



Institute for Conflict Analysis
and Resolution

Working Paper

**MICROENTERPRISE DEVELOPMENT:
A TOOL FOR ADDRESSING THE
STRUCTURAL CONFLICT BETWEEN
RICH AND POOR**

Eric Beinhart

Working Paper No. 8

George Mason University

**MICROENTERPRISE DEVELOPMENT:
A TOOL FOR ADDRESSING THE
STRUCTURAL CONFLICT BETWEEN
RICH AND POOR**

Eric Beinhart

Working Paper No. 8

**Institute for Conflict Analysis and Resolution
George Mason University
July 1994**

CONTENTS

	<u>Page</u>
ABOUT THE AUTHOR	i
ABOUT THE WORKING PAPER	i
ABOUT THE INSTITUTE	ii
FOREWORD	iii
ABSTRACT	iv
INTRODUCTION	1-2
OLD PARADIGMS CLASH WITH NEW REALITIES	2-9
Setting the Stage	2-3
Economic Development Assistance	3-5
Development in the Post-Cold War World	5-6
Defining Microenterprise Development	6-8
How to Proceed?	8-9
CONTENDING THEORIES OF DEVELOPMENT	9-13
Modernization Theory	9-10
Dependency Theory	10-12
World-System Theory	12-13
A THEORETICAL FRAMEWORK FOR ANALYZING MICROENTERPRISE DEVELOPMENT	13-24
Johan Galtung and Structural Violence/Conflict	13-18
Muhammad Yunus	18-20
Hernando De Soto	20-23
Mary Clark	23-24
EXAMPLES OF SUCCESSFUL MICROENTERPRISE CREDIT PROGRAMS	24-29
Grameen Bank	24-25
Project Ikhtiar	26-27
Indonesian Programs	27-28
ACCION International	28
FINCA International	29
KEY ISSUES FACING MICROENTERPRISE DEVELOPMENT	29-43
Sustainability of Microenterprise Credit Programs	29-39
Credit vs. Structural Legal Change	39-44
CONCLUSION	44-46
APPENDIX	47
REFERENCES	48-50

ABOUT THE AUTHOR

ERIC E. BEINHART (M.S. in Conflict Analysis and Resolution, George Mason University, 1994, and B.A. in International Studies, George Mason University, 1988) has worked in the Office of International Affairs of the Criminal Division of the U.S. Department of Justice since 1991.

Long interested in issues related to international development, he served as a Peace Corps Volunteer in Guinea Bissau, West Africa (1988-89). He gained considerable international experience growing up in Colombia, El Salvador, and Saudi Arabia (spending a total of seven years in these three countries), where his father worked as an agricultural research scientist. He hopes to soon embark on a career in the international development field.

ABOUT THE WORKING PAPER

This paper is a condensed version of a much longer work of the same title, submitted to fulfill the requirements for a Master of Science degree from the Institute for Conflict Analysis and Resolution at George Mason University.

ABOUT THE INSTITUTE

The Institute for Conflict Analysis and Resolution at George Mason University has as its principal mission to advance the understanding and resolution of significant and persistent human conflicts among individuals, groups, communities, identity groups, and nations. To fulfill this mission, the Institute works in four areas: academic programs, consisting of a Doctor of Philosophy (Ph.D.) and a Master of Science (M.S.) in Conflict Analysis and Resolution; research and publication; a clinical and consultancy service offered through the Applied Practice and Theory Program and by individual Institute faculty and senior associates; and public education.

The Applied Practice and Theory (APT) Program draws on faculty, practitioners, and students to form teams to analyze and help resolve broad areas of conflict. These three-to-five-year projects currently address such topics as crime and conflict, jurisdictional conflicts within governments, conflict resolution in deeply divided communities (Northern Ireland, South Africa, Beirut), and conflict in school systems.

Associated with the Institute are a number of organizations that promote and apply conflict resolution principles. These include the Consortium on Peace Research, Education, and Development (COPRED), a networking organization; the National Conference on Peacemaking and Conflict Resolution (NCPCR), offering a biannual conference for conflict resolution practitioners; Northern Virginia Mediation Service (NVMS), offering mediation services to Northern Virginia residents involved in civil or minor criminal disputes; and Starting Small, teaching conflict resolution and problem-solving skills to children.

Major research interests include the study of deep-rooted conflict and its resolution; the exploration of conditions attracting parties to the negotiation table; the role of third parties in dispute resolution; and the testing of a variety of conflict intervention methods in a range of community, national, and international settings.

FOREWORD

It is a pleasure for me to write this foreword to Eric Beinhart's paper. I have been one of Eric's professors from the time he was an undergraduate at George Mason University majoring in International Studies, up to the present when he completed his Master of Science in Conflict Analysis and Resolution, including, as a voluntary thesis option, the much larger work from which this paper has been abstracted.

But writing this foreword has relevance beyond commenting on the longevity of my association with Eric, as it provides me with an opportunity to locate Eric's paper within the field of conflict analysis and resolution.

Many of us in the field are concerned with what we, as individuals, can do to either prevent or resolve conflicts that are, or have the potential for becoming, protracted, violent encounters. For many of us, that may mean bringing the parties together in order to facilitate the development of a new consciousness and definition of the conflict, as prerequisites to improving the relationship between them. While we may "conceptually" or, indeed, "ideologically" advance structural change as one means to these ends, few of us tackle that directly in an empirical sense.

This is precisely what Eric has done in this paper. He has taken on the topic of the North-South conflict: the conflict between the rich and poor countries of the world. Through his interviews with relevant actors in the Washington, DC area, plus review of appropriate literature, he has dealt with the issue of structural change in the developing world by focusing on examples of "microenterprise development" that have been, or are being, implemented in various parts of the developing world, including among "the poorest of the poor" (e.g., the Grameen Bank in Bangladesh).

Eric provides us with models, not just of the "possible," but of the "do-able," which renders microenterprise development as much more than a "good idea" which might otherwise lack practical utility. Although it may not be everyone's idea for addressing the structural divide between North and South, it does have a "track record." It is, therefore, one approach to operationalizing John Burton's concept of conflict prevention: removing the underlying structural causes and conditions of potentially or actually violent conflict.

After reading Eric's paper, one may well wonder why more creative prevention of this kind has not been done, and in the North as well as in the South!

Dennis J.D. Sandole, Ph.D
Associate Professor
Institute for Conflict Analysis and Resolution

ABSTRACT

Conflict resolution and microenterprise development are both fledgling fields. This paper attempts to show the relevance of viewing microenterprise development within an overarching analytical framework of structural conflict. Johan Galtung provides the foundation, and Hernando De Soto, Muhammad Yunus, and Mary Clark add supporting beams to this analytical construct. The modernization, dependency, and world-system theories of development are dismissed as inadequate frameworks for analyzing microenterprise development.

After providing a working definition of microenterprise development and briefly reviewing some successful programs, this paper analyzes two of the most important issues facing microenterprise development: sustainability of credit programs and credit vs. structural legal change. Personal interviews conducted with thirteen people working in microenterprise development provide a wide range of views on these two issues (see Appendix).

Microenterprise development is not the panacea for underdevelopment and poverty, but it has fostered the evolution of some remarkably successful development initiatives that have significantly improved the lives of desperately poor people. Microenterprise development is a useful tool for addressing the structural conflict which exists between rich and poor across the global stage.

MICROENTERPRISE DEVELOPMENT: A TOOL FOR ADDRESSING THE STRUCTURAL CONFLICT BETWEEN RICH AND POOR

INTRODUCTION

There are many different levels and various degrees of conflict. Some people can only visualize violent conflict in a very narrow way, such as battling combatants in a war. There are, however, other types of conflict that may not be as dramatic, but are in fact, just as violent. The structural conflict between rich and poor is such an example.

