



# Microfinance in a developed welfare state: A hybrid technology for the government of the outcast



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## ARTICLE INFO

### Article history:

Received 15 August 2012  
Received in revised form 5 September 2013  
Available online 18 October 2013

### Keywords:

Microfinance  
Governmentality  
Resistance  
Ethnicity

## ABSTRACT

Although microfinance is often thought of as a tool to address poverty in developing countries, it is also being introduced in a number of countries in the developed world. The paper presents a qualitative study of the first year of the introduction of microfinance to address vulnerable groups in Sweden. Savings banks and nonprofit organisations collaborated in the introduction of microfinance as microcredit for micro-enterprise. The paper argues that the rationalities behind actors' participation in microfinance differed, with banks adopting a market rationality and nonprofits mainly a rationality of community empowerment. In line with a governmentality approach, the paper argues that the neoliberal market rationality dominating microcredit for micro-enterprise colonises the space of the communitarian aspect by turning the social into the personal. The paper's qualitative approach complements a governmentality analysis by highlighting the everyday resistance to the neoliberal financialisation of inclusion efforts.

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## 1. Introduction

The awarding of the Nobel Peace Prize to Mohammed Yunus in 2006 generated worldwide recognition of the potential impact of microfinance in efforts to diminish poverty and improve (financial) democracy in societies around the world. Although Yunus and his Grameen Bank operate in developing economies such as Bangladesh, the legitimacy provided by the Nobel award gave force to initiatives aiming at introducing microfinance in economies that differ substantially from the previous applications (see [Bhatt and Tang, 2001](#); [Wijkström and Sjöblom, 2009](#)). The 'Yunus-effect' has meant that, from the US to Spain and Sweden, microfinance is promoted as a key intervention for improving the lives of socio-economically vulnerable individuals ([Rogaly, 1996](#)), including those in the Western world ([Bruhn-Leon et al., 2012](#); [Silver et al., 2009](#)).

Within the field of financial inclusion policies ([Barr, 2007](#); [Buckland and Thibault, 2005](#); [Caskey, 2008](#)), proponents point to the positive effects of asset-building policies, such as microcredits for micro-enterprise, on individual and family lives as well as on the health of the communities in which they live ([Anderson et al., 2003](#); [Bynner, 2001](#); [Servon, 1996](#)). Yet, in the midst of a world economic crisis precipitated by the financial markets, critics cite the risk of over-indebtedness faced by loan-takers and households that rank among the most socially, economically and politically vulnerable ([Bateman, 2010](#); [González, 2008](#)). Indeed, critical schol-

ars classify microfinance solutions as falling within a broadening neoliberal process of financialisation ([Sugden, 2009](#)), by which market rationality, tools of calculation and other financial practices are being extended to national and international economies ([Epstein, 2005](#); [Rankin, 2001](#)). (For a comprehensive overview, see [Hulme and Arun, 2009](#).)

Governmentality scholars take the critique of the increased financialisation of economies a step further, arguing that financialisation shapes not only firms' behaviour but also the intimate space of people's individual lives ([Hall, 2011](#)). Finance becomes a code of self and citizenship in the conduct of everyday life ([Martin, 2002](#)). Aitken extends this critique to microfinance when he argues that "microfinance seeks a certain financialisation by encouraging poor populations to establish formal connections to mainstream credit practices and cultivating a kind of financial agency among the very poor" ([Aitken, 2010, p. 229](#)). Although microfinance is advocated as a tool for the financial inclusion of the marginalised and poor, these scholars argue that it also serves to legitimise forms of neoliberal globalisation ([Weber, 2004](#)), and that its advocates are often oblivious to the ideological dimensions of social change ([Rankin, 2001](#)). When this critique is applied to microfinance initiatives in developed economies, not only do we find no evidence that financial capital constraints are a significant barrier to small-firm creation ([Bates et al., 2011](#)), but critical students have also found that microfinance lending actually reinforces economic, social and cultural marginalisation ([Howells, 2000](#); [Jurik, 2006](#)).

To help nuance the debate about microfinance in developed welfare states, the paper presents a qualitative study of the first year of

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the introduction of microfinance in Sweden by well-established savings banks in collaboration with nonprofit organisations to address vulnerable groups such as ex-convicts, former drug-addicts and people of immigrant background.<sup>1</sup> Is microfinance being introduced and implemented in the West as part of a broader neoliberal trend that extends power for governing the poor well beyond the state? If so, how are these efforts received by the governed poor? Findings suggest that the mere introduction of the notion of microfinance already introduces a financialised government rationality along with new financial techniques for managing the 'deserving poor', a process that reformulates social exclusion as a personal matter. While these facilitate establishing a new institutional arrangement for governing the outcast, thus supporting governmentality scholars' thesis of the extension of the power of the State well beyond its limits to include other economic and social actors (Rose and Miller, 1992), the process has not occurred without resistance. First, whereas some of the participating nonprofits complied to the neoliberal demand to financialise their target populations, other nonprofits taking part in the introduction of microfinance responded to the increased financialisation of social exclusion by reintroducing ethnicity, and thus pointed back to the social origins of exclusion. Second, individuals addressed by the microfinance initiative resisted everyday efforts to financialise their agency. These findings call for a reassessment of current governmentality studies. Their narrow focus on policy documents and programmatic texts tends to forget the struggles and conflicts that go on in everyday life (Maclean, 2013), as they take for granted a complete subjectivation of the target of government. Yet, as findings show and Foucault stressed, the other retains her capacity to act (Foucault, 1982), opening a space for conflict and resistance and for returning to the social what was given to the individual. Further, as the paper describes a rare example of the translation of a financial invention originated in developing countries into the developed world, it offers an empirical contribution by presenting one way in which such a translation process has gone about. The article concludes by bringing these critical insights to bear in the design of policies that take into consideration the ideological dimensions of social change and thus complement microfinance programs in the West.

