit John Stuart Mill with the clearest articulation of this influential protectionist trade policy argument, which can be summarized as follows: "temporary" protective duties may be justified in cases where foreign suppliers' comparative advantages lie mainly in starting the production of these items sooner. This suggests that the present superiority is due to acquired skill and experience. Under certain conditions, a protecting duty might be the least inconvenient method for national development. However, Mill warns very emphatically about the use and abuse of his theory. He states that "it is essential that the protection should be confined to cases in which there is good ground of assurance that the industry which it fosters will after a time be able to dispense with it; nor should the domestic producer ever be allowed to expect that it will be continued even beyond the time necessary for a fair trial of what they are capable of accomplishing" (Mill, 1961: 922).

Mill underlines the idea implied in the popular proverb, "practice makes perfect" (Chacholides, 1978). During the initial stages of development, the infants learn both from their experiences and from each other. This learning process, which ordinarily involves external economies, is irreversible. It is this feature that distinguishes the infant industry argument from the conventional case of static external economies. Static externalities (economies and diseconomies) form a "permanent" characteristic of the economy's technology and call for permanent government intervention. On the contrary, the infant industry argument is founded on the dynamic learning process that is capable of generating external economies over a certain period of time, which necessitates only "temporary" government intervention.

In spite of its popularity, this simple and straightforward infant industry argument has been subjected to severe criticisms. For example, the "Mill test" for protection requires that the infant industry overcome its historical handicap and grow up to compete, without protection, against the early starters (Kemp, 1960). However, it is extremely difficult to determine which industry meets the specific qualifications of being an infant capable of eventually overcoming the initial handicap. The Mill test, then, is a necessary but not a sufficient condition for justifying protection under the infant-industry argument (Bastable, 1903). In addition to proving the qualifications as an infant, the industry must also show that it can generate sufficient income to compensate the losses that the country suffers during the learning period. In other words, the present discounted value of the imagined future benefits of protection must be at least high enough to cover the

Besides these limitations, the point underlined by many authors concerns the willingness on the part of the infant industry to give up the benefits of protection: "Though the baby may not mature economically, politically it does; it acquires ample strength to cry lustily for, and to obtain protection. Even though the major proportion of the industry may become able to compete with its foreign rivals, there are always some inefficient firms, which cannot. So better let well alone; keep the protection as an anchor to windward" (Ellsworth, 1950:365-6).

MICROFINANCE AND POVERTY ALLEVIATION IN THE TW

The foregoing discussion reviews the psychological and economic arguments that form the theoretical premises of the microfinance theory. This brief review shows how controversial and contentious these premises are and why there is academic skepticism about the theory.

Since capitalism's prime mover is human selfishness, it stands to reason that social consciousness or sympathy, although a fundamental virtue of human nature, cannot be a motivating factor for undertaking private business activities in capitalist economies. Microfinance is also motivated by similar factors. Besides this weakness of the microfinance theory's metaphysical premise, there are certain practical implications that need critical consideration. This is particularly so because the current microfinance revolution is founded on a very serious accusation: conventional banks in TW countries are prejudiced against the poor, specially the poor women (Yunus, 1996; Remenyi, 2000). Critics argue that the poor people, including women, possess different kinds of skills that they can use for generating income through self-employment. The ability to create self-employment, however, depends critically upon their access to credit facilities. Unfortunately, conventional banking policy, being uncomfortable with this idea, severely restricts poor people's access to formal financial institutions. This banking policy produces two socially undesirable consequences: First, it deprives many poor people of their right to make a living through self-employment. Second, it forces them to borrow money from informal lenders at exorbitant rates of interest. Together, these two consequences contribute to the perpetuation of poverty in TW countries. More specifically, the formal financial sector in TW countries is a contributor to pervasive poverty problem.