A Washington power broker in his \$1000 suit and Gucci loafers strides by a slumped and shivering homeless man on Pennsylvania Avenue. Mobutu Sese Seko sits on his majestic yacht in the Zaire River as millions of his destitute countrymen starve around him. Structural conflicts between rich and poor exist throughout the world.

This paper analyzes microenterprise development, a field which attempts to narrow the gap between rich and poor, and if not resolve, then at least diminish the structural conflict between them. Microenterprise development is certainly not the panacea for underdevelopment and poverty, but it has fostered the evolution of some remarkably successful development initiatives that have significantly improved the lives of desperately poor people.

In "The New World Order," Third World development is a vast and uncertain domain where the comfortable restrictions imposed by Cold War strategic imperatives no longer exist. This paper

attempts to assess the importance of microenterprise development in the scope of the international system, and specifically looks at its role within the U.S. foreign aid program.

Microenterprise development is a dynamic and rapidly changing field. People working in the field hold many different views about the most effective ways to initiate and sustain viable microenterprise programs. The thirteen people who I interviewed for this paper share the common goal of improving the lives of the world's poorest people. However, in some cases, they possess widely divergent views on the most effective approaches to use for achieving that goal.

OLD PARADIGMS CLASH WITH NEW REALITIES

SETTING THE STAGE

"Foreign aid is a method by which the United States maintains a position of influence and control around the world, and sustains a good many countries which would definitely collapse, or pass into the Communist bloc" (cited in Sutcliffe, 1971, p. 5). President John F. Kennedy proclaimed this fundamental tenet of Cold War ideology in 1961, when American foreign policy was primarily concerned with the containment of Communism.

The Marshall Plan and Point Four Program were both post-war economic revitalization efforts which historians have credited with helping prevent Germany, Greece, and Turkey from falling into the Communist orbit. The amount of aid money which Europe received after WWII is truly staggering. Between 1947 and 1951,

the United States injected more than eleven billion dollars into Europe (see Johnson, 1991, p. 118).

When President Kennedy made his 1961 pronouncement, "The Domino Theory" was gaining acceptance among policy makers as a justification for U.S. military intervention in Southeast Asia. The theory held that if the United States did not intervene forcefully to prevent the Communist forces of North Vietnam from overrunning the weak and corrupt government of South Vietnam, then the Communist tide would not stop in South Vietnam. It would spread into Laos, Cambodia, Thailand, Burma, India, and Pakistan, proceeding westward unchecked.

Ronald Reagan invoked the Domino Theory again in the 1980s when he used it to win support for a massive American arms build-up. He warned that if left unchecked, the Communist Sandinista forces in Nicaragua could march northward, and topple the governments in El Salvador, Honduras, and Guatemala, until they stood menacingly in Mexico, ready to pour across the border into Texas.

ECONOMIC DEVELOPMENT ASSISTANCE

Perceived geopolitical imperatives have always guided American development assistance. The Marshall Plan, the Point Four program, and rural development projects in Vietnam, as well as countless other initiatives, were all driven by one overriding goal: the containment of Communism. Altruism and enlightened self-interest have almost always been interwoven in the fabric of American foreign policy, except in specific cases

where humanitarian assistance has been the main justification, such as the recent "Operation Restore Hope" in Somalia.

Between 1945 and the early 1970s, dozens of former colonial territories emerged as independent nation-states. The United States and the Soviet Union saw these new countries as pawns in their global quest for dominance. As a result, in the best traditions of Machiavellian pragmatism, the ends justified the means. This meant that over the years both the United States and the Soviet Union supported a series of totalitarian dictators in the hope of maintaining a strategic advantage over the enemy bloc. Anastasio Somoza in Nicaragua, Fidel Castro in Cuba, Papa and Baby Doc Duvalier in Haiti, Nicolae Ceausescu in Romania, Mobutu Sese Seko in Zaire, Siad Barre in Somalia, Samuel Doe in Liberia, Ferdinand Marcos in the Philippines, and Augusto Pinochet in Chile are only a few of the names on the long list. These dictators, along with their family members and cronies, often diverted foreign economic aid money intended to benefit their destitute countrymen, directly into their own Swiss bank accounts.

Development projects in the newly independent countries (and countries in South and Central America as well) were almost invariably, massive in scope. Dam building and electrification, countrywide agricultural initiatives designed for large scale food or cash crop production, and high technology fish hatcheries, are but a few of the examples of this trend. Tremendous capital infusion was the prevailing model as aid

donors invoked the development successes of the Marshall Plan and the Japanese recovery as examples for how Third World countries could develop.

However, the countries that gained independence from the colonial powers after World War II (and also most Latin American countries) had no experience upon which to build in terms of "nation building." For example, large scale infrastructure development projects such as dams, roads, factories, etc., often failed in Third World countries because they lacked a skilled and highly trained work force to maintain and repair advanced machinery.

DEVELOPMENT IN THE POST-COLD WAR WORLD

The end of the Cold War eased the tension that hundreds of millions of people had felt about the threat of nuclear war between the United States and the Soviet Union. However, it also signalled a breakdown in the order that the East-West standoff had produced. Age-old ethnic and religious tensions erupted in the former Yugoslavia and the former Soviet Union. Communism had effectively subverted these centuries-old ethnic and religious hatreds and without that restrictive framework, people could resume settling ancient scores.

The end of the Cold War heralds both hope and trepidation for Third World development. The hope is embodied in the fact that strategic imperatives no longer drive U.S. foreign economic aid to nearly the extent that they did during the days of containment. Dictators who once received millions and millions

of dollars of aid money every year simply because American policy makers saw them as important bulwarks against the spread of Communism, now face empty aid coffers.

The trepidation stems from the fact that the end of the Cold War has brought former Communist countries to the United States, looking for economic development assistance to help construct market economies, etc. This comes at a time when the United States is struggling with an uncertain economic future, and foreign aid appears to be increasingly unpopular with the American public. The Cold War may be over, but the structural conflict which is reflected in ever widening gaps between rich and poor, only shows signs of getting much worse. **Micro-enterprise development** offers real opportunities to implement meaningful development programs that can benefit the "poorest of the poor" and bring significant positive changes to desperately poor countries.

DEFINING MICROENTERPRISE DEVELOPMENT

For the purposes of this paper, I will adopt a flexible definition of microenterprise development. Robert Peck Christen (1989, p.9) offers a good starting point with his definition of a **microbusiness**:

A microbusiness represents the smallest economic unit which functions independently, manages its own investment capital, and involves a manufacturing, commerce or service activity.

Village fruit vending, small scale furniture making, and family rug weaving are all examples of what could be termed microbusinesses. Microenterprise development simply represents

the strategies that are adopted to facilitate the establishment, and insure the long term sustainability of these microbusinesses.

John Hatch (1991, p. 54) made an important point at a Congressional hearing in 1990, when he described two distinct and separate kinds of microenterprise development. Hatch perceived the first type of microenterprise development as the lending of money to the not so poor, so this group could in turn create jobs for the poorest of the poor. The second type involves lending directly to the poorest of the poor, so they can create their own jobs. This paper deals with both types of micro- enterprise development.

The "poorest of the poor" is another term which arises when discussing microenterprise development. Since poverty exists in varying degrees, a person who may be classified as the poorest of the poor in Costa Rica, may not fit the category in Somalia. As a result, this is a very hard concept to pin down. For the purposes of this paper, the poorest of the poor are people who are living at a subsistence level, above the starvation and basic survival levels, but with little hope of raising their standard of living any higher without assistance (credit, structural reforms in the economy, etc.) (ibid., p. 37).

