

Microfinance vs. Co-operative finance: Is there a difference?

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What do we want from the local financial system?

- Finance suitable for sustainable growth-oriented enterprises – terms and maturities are therefore crucial
- Finance suitable for poor consumers – affordable, easy, non-exploitative
- Finance for poor wanting to purchase a house, land
- Finance for farmers wanting to farm ...low cost, grace periods, etc
- If informal microenterprises seek capital, we need to assess the opportunity cost.....IDB's 2010 report on Latin America is mind-blowing on this!

Cooperative finance

- Financial cooperatives....ideal for supporting sustainable enterprises
-especially cooperative enterprises...
- Credit unions....ideal for poor consumers
- Building societies....ideal for the poor wanting to buy a house
- Rural and agricultural coops ideal for farmers seeking regular funding

Problems with cooperative finance?

- Have made brilliant inroads into some countries/regions – northern Italy, Basque country, Germany, Scandinavia, China
- Have also made important economic, social and political inroads into many other countries and regions...
- But have some problems in becoming the dominant paradigm:
 - governance and corruption problems....need strong regulations, 'supportive ambience', etc
 - Business elites hate them, so try to close them down...(Italy) or take them over (S&Ls in USA)..they need to be resisted
 - Also neoliberal governments hate them, so try to close them down (Thatcher and building societies in 1980s)....
- But history shows these problems can and should be overcome with patience, more democracy, dedication, technical skills and support....

The end of the Microfinance paradigm

- Too small by definition....Dichter's Paradox (2006)
 - “the poorest people can do little productive with the credit, and the ones who can do the most with it are those who don't really need microcredit, but larger amounts with different (often longer) credit terms”
- Too expensive.....Wall Street joins in in the 1990s and destroys it completely.....Sinclair (2012) “*Confessions of a Microfinance Heretic: How Microlending Lost Its Way and Betrayed the Poor*”
- Result of microfinance revolution? No evidence whatsoever that microfinance has had a positive impact anywhere (only casino-style anecdotes)
- Historical evidence is that it is a diversion from what REALLY supports development and poverty reduction (see Chang, 2011)
- In fact, its been a development and poverty reduction disaster everywhere at almost all levels.....(Bateman, 2010)

Where do we need to go now?

- Neoliberals supported microfinance, but after 2008 neoliberalism wholly discredited...
- We need to take short-termism and greed out of local finance - finance is the economic lifeblood, should not run as if providing food or clothing or furniture or cars.....
- So we need to begin to phase out greed-driven microfinance and free up the resources for major expansion of local cooperative finance
- Already many microfinance institutions are changing in this manner, moving into savings, larger loans, providing technical assistance, etc
- Strong regulations and more democracy also required.....
- Major effort to make finance community-owned and controlled, and so the driving force behind local economic and social development..

Thanks for listening

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