## 2. Governmentality: Power beyond the state

The last 20 years have seen a burgeoning literature denouncing the advance of neoliberalism as a rationality permeating contemporary efforts to govern economies and societies. Research about topics as diverse as the role of private security contractors in Darfur (Leander and van Munster, 2007), education in the UK (Shore and Wright, 1999; Beck, 1999), and criminal regulation (Braithwaite, 2000), all point towards the increasing momentum of decentralised practices for the government of populations.

Such literature is extensively inspired by Foucault's notion of governmentality, which refers to the rationality guiding efforts towards the government of conduct as well as the forms of knowledge, procedures and mechanisms used in those efforts. The concept refers not only to the public sphere of State government – police state, liberal or neoliberal government (Foucault, 2007), but involves, more significantly, the private sphere of micro-power relations – such as the parent-child relation, population-medicine, and individual-public (Foucault, 2008).

The study of governmentality distinguishes three aspects. The first aspect concerns the political rationality framing, justifying and legitimating all procedures, arrangements, and distinctions put to work for the government of conduct (Rose and Miller, 1992). This element links government to modes of thought,

corroborating Foucault's argument of the reciprocal constitution of forms of power and forms of knowledge (Lemke, 2001).

The second aspect describes governmental technologies, conceived as "the complex of mundane programmes, calculations, techniques, apparatuses, documents and procedures through which authorities seek to embody and give effect to governmental ambitions" (Rose and Miller, 1992:175). Prompted by neoliberal restructuring of the state through decentralisation and privatisation, it is argued, these apparatuses and programmes have led to the emergence of new institutional arrangements that engage in the act of governing outside and beyond the state, somewhere in the interstices between society and the state. More particularly, the restructuring of the state has resulted in the growth of the voluntary sector, which is increasingly taking over the provision of social services and responsibility for community building. As such, the third sector is being referred to as the "shadow state" (Mitchell, 2001; Wolch, 1990).

The third and final element considered by governmentality studies relates to questions of self-formation (Dean, 1995), highlighting the close connection between political rationalities and processes of subjectification in contemporary forms of exercising power. That is, the problem of government is to be located not only at the general level of the government of others, but also at the micro-level of self-control, of the government of the self by the self (Lemke, 2001). This shift of location has moralising consequences at the individual level, for it is the individual that is put under pressure to discipline herself, to take responsibility for her own social and economic standing (Rose, 1999). In this way, the rise of neoliberalism has transformed social issues into personal ones.

Although most discussions of this kind start from the point of view of examining how the form of the state is changing in parallel with changing socio-economic and cultural conditions, some have highlighted the appearance of new forms of government connected to the rearticulation of civil society that comes along with the rise of neoliberal rationality (Lemke, 2007; Hardt and Negri, 2000). In this regard, governmentality scholars point out that "rather than less government, neoliberalism represents a new modality of government predicated on interventions to create the organisational and subjective conditions for entrepreneurship" (Hart, 2004:92). Policies to promote financial inclusion in general, and microfinance in particular, are studied as cases in point in articulating the neoliberal process of individualising responsibility (for an overview of the literature on financial literacy and the rationality guiding such efforts, see Kozup and Hogarth, 2008).

Advocated by its proponents as a technique for financial empowerment of socio-economically vulnerable individuals, microfinance is questioned by critical scholars on various grounds. First, they cite the "ambivalence between empowerment and a neoliberal dumping of responsibility" (Maclean, 2013:456). Second, they are concerned about the co-optation of NGOs "to serve hegemonic development agendas" (Townsend et al., 2004, p. 871). Finally, they worry about specifying the object of government as entrepreneurial, thus ignoring the structural inequalities that restrict the outcome of individual action (Herbert-Cheshire, 2000; Larner, 2000).

This paper positions itself within this line of critique, as it describes the rationality and technologies put in place by an innovative institutional arrangement in a developed welfare state – one in which private, civil society and state actors collaborate in the government of the outcast. Yet, it takes the governmentality approach a step further by complementing the broader analysis of rationalities and technologies that is customary within governmentality studies (Hart, 2004) with a qualitative study of how those rationalities and government technologies are received – and resisted (for examples see Maclean, 2013; Young, 2010) – by certain civil society organisations as well as by those individuals targeted by the

<sup>1</sup> For confidentiality reasons, the organisations and individuals studied have been made anonymous.

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