My definition of microenterprise development consists of the following:

To create sustainable credit programs, and remove restrictive legal structures, in order to facilitate the establishment and maintenance of the smallest possible economic entity in a country, which is either operated by or employs people who are living at a bare subsistence level.

Structural conflict is a central theme of this paper. It is therefore essential to offer a clear working definition for this term as well. Johan Galtung (1969), the eminent Norwegian sociologist and peace researcher, pioneered the concept of structural violence. A.J.R. Groom (1990, p. 92) offers a concise summary of this theory:

In a society prone to structural violence an actor or group is prevented, by structural constraints, from developing its talents or interests in a normal manner, or even from realizing that such developments are possible.

When I use the term structural conflict in this paper, I conceive of it as having the same meaning as Galtung's structural violence. Therefore, in some cases the terms may be used interchangeably. I contend that microenterprise development can be an effective tool for addressing the structural conflict which exists between rich and poor.

HOW TO PROCEED?

This paper examines small scale strategies to combat underdevelopment, a problem which plagues a large percentage of the world's population. After briefly reviewing three of the traditional theoretical frameworks for analyzing development, I will propose my own theoretical framework for analyzing microenterprise development. This will lead into a discussion of successful microenterprise credit programs around the world. The rest of the paper will analyze interviews conducted with thirteen prominent figures in the international development field.

The international system is at a critical crossroads, and third world development will play a key role in determining the alignment of this system in the twenty first century and beyond. This paper looks at two of the major issues facing micro-enterprise development and considers its position within the much larger field of development.

Microenterprise development is not the panacea for the underdevelopment that plagues so much of the world's population, but it can be an effective component in a new development paradigm. There are many possible strategies for facilitating microenterprise development projects and these vary according to the culture, economic structure, and social dynamics of a particular country or region. Because of this variability, it is essential to approach microenterprise development with flexibility and creativity and not advocate the imposition of a single "successful model."

CONTENDING THEORIES OF DEVELOPMENT

MODERNIZATION THEORY

Modernization theory has been shaped by a wide variety of disciplines, including political science, psychology, sociology, economics, anthropology, and demography. According to Alvin So (1990, pp. 17-18), the "Modernization School" emerged from the convergence of three historical events:

- 1) At the end of World War II, the United States was the only "world power" that was stronger than it had been when it entered the war;
- 2) The Soviet Union headed a world-wide Communist movement; and,

- 3) As imperialism/colonialism crumbled, dozens of new countries emerged in the international system.

W. W. Rostow, an economist, is one of the most famous modernization theorists. He conceived of a country's economic development as being a five stage process, beginning with traditional society and ending with high mass-consumption society. In the middle of this progression is what Rostow calls the "takeoff stage" (So, 1990, p. 29). He believes that a country must meet one important condition if it expects to achieve sustained economic growth:

Capital and resources must be mobilized so as to raise the rate of productive investment to 10% of the national income, otherwise economic growth cannot overtake the rate of population growth.

Ten percent or more of the national income should, therefore, be plowed back continuously into the economy (So, 1990, p. 30).

Since underdeveloped countries do not possess the needed capital to carry this out, foreign aid becomes an essential element in the equation. Capital, technology, and human expertise are the three key ingredients in a successful development strategy.

DEPENDENCY THEORY

While modernization theory analyzes development from the perspective of developed countries, dependency theory looks at development from the point of view of underdeveloped countries (So, 1990, p. 91). Andre Gunder Frank, the scholar most closely associated with dependency theory, believes it is essential to analyze development within the historical framework of

imperialism. He argues that highly advanced imperialist countries (including the United States) achieved high levels of development simply because they removed enormous quantities of raw materials and wealth from their colonial possessions. Frank (1981, p. 295) presents this as a zero-sum game in which the gains of imperialist countries were exactly equal to the losses of their colonies.

Frank believes Third World countries were completely restructured by the colonial experience, and as a result, their paths of development were radically altered (So, 1990, p. 96). While modernization theorists argue that the only thing third world countries need in order to develop is access to western capital and technology, dependency theorists take an antithetical stance. They argue that third world countries have historically had too much exposure to western countries and their economies of exploitation (Frank, 1981, p. 300).

Frank (1981) developed major hypotheses based upon his conception of development in an imperialistic system where a metropolis is the colonizer and a satellite is the colony. The metropolises can develop independently, but the satellites depend upon the metropolises that control them for their development. There is an inverse relationship between the strength of the ties that exist between metropolis and satellite, and the level of economic development in the satellite. It should follow logically that the most underdeveloped regions in satellites are

the areas that had the closest and most sustained contact with the metropolises.

WORLD-SYSTEM THEORY

World-System theory combines elements of both modernization and dependency theory with its own unique approach to studying development. Immanuel Wallerstein, the father of world-system theory, feels that the traditional fields of social science have taken an excessively narrow focus when analyzing trends in the international economy related to development. Wallerstein argues that instead of using the traditional state/society as the unit of analysis for studying development, it is much more relevant to view international events in terms of historical systems (So, 1990, p. 177).

Wallerstein contends that in order to understand the processes of development, it is necessary to study historical systems not merely over decades, but over centuries. He divides historical systems into three periods, mini-systems, world-empires, and world-economies. Mini-systems fall into the pre-agricultural period, world-empires between 8000 B.C. and 1500 A.D., and the world-economies existed from 1500 to the present.

Wallerstein considers the dependency school's metropolis/satellite model to be overly simplistic. His conception of the international system includes the core, the semi-periphery, and the periphery. He argues that if only two sectors exist, one very rich (metropolis) and the other very poor (satellite), then

violent conflict and the dissolution of the international system are inevitable (So, 1990). The semi-periphery is thus crucial for the preservation of the international system:

The major political means by which such crises are averted is the creation of "middle" sectors, which tend to think of themselves primarily as better off than the lower sector rather than as worse off than the upper sector (cited by So, 1990, p. 180).

Capitalists need a semi-peripheral sector to transfer capital from a declining sector to a rising sector as a means for weathering cyclical economic shifts (So, 1990). In addition, a third category allows for a much more fluid model, where peripheral countries can move up to semi-peripheral status and semi-peripheral countries can move up to core status, and vice versa. This trimodal approach fosters more complex analysis of the international system than the bimodal approach advocated by dependency theorists.

While all three of these theories have made important contributions to the development field, none of them offers a suitable framework for analyzing microenterprise development.

A THEORETICAL FRAMEWORK FOR ANALYZING MICROENTERPRISE DEVELOPMENT

JOHAN GALTUNG AND STRUCTURAL VIOLENCE/CONFLICT

Johan Galtung, like dependency and world-system theorists, is very interested in the historical phenomenon of imperialism. Galtung, however, developed a more sophisticated framework for analyzing imperialism than either the dependency or world-system theorists.

Galtung offers a quadrimodal approach for analyzing imperialism, which in my opinion, is far superior to either the bimodal approach of dependency theorists or the trimodal approach of world-system theorists. Structural violence/conflict results from a system of dominance in which center (colonizers) and periphery states (colonies) interact in a relationship similar to the metropolises and satellites of the dependency model. Galtung added another dimension to the model, however, when he included the concepts of center and periphery groups within both the Center and Periphery states. This allows a theorist to analyze something which the dependency and world-system models largely ignore: conflict within a nation or within a society.¹

Galtung argues that imperialism is a system which splits up collectivities. Some of the resulting blocs find a harmony of interest in relation to one another, while other blocs find a disharmony of interest or conflict of interest in relation to one another (Galtung, 1981, p. 301). Using the center and periphery distinctions for Center and Periphery countries, Galtung (p. 303) proposes that the following three fundamental relations exist in imperialism:

¹ The periphery group in a rich industrialized country like the United States (center country) is obviously much different than the periphery group in an underdeveloped country like Zaire (periphery country) where the vast majority of the periphery group may be struggling just to meet a basic subsistence level of survival. (Note: Throughout this paper, the terms country, nation, and state are used interchangeably.)