When this accusation is combined with the theory of social consciousness-driven capitalism, some very curious points emerge. For one thing, it is not clear how these social consciousness-driven entrepreneurs are to be identified, although national and international public authorities are supposed to supply funds for helping them start their businesses. This point is critically important for designing international development policies. In addition, the idea is value sensitive. Those who pursue economic and/or financial enterprises for profits are being characterized as having little social consideration, a proposition that is inconsistent

with capitalism. If capitalism does not serve social purposes, then it cannot be the economic system of democracy, currently considered the most promising political theory of civil society. Finally, the proposition seems very unfair to individuals serving, or intending to serve, the private banking sector in the TW. Suppose, after graduating from college, a young woman chooses to pursue a banking career. Very luckily, she gets two lucrative offers, one from a commercial bank and the other from a microfinance firm. If she accepts the offer from the microfinance firm, she will be lauded as a socially concerned person. If she chooses otherwise, she will be seen as having little social consideration. Yet, both are private undertakings and have profit making as their ultimate motive.

The economic premise is no less controversial than its psychological counterpart. Protection under the infant-industry argument is justified on the contention that foreign producers enjoy comparative advantages over domestic counterparts, merely by virtue of beginning their operations sooner. Accordingly, temporary protection of domestic infants is expected to help them catch up with their foreign competitors. On the contrary, the argument in favor of the establishment of the microfinance industry is that micro lenders have definite comparative advantages over their conventional counterparts in rendering financial services to the poor. This suggests that the microfinance idea is theoretically inconsistent with the infant-industry argument.

In international trade theory, protection is considered an important means of national development. In particular, important students of TW development (Meir 1968; Myrdal 1956) have extended the idea of "infant-industry protection" to the broader idea of "infant-economy protection." History provides ample evidence to affirm that protectionist trade measures, if applied prudently, do work for national development. Although the stated objective of the microfinance movement is national development and poverty alleviation, it is neither theoretically nor empirically clear how much the micro-lenders can help improve the situation in the TW. One of the main reasons of this questionable contribution is that the lack of microfinance is not the cause of the TW's deplorable poverty situation.

Finally, the micro-lending idea was conceived in the mid 1970s as a solution to the severe poverty situation prevalent in TW countries. This fact suggests that society will have little use for micro-lenders once this problem is solved. Two interesting points are suggested by this proposition. First, the microfinance theory is apparently grounded on the idea that poverty is a perpetual condition of human society. The popularity of micro enterprises in the developed countries seems to lend support to this view. Second, by virtue of human nature, the micro-lenders, particularly those belonging to TW countries, might work to perpetuate poverty in their societies. The reason is that their livelihood and social power depend upon the existence of poverty in society. In other words, the potential consequence of the establishment of microfinance industry in the TW is the

creation of private groups that might have vested interests in the perpetuation of poverty.

The criticism of the infant industry argument noted above is particularly relevant in this context. Since poverty is the condition for creating the microfinance industry, there will always be some infants in need of subsidization. And if subsidies are granted to the newcomers, then there are little grounds to deny the same to the established ones, who can use these resources to become more efficient in serving the poor.

CONCLUSIONS

This article began by raising a provocative question: Do the microfinance ventures have features suggesting that their establishment as a new finance industry in the TW might further complicate the poverty problem? The answer emerging from the foregoing analysis appears affirmative. The pivotal premises of microfinance theory are very controversial, which makes it difficult to accept the idea. Microfinance enterprisers cannot contribute to sustainable poverty alleviation in the TW, simply because the lack of microcredit has not caused this pervasive poverty. Deprivation in the TW is the consequence of multifarious social, cultural, and political factors. Local and foreign forces have played a role as well. Microfinance cannot do much to change these factors. Finally, the promotion of microfinance ventures in the TW has the potential to create private groups with vested interests in perpetuating the prevailing poverty situation. This is because the economic and social welfare of microfinance enterprisers depend on the progressive profitability of the microfinance industry. Conceptually, this business environment in the microfinance industry is supposed to materialize only if TW economies continue to grow. If poverty gradually disappears from society so will the need for and use of microfinance.

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