- 1) There is harmony of interest between the center in the Center nation and the center in the Periphery nation;
- 2) There is more disharmony of interest within the Periphery nation than within the Center nation; and,
- 3) There is disharmony of interest between the periphery in the Center nation and the periphery in the Periphery nation.

Structural violence/conflict manifests itself most visibly through the mechanisms of repression (the opposite of diversity, pluralism, and freedom) and exploitation (the opposite of equity):

In extreme cases structural violence may be so repressive that it virtually leads to the psychological death of the people exposed to it, or so exploitative that it leads to their physical death by keeping them well below the limit of fundamental need satisfaction (Galtung, 1980, p. 107).

Galtung's conception of imperialism extends far beyond the economic connotation that most people associate with the term.

He proposes six different varieties of imperialism:

1) economic, 2) political, 3) military, 4) communicative, 5) cultural, and 6) social (ibid., p. 127). All six of these levels of imperialism heighten the relationship of dependency between the Center and Periphery countries. Galtung believes that the social and cultural imperialism which result when Western products and values are imposed on traditional societies, can be just as devastating as propping up an oppressive dictator with military aid for the sake of strategic advantage.

Galtung conceives of a five stage process for breaking imperialism's grip on Peripheral countries: 1) Consciousness

formation, 2) Organization building, 3) Confrontation, 4) Fight against dominance, and 5) Self-reliance (ibid., p. 140). The consciousness formation stage implies that one becomes aware of the forces shaping one's own condition (ibid., p. 141). Organizational building involves the development of solidarity between people, while consciousness formation is part of the process of developing autonomy that takes place within individuals. In the confrontation stage, what had been a latent conflict now becomes manifest:

the latent conflict between dominator and dominated has now been made manifest because the dominated party has converted its interests into goals through consciousness formation and its activities into strategies for obtaining those goals through organizational building (Galtung, 1980, p. 142).

The fight against dominance can take many different forms, and involve either evolutionary or revolutionary change (ibid., p. 145). Structures often change, not because there is some monumental surge of reform, but simply because people stop doing what they had been doing before and opt for a new approach (ibid., p. 147). Microenterprise development is a classic example of this shift in thinking. People assessed the problem of underdevelopment and concluded that they needed to make a significant change in their approach to addressing development issues.

Self-reliance can occur when the final remnants of imperialism are cast off, and a country can conceive of itself as the master of its own destiny. The work of Gandhi and Mao provide vivid historical examples of how important it is to

jeopardizes the world's oil supply, and leads to an ever-widening gap between rich and poor.

Structural violence/conflict is a rich descriptive theory for analyzing imperialism and the underdevelopment which exists in the world. Galtung's six category breakdown of imperialism is valuable because it illustrates how important it is to possess a holistic understanding of that phenomenon. Microenterprise development would seem to fit nicely into Galtung's vision for development in both the Peripheral and Center countries. Complementary prescriptive theories offered by Muhammad Yunus, Hernando De Soto, and Mary Clark, when combined with the theory of structural conflict, help form a comprehensive framework for analyzing microenterprise development.

MUHAMMAD YUNUS

Professor Muhammad Yunus, the founder and managing director of the Grameen Bank in Bangladesh, has established himself over the past fifteen years as the preeminent microenterprise development practitioner. The bank's primary mission is to help the "poorest of the poor" help themselves out of total poverty by providing very small loans (approximately \$20-\$300) to establish working capital for livestock fattening, weaving, rice paddy husking, etc. Yunus forcefully argues that the extension of credit to poor people is the most effective way to combat the structural conflict between rich and poor.

Yunus (1993, p. 4) calls credit, "a fundamental human right." He places this in the broad framework of the world

develop self-reliance while a country is struggling to break free from an imperialistic relationship, rather than after it has broken free (ibid., p. 149).

Galtung offers a concise but far-reaching definition for the term: "...self-reliance means to build up new structures with one's own means without dependence on outsiders..." (ibid.). He does not necessarily conceive of self-reliance as autarky, because a country can strive to be self-reliant without abolishing trade (ibid., p. 154). He simply stresses that it is important to carefully evaluate trade because of its long history as a tool of exploitation under imperialism. Galtung also believes that it is important for countries to fully utilize their indigenous resources, rather than to trade for nonessential goods.

For true structural change to take place, Galtung argues that Peripheral countries must focus on a development strategy to boost the poorest of the poor in their periphery groups, by first initiating "production for fundamental needs" (ibid., p. 156). The Center countries, on the other hand, must focus on accepting maximum levels of consumption that would help ameliorate the disparity in resource consumption between Center and Periphery countries. The United States, for instance, with less than five percent of the world's population, should not continue to consume thirty three percent of the world's oil supply (ibid., p. 159). The most obvious reason is that that type of consumption

system, and cautions against believing that peace is simply the absence of armed conflicts. For him, peace is much more: "Peace should mean social justice between nations and within nations. It should mean establishment of human rights for all people" (Yunus, 1991, pp. 5-6).

Yunus echoes Galtung's structural conflict argument in the following statement:

If we examine the situation carefully we'll see that the poverty is neither created by the poor, nor sustained by the poor. It is the system of policies and institutions that we have built around us that creates and sustains poverty. Poverty is the denial of human rights (1991, pp. 8-9).

Yunus contends that to eradicate poverty, it is necessary to create enabling conditions for people in order to remove existing structural barriers which have been meticulously honed over centuries to benefit a small percentage of the world's population (ibid., p. 10). Grameen Bank attacks poverty by ignoring one of the basic tenets of the traditional banking paradigm: credit should not be extended to a borrower who cannot offer collateral for a loan. Yunus conceives of collateral as a tremendous barrier to alleviating poverty. He turns the traditional dictum, "the poor are not credit-worthy," on its head, and proclaims that in reality, "it is the banks which are not people-worthy" (ibid.).

Yunus believes very strongly that Grameen Bank should not reach out to the poor, but rather, to the poorest of the poor. Its outreach efforts are directed toward women, since they almost invariably constitute not only the most disenfranchised group in

Bangladesh, but in the developing world as a whole. This is a remarkable strategy when one considers that Bangladesh has a Muslim, male-dominated society.

He attacks modernization theorists' assertion that if only enough capital is injected into a country, then economic growth will take place, and this in turn, will lead to the eventual elimination of poverty. According to Yunus, "a safer strategy will be to achieve growth through concentrating on elimination of poverty" (ibid.).

He harshly criticizes the traditional welfare approach for dealing with the very poor. His philosophy fundamentally opposes giving handouts, and this is reflected in Grameen Bank's extraordinarily high loan repayment rates (Yunus, 1993, p. 3). Grameen Bank members are able to pursue their own development, rather than have it imposed upon them by outsiders who have little or no understanding of their social or economic milieu. Yunus sees credit as the key to empowering the poorest of the poor, and as one of the most dramatic human needs satisfiers available.

HERNANDO DE SOTO

Hernando De Soto is a Peruvian entrepreneur and president of the Instituto Libertad y Democracia. His seminal work, The Other Path: The Invisible Revolution in the Third World (1989), has sparked a great deal of discussion and debate in the development field. While De Soto focuses on Peru in The Other Path, the implications of his theory extend far beyond that Andean country.

De Soto painstakingly studied Peru's "informal economy," which encompasses a segment of the population that is prevented by a variety of legal obstacles from entering the legally recognized economy. He analyzed squatters' acquisition of idle government-owned land, and microentrepreneurs' operation of "illegal businesses" such as informal transport and fruit-vending stands.

Perhaps the most striking section of the book describes the incredible hurdles an aspiring microentrepreneur must clear to meet all the legal requirements for establishing a formal business. In 1983, the Instituto Libertad y Democracia (ILD) started a small garment factory on the outskirts of Lima, "and decided to comply with all the bureaucratic procedures required to establish it in accordance with the law" (De Soto, 1989, p. 133). The experiment's astounding results showed that a person of modest means would have to spend two hundred and eighty nine "full days" working to meet the eleven bureaucratic requirements for establishing a small business (ibid.)!

ILD made another striking discovery in relation to people's access to housing. It found that if a group of families wanted to acquire idle state-owned land for the purpose of building houses, it would take those families, on average, six years and eleven months to meet all the legal requirements for acquisition of the land (ibid.). De Soto argues that if these legal obstacles to land ownership (of idle land that the government is not using and does not intend to use) could be toppled, then a

poor person could obtain a legal title to a piece of land and proceed to use the title as collateral when seeking a bank loan. This would allow a significant structural change to take place without the institutional power of government being notably affected. In De Soto's Peruvian landscape, if sweeping structural changes are not implemented in the legal system, the extension of credit to poor, aspiring entrepreneurs (a la Yunus), will almost certainly be wasted.

De Soto contends that not only Peru, but many other countries as well, find themselves saddled with mercantilist economic systems (ibid., p. 201). The UNESCO Dictionary of Social Sciences, defines mercantilism as "...the belief that the economic welfare of the State can only be secured by government regulation of a nationalist character" (cited in ibid.).

De Soto theorizes that the mercantilist system in Peru, like similar systems that preceded it in Europe, is in decline because it cannot reconcile the many economic contradictions which emerge from its continued existence. For it is "the informal economy," not the formal, legal economy, sanctioned by the government which accounts for the overwhelming percentage of economic growth in the country. Thus, in Peru, "for every market built by the state, street vendors build twelve" (ibid., p. 232).

De Soto adeptly points out the major flaws of the mercantilist economic system, and effectively shows the dichotomy between the governmental and productive sectors:

It is not rulers who produce wealth: they sit behind desks, give speeches, draft resolutions and supreme

decrees, process documents, inspect, monitor and levy, but they never produce. It is the population that produces (ibid., p. 238).

MARY CLARK

In Ariadne's Thread (1989), Mary Clark strongly criticizes traditional development strategies, particularly those fashioned on the modernization model. Clark contends that modern, industrialized countries such as the United States are actually poor development models, because their mass consumption economies are operating well beyond "their sustainable income of renewable resources" (Clark, 1989, p. 378). While Clark questions whether Western industrialized countries can maintain their economic activity at present levels (given limited natural resources), she goes on to state: "any presumption that the remaining four-fifths of the world's people will permanently achieve such levels is a cruel delusion..." (ibid.).

Clark perceives self-reliance in much the same way that Galtung does. Her conception of effective development assistance corresponds to what I perceive microenterprise development as providing: "Aid must be defined as the transfer of wealth in forms that assist the self-reliant fulfillment of locally determined goals..." (ibid., p. 399). Clark, like Galtung, stresses that self-reliance does not translate into autarky. She visualizes it as a strategy to: "preserve cultural integrity, to prevent economic exploitation, and to protect and maintain local environments" (ibid., p. 426).

Clark's deep concern about irreversible environmental degradation and the earth's carrying capacity are strongly linked to her advocacy of development strategies which promote self-reliance. She sees self-reliance as an antidote for a dehumanized world, where "interpersonal bondedness and reciprocal sharing" are fostered, and the intense and often irrational pure competition of the capitalist model is tempered (ibid., pp. 427-428).

Clark argues that the entire world, industrialized and underdeveloped countries alike, must adopt radically new development strategies. If countries stay on their present development course, she is pessimistic about humankind's long term chances of survival. A strategy based on the concept of self-reliance offers the best hope for realistic, sustainable, long-term development for all the countries of the world.

EXAMPLES OF SUCCESSFUL MICROENTERPRISE CREDIT PROGRAMS

GRAMEEN BANK

Begun in 1976 as an action research project by Professor Muhammad Yunus, in 1983, Grameen Bank² was established as a formal financial organization with borrowers, and the Government of Bangladesh, owning 75 percent and 25 percent of its shares, respectively (Yunus, 1988, p. 2). In 1992, Grameen Bank (GB) had more than 1.4 million borrowers, disbursed \$160 million in loans, and mobilized \$132 million as savings and deposits (Khandker, et al., 1993, p. 4). The bank employs approximately 12,500 staff

²Grameen means rural in Bengali.

members (Hubbard, 1993). Potential borrowers must either own less than half an acre of land, or have assets worth no more than the value of one acre of land. Since there is no collateral requirement, borrowers must organize into groups of five, with each person in the group held responsible for the repayments of all the other group members. If one person defaults on a loan and the other four members in the group cannot repay the balance of the loan plus interest, all five will be barred from receiving future GB loans. Loan defaults are very rare, however, since GB boasts an impressive repayment rate of better than 98 percent (Khandker, et al., 1993, p. 47). Grameen charges a 20 percent interest rate on its loans.

Grameen Bank is a social movement as much as it is an economic one. A borrower must become a member of GB, and membership entails a life-long commitment to the principles of the bank. Grameen enforces a strict attendance policy at weekly meetings where borrowers make payments to bank workers and discuss their progress on projects, etc. The "Sixteen Decisions" lay out what Hossain (1988, p. 28) refers to as "the social development constitution" of Grameen Bank (Hossain, 1988, p. 28). The Sixteen Decisions touch upon issues related to nutrition, family planning, health, and education. Grameen Bank is truly unique among microenterprise credit organizations in the sense that it offers such a varied and complete development package to its members.

PROJECT IKHTIAR

Project Ikhtiar was the first wide-scale effort to replicate the Grameen Bank model of poverty reduction. It was launched as a two-and-a-half-year pilot project in the Northwest Selangor area of Malaysia, in January of 1986, and institutionalized at the end of the test period. The average loan amount for Ikhtiar borrowers is about \$434 (Gibbons and Kasim, 1989, p. 9).

According to Alexander Counts (1993), an official with the Grameen Trust, what started as the Project Ikhtiar pilot project with 448 members, has now expanded to a 20,000 member program, and boasts an impressive repayment rate of 99.5 percent.

Reinforcing the Grameen experience, women in the Project Ikhtiar pilot program proved to be better borrowers than men. Gibbons and Kasim (1989) present several valid hypotheses to explain this phenomenon. Extremely poor women in both Malaysia and Bangladesh are usually confined and kept very isolated in their homes or villages due to both religious and socio-economic reasons (p. 131). As a result, most of these women are dependent on their husbands for cash income. Women more than men, therefore, see a loan as a way to establish an economic and social freedom they have never before known. Attending weekly meetings is easier for women, since they tend to be around the village more, whereas men must travel to wherever they can earn money (ibid., p. 132). Gibbons and Kasim (ibid.) cite Muhammad Yunus for the third reason why women tend to be better borrowers than men:

Women experience hunger and poverty in much more intense ways than they are experienced by men. Women, traditionally, have to stay "home" and manage the family with virtually nothing to manage with...

If one of the family members has to starve, it is an unwritten law that it has to be the mother.

INDONESIAN PROGRAMS

The Badan Kredit Kecamatan (BKK) and the Kredit Umum Pedesaan (KUPEDES) are two highly successful microenterprise credit programs in Indonesia. BKK began operations in 1972 and has provided credit to a wide range of low income clients, utilizing inexpensive delivery mechanisms (Yaron, 1992a, p. 93). The Central Java Regional Development Bank (BPD) provides financial supervision and technical assistance to BKK. Technically, BKK is not a bank because village posts are "locally administered and financially autonomous" (ibid., p. 92). Lending procedures are designed to be simple since many of the borrowers are illiterate. A first loan may not exceed \$28. There are six different loan maturities: daily, five day, weekly, monthly, thirty five day, and seasonal credit (ibid.). In 1989, BKK had 23,496 loans outstanding (ibid., p. 94).

The KUPEDES program began dispersing loans in 1984 at the village level in the Unit Desas. These are small rural branches which were established in the early 1970s to provide credit to rice farmers (ibid., p. 97). KUPEDES requires borrowers to provide collateral worth at least 100 percent of the value of the loan, but has no authority to enforce foreclosure (ibid.,

p. 98). A recent impact study showed that both income and loan size levels are increasing significantly. This is attributable to the economic success of repeat borrowers, who make up the majority of the client base (ibid., p. 99). Both BKK and KUPEDES use an individual lending model, as opposed to the group solidarity system employed by Grameen and Ikhtiar.

ACCION INTERNATIONAL

ACCION International, founded in 1961, is a private, non-profit organization which has programs in fourteen Latin American countries and the United States. ACCION provides credit and training to the self-employed poor in order to help them expand their businesses. In 1992, ACCION programs made 146,714 loans to businesses and posted an impressive loan default rate of only 1.2 percent (ACCION International 1992 Annual Report, 1992, p. 4).

Banco Sol in Bolivia provides a vivid example of the cutting edge of microenterprise development. Established in 1992 with help from ACCION, Banco Sol is a private, for-profit commercial bank which deals exclusively with poor microentrepreneurs (Otero, 1993). In its first two years of operation, it has proved to be a great financial success. Efforts to set up similar entities are underway in Colombia, Ecuador, Paraguay, and Mexico. Banco Sol is an excellent example of what is possible if governments heed the advice of Hernando De Soto and remove oppressive legal constraints that may deem an effort such as Banco Sol "illegal", because it goes against traditional banking standards.

FINCA INTERNATIONAL

FINCA is a non-profit organization which currently coordinates the activities of fourteen affiliated agencies in twelve countries (FINCA International, Inc. Fact Sheet, Undated, p. 1). FINCA has helped mobilize approximately 1600 village banks, which serve over 42,000 borrowers throughout Latin America. These village banks have amassed some impressive numbers, including a current lending level of \$4.5 million, an overall loan repayment rate of 97 percent, and savings among its members of more than \$1.5 million (ibid.). Ninety-five percent of FINCA borrowers are women who are engaged in such enterprises as selling fruits, vegetables, pastries, and firewood (FINCA International, Inc. Fact Sheet #2, Undated, p. 1).

KEY ISSUES FACING MICROENTERPRISE DEVELOPMENT

Two of the most important issues facing the field of microenterprise development are the sustainability of credit programs and credit vs. structural legal change. These are extremely complex issues which stir up considerable debate within the development community. The following sections compare and contrast the views of thirteen people working in microenterprise development, concerning sustainability and credit vs. structural legal change.

SUSTAINABILITY OF MICROENTERPRISE CREDIT PROGRAMS

The ultimate goal of all development efforts is to create the ability within a country to sustain in the long run, projects designed to benefit large segments of poor people.

Unfortunately, this goal is rarely achieved. One need only examine large-scale projects such as fish hatcheries that dried up as soon as foreign technicians left, or agricultural cooperatives where sophisticated farm machinery sits idle and rusting because the local personnel do not have the training or necessary spare parts to repair them.

Microenterprise credit programs have faced the same bleak outlook where sustainability becomes an elusive dream and projects grind to a halt when outside funding disappears. In the first of two interviews, Michael Farbman (1993a), Director of USAID's Office for Small, Micro, and Informal Enterprise, stated the following:

...we are not in the business of setting up all these islands of green that remain green only as long as our money stays there. We have to build up institutions that will far outlive our financial involvement in the projects.

Sustainability is an exceedingly complex issue, however, and Grameen Bank illustrates how murky the debate can become.

One of the fundamental mistakes that development financial institutions (e.g., rural financial organizations, agricultural credit agencies, and microenterprise credit programs) made was subsidizing interest rates. This meant loans were offered at artificially low rates (far below the market rate), and this had two very negative effects.

As Rhyne and Otero stress in a 1991 USAID GEMINI working paper (p. 1), since the interest rates were far below the market rate, the organizations' interest income from loans could not

even begin to cover high operating costs, loan losses, and expensive additional services. As a result, the organizations would have to depend on grant money to survive. Secondly, artificially low interest rates would not offer a competitive savings climate which could help sustain and eventually expand the organizations' lending programs through the creation of a larger asset base. This would again highlight the need for grant funding. Remaining tied to grant funding would necessarily limit the ability of the organization to expand. Paradoxically, as Castello, Stearns, and Christen (1991, p. 8) point out, keeping the interest rates artificially low, often channels loan money away from the poor to relatively wealthy borrowers:

In many cases, subsidized agricultural loans have gone mostly to relatively well-off farmers, worsening rural income distribution ... Since larger borrowers are those who can usually provide real guarantees and who are willing to absorb high transaction and opportunity costs, subsidized credit often favors the relatively wealthy.

The strategy of offering subsidized, below market interest rates to poor borrowers was based on the belief that poor people were bad credit risks who lacked the ability to pay back loans at market rates of interest. Traditional financial organizations also viewed small loans to the poor in a negative light because of the high transaction costs involved in extending these types of loans. To provide a simple example, it would be far less costly (lower transaction costs) for a financial institution to extend one \$10,000 loan to a single person, than it would be to extend \$100 loans to one hundred different poor entrepreneurs

(ibid.). However, Grameen Bank and FINCA provide two powerful examples where very poor people are willing and able to pay for loans at interest rates that are much higher than the market rate, and these organizations are able to extend loans with reasonable transaction costs.

Jacob Yaron (1992) made an important contribution to the policy dialogue on issues relating to sustainability when he developed his subsidy dependence index (SDI). The SDI is a formula for uniformly measuring the extent to which development financial institutions' (DFIs) depend on subsidies for their operating costs. Financial self-sustainability is achieved "when the return on equity, net of any subsidy received, equals or exceeds the opportunity cost of funds" (Yaron, 1992b, p. 5).³

The SDI equation consists of the following:

$$\text{SDI} = \frac{\text{Annual subsidy received by the DFI}}{\text{Loan portfolio} \times \text{Lending rate}}$$

The SDI is extremely valuable because it provides development professionals with a quantitative and relatively uniform tool for assessing different DFIs.

Most development professionals agree that financial sustainability should be an important goal for microenterprise credit programs to work toward achieving. Michael Farbman (1993) of USAID stressed how important it is to support training in developing countries that will teach people who are running

³ For the purposes of this paper, rural financial institutions (RFIs), development financial institutions (DFIs), and microenterprise credit programs will be conceived of as identical entities.

microenterprise credit programs to lend cheaply so their unit transaction costs will be low. Once financial institutions (in the larger sense, like marriage as an institution) are in place that have internalized the lessons of successful programs, long term sustainability becomes more than just a dream.

Zahed Khan (1993), a World Bank consultant and one of the coauthors of an extensive study of the Grameen Bank, asserted that subsidies are necessary to cover such expenses as initial training, and initial establishment and operation costs for microenterprise development programs. He said that in many ways this is analogous to the infant industry argument in international trade, where "your infant industry initially requires protection, but after a time it should be strong enough to compete on its own."

Peggy Clark (1993), of the Aspen Institute, studies domestic U.S. microenterprise programs and has offered an interesting perspective on how these programs are assessed. She feels that the standards of evaluation for microenterprise programs are more stringent than those used for traditional banks. Clark feels that banks have massive management problems, and she cited as an example the widespread savings and loan failures in the United States. These savings and loans certainly proved they were not financially sustainable organizations, and losses stemming from their failures have been exponentially more costly than any subsidies that might be used to support microenterprise credit programs.

WB2 (1993) one of two a World Bank officials who preferred to remain anonymous, feels that the subsidy dependence index (SDI) is perhaps the best measure of long term sustainability. The SDI also serves as an effective tool to balance necessary subsidies with those that should be trimmed. Lawrence Yanovitch (1993), the Legislative Director for FINCA International, thinks the SDI is a useful tool for helping to determine the sustainability of programs. He stated that a team from Ohio State University had used the SDI to evaluate the FINCA program in Costa Rica, and found it to be 80 percent sustainable. Yanovitch thinks it would be interesting to compare different microenterprise credit programs using the standard measure which SDI provides.

Elisabeth Rhyne (1993), a USAID consultant, feels that having no subsidy dependence (being totally self-sustainable) must be a long range goal for microenterprise credit programs. She stressed, however, that it is not clear whether programs that provide financial services to the poor can consistently reach that level. The KUPEDES program in Indonesia is one of the only programs that is completely self-sustaining. In fact, according to Yaron's calculations, its SDI for 1989, was -7.6 percent, which means it could have lowered the annual interest rate it charged on loans by 7.6 percent and still been completely self-sustaining (Yaron, 1992a, " p. 58). Rhyne stated it is clear that microenterprise credit programs must strive to reach self-sustaining status, because if they do not, "they get wasteful and

inefficient, and the money goes to the people running the programs instead of the intended beneficiaries."

Maria Otero (1993), an Associate Director of ACCION International, indicated that the goal for microenterprise programs that are lending money, "is to help them to make that lending piece of what they do, whether it is the whole thing or a part, completely self-sufficient." For programs, this entails covering the operational costs, the costs of a reserve fund, and the cost of borrowing money.

Grameen Bank provides a fascinating counterpoint to the argument that microenterprise credit programs should seek to become entirely self-sustaining. Yaron calculated Grameen Bank's SDI for 1989 at 130 percent. This means that it would have had to increase its interest rate on loans from 12 to 27 percent in order to eliminate the need for subsidies (Yaron, 1992a, p. 67). Grameen Bank has since raised its interest rate on most loans to 20 percent, but it has also expanded its borrower base at a phenomenal rate. In many respects Grameen Bank is a unique case. No other microenterprise credit organization begins to approach its number of borrowers, which for 1992 was more than 1.4 million. In this respect, Grameen is a giant among dwarfs.

Another important point is that Grameen is unique among microenterprise credit programs in the range of social services it offers its members. "The Sixteen Decisions" embody elements of health, nutrition, contraception, and education, all of which are fundamental development concerns. Grameen is heavily

subsidized, but if one were to try to establish separate programs to deal with elements of health, nutrition, contraception, and education that are part of the Grameen program, it might be much more costly than providing the subsidies.

Elisabeth Rhyne (1993) (USAID consultant) pointed out that all the social services which Grameen Bank offers its members, definitely complicates the process of calculating self-sustainability. She feels strongly, however, that Grameen is subsidized because it wants to be subsidized. Rhyne is convinced that Grameen Bank could be a completely viable financial organization if it charged its members full cost on loans. However, she quickly stressed the beauty of "The Sixteen Decisions." They do not add costs to Grameen's operations since they are embodied in its institutional philosophy and are part of the organizational discipline of the bank.

Zahed Khan (1993), a World Bank consultant, stated that Grameen branches are expected to become self-sustaining profit making units, and the subsidies really go toward running the head office and paying Grameen's huge work force. Grameen has proven that poor people know how to best use credit to help themselves:

What the Grameen Bank example shows is that there is no need to go and spoon-feed these people beyond giving them the credit, and making sure they follow certain standards of behavior in terms of banking. The usual meetings, the repayment patterns and so on...

WB1 (1993), the other anonymous World Bank official, stated that he would still support an organization like Grameen Bank,

even if it could not operate without subsidies, as long as that was openly acknowledged. He does not totally object to subsidies as long as organizations are open about their dependence on them. WB2 (1993) guessed that it would be possible for Grameen Bank to raise its interest rates on loans to a high enough level so that it could become a completely self-sustaining financial organization.

Olivier Carduner (1993), a USAID official, said Grameen Bank should still be supported even if it depends on subsidies for its existence. He limited his observation to Bangladesh, however, based upon his experience working there. In his view, subsidizing a Grameen type program would be much preferable to the alternative which he had seen at work in Bangladesh--food for work programs:

Well, the thing is, food for work is a 100% subsidy. The wheat that you are using to pay people is 100% grant, and I suspect ... that you could reach the same number of people at a fraction of the cost, if you would just go through a subsidized sort of Grameen type program.

Carduner, like Elisabeth Rhyne, believes that Grameen Bank can become completely self-sustaining if it only raises its interest rates on loans.

Michael Farbman (1993b) (USAID) believes that Grameen Bank delivers many different positive development benefits, and he would support it even if GB had to always rely on subsidies in order to survive. He distinguished between what he feels the views were among the last administration at USAID and the views of the current administration. He thinks the current

administration, unlike the last one, would say: "Even if you have to pay a little bit for it, to keep it running, frankly, what else is it that we do so efficiently to deal with the poverty problems of the poor in a very well organized way"? Ultimately, he feels that the choice to continue subsidizing Grameen Bank would amount to a policy and value choice which the current USAID administration would choose to do, and with which he would agree.

Maria Otero (1993), Associate Director of ACCION International, said that ACCION does both training and credit programs, but the two are strictly segregated. Training programs are usually subsidized from other sources, and training and other activities are never financed by income earned from the credit programs (Otero, 1993).

Joan Hubbard (1993), a consultant, was adamant in stating that the social services portion of Grameen Bank is strongly connected to the credit component. Unlike the ACCION programs, it would be impossible to separate the two:

I do not think you can take out the social development aspect on the credit side of things and expect to be able to measure whether or not the subsidy has an effect on that.

She also went on to point out that development donors are constantly looking for "winners" in which to invest money. Muhammad Yunus is undeniably a "winner," and with the snap of a finger he can have twenty donors lined up, all chanting: "Take our money"!

Sustainability is definitely a key issue for microenterprise

development. However, the success and unique nature of Grameen Bank provides a different perspective on sustainability and makes one realize that in certain circumstances, complete self-sustainability should not be the overriding goal of a microenterprise credit program.

CREDIT vs. STRUCTURAL LEGAL CHANGE

Muhammad Yunus and Hernando De Soto offer important philosophies for establishing effective microenterprise programs. Although I conceive of credit to poor people and structural legal change to remove burdensome obstacles from the path of hard working, poor entrepreneurs, as working together to advance microenterprise development, they are often seen as competing goals. This was illustrated in the debate surrounding the passage of the Microenterprise Loans for the Poor Act of 1987. RESULTS (a nonprofit grass roots lobbying organization which specifically focuses on issues involving children, women, and the very poor) and USAID (The United States Agency for International Development) continually butted heads over the direction which microenterprise development should take.

Specifically, RESULTS hailed the achievements of Grameen Bank and claimed the primary mission of USAID's microenterprise program should be providing credit to the poorest of the poor in developing countries. USAID argued that credit to the poorest of the poor was an important component of an overall development strategy, but it was only one of many components. In congressional hearings, Michael Farbman (1993b) of USAID stressed

the importance of Hernando De Soto's work and its wide ranging implications for many developing countries.

In The Other Path, De Soto forcefully and methodically shows that for real development to take place, it may be necessary to dramatically change the rules of the game. In Peru and many other countries, he challenges governments to "change these kinds of constraints which force people into inefficiency, into the informal sector, into the black market, etc." (Farbman, 1993b). As Michael Farbman of USAID said in his second interview, "You make it all but illegal to establish businesses, and of course you are going to have disparities between rich and poor" (ibid.).

Farbman pointed out that USAID is very involved in addressing the structural legal problems that De Soto chronicled in The Other Path. The IRIS project, which stands for Institutional Reform in the Informal Sector, grapples with the central structural problem: "How do you change the rules"? This means looking at "everything from the way the banks operate to the way governments regulate, to the way the judicial system will protect and enforce contracts."

During the debate over the Microenterprise Loans for the Poor Act of 1987, Farbman and his colleagues went to Congress and argued for latitude that would allow USAID to better address the institutional problems highlighted by De Soto's work. USAID's plea to Congress went like this: "Make space for us to really help the poor sustainably, by not forcing all of our [USAID]

money into \$300 loans because that is not what they need" (ibid.).

However, according to Farbman (1993b), Congress came back and said, "We like Hernando De Soto, but we just do not want you spending money that should be spent on small lending for the poor". Credit for the poor can be a very valuable development tool, but if it is injected into an economy where the legal constraints for poor entrepreneurs are overwhelming, it may prove to be nearly totally ineffective.

Farbman made an important distinction between institutions and organizations. De Soto uses the term institutions to refer to things like property rights. Slavery is an institution; marriage is an institution; apprenticeship is an institution. Then there are organizations. A bank is an organization; a governmental body is an organization. "When De Soto uses the upper case for institution, we are talking about the rules under which societies and markets and economies organize themselves" (ibid.).

Sam Harris (1993), the founder and Executive Director of RESULTS, repeatedly stated that the development system has always been skewed against poor women: "The system is not set up for poor women, they have no voice, they have no advocates, at least not loud ones ... they are cut out." Harris's main contention is that if one is committed to getting credit to the poorest of the poor, one can do so. It all boils down to a question of commitment. He does not dispute the fact that De Soto's

structural obstacles exist, he merely thinks the lack of sufficient credit for the very poor is a much more significant development problem. Harris summarized his position as follows: "If you are not committed to the poorest women getting anything ever, really, then what is the deal about changing the laws" (ibid.)?

Olivier Carduner (1993) (USAID official) described two excellent examples in Bangladesh where privatization made a dramatic difference in the lives of the very poor. Privatization is not, perhaps, as dramatic a structural change as De Soto advocates, but it is in a very real sense a legal reform which impacts on a large number of poor people. The Bangladesh Government for many years controlled agricultural inputs. The law mandated that the importation, production, and distribution of fertilizer was the sole domain of the government. Private sector involvement in this area was illegal. This meant that small farmers were forced to go through government channels to obtain fertilizer, the prices for which had also been set by the government.

USAID worked for years to convince the government of Bangladesh that it should not control fertilizer importation, production, and distribution (ibid.). After fierce negotiations, the government of Bangladesh finally agreed to privatize the fertilizer industry. The results were dramatic. Small farmers suddenly had access to fertilizer, which was cheaper and easier to obtain than ever before. This led to an increase in the use

of fertilizer which increased rice production, and which in turn increased the amount of labor needed to harvest the rice crop. Privatization in this case led to the creation of thousands of microenterprises.

Cardoner's (1993) second example involved small engines. The government had always controlled every aspect of their importation and distribution. The result of these tight government regulations was that city dwellers were the only people who could acquire a small engine. When the government finally decided to open up the small engine industry after receiving heavy pressure from the World Bank, the results were impressive. Suddenly, millions of people had access to these small engines which they could use on their boats in the rainy season, and as irrigation pumps in the dry season (ibid.). Thus, one change in the rules led to a dramatic increase in the productivity and income of millions of people:

So, you talk about, "What is the efficient way to help microenterprises?" It is not obvious that it is credit. It really is not (ibid.).

This credit vs. structural legal change debate between USAID and RESULTS serves to emphasize the complexity of the issues surrounding international development. Neither credit nor structural legal change offers a magic potion cure for the problems stemming from underdevelopment. They are, however, both commendable strategies that should work together as important components in an integrated and flexible microenterprise development policy.

CONCLUSION

A dramatically different international system has emerged in the last four-and-a-half years. The East-West nuclear stand-off which dominated international relations for forty six years, faded out of consciousness when the Soviet Union dissolved. This has had both positive and negative ramifications for U.S. foreign aid. The most important positive effect is that U.S. foreign aid is no longer a hostage to Cold War geopolitical strategic imperatives. However, a key negative effect stems from the same new reality. Some detractors argue that the essential justification for U.S. foreign aid was the support it provided to friendly countries in the fight to prevent the spread of Communism. These detractors suggest that since the Cold War is over, so is the *raison d'être* for foreign aid.

Problems such as overpopulation, environmental degradation, malnutrition/starvation, and ethnic/nationalistic conflicts, now dominate the world's crisis stage. All of these problems are, to a certain degree, related to the phenomenon of underdevelopment. The structural conflict between rich and poor is an outgrowth of underdevelopment. Not only is there a growing international gap between rich and poor, there is an intranational one as well. Increasingly, the American economy consists of high paying professional/service jobs and minimum wage service jobs (McDonalds' executives and McDonalds' staff).

Analyzing microenterprise development using a theoretical framework built upon the integrated views of Johan Galtung,

Mary Clark, Muhammad Yunus, and Hernando De Soto, is reasonable, since all four of them are fundamentally concerned with "sustainable development." Each of them offers strong justification for prominently including microenterprise development initiatives in an integrated American foreign aid program.

Microenterprise development (from Grameen Bank in Bangladesh, to the Indonesian programs, to the Good Faith Fund in Arkansas) has proven to be an effective strategy for addressing the structural conflict between rich and poor. It has made a significant difference in the lives of millions of people, and should be a prominent part of a new U.S. Development Paradigm.

The development community must recognize that there are a number of effective strategies for promoting microenterprise development; no single "best approach" can define the field. The strict poverty lending approach advocated by Muhammad Yunus and the structural legal changes which Hernando De Soto champions, are complementary microenterprise strategies, not mutually exclusive ones.

In coming years, Congress will enact legislation to fundamentally change the U.S. approach to foreign aid. The U.S. Agency for International Development (USAID) must restructure itself and clearly articulate its priorities while facing the difficult limitations imposed by a shrinking budget. Again, microenterprise development is an important factor because it is a low cost strategy compared to projects pursued under the

framework of modernization theory. Microenterprise development can be a key component in USAID's and other organizations' budget-conscious promotion of "sustainable development."

APPENDIX

In order to carefully explore important issues facing microenterprise development, I thought it was essential to elicit the views of an elite but diverse group of professionals working in the field. I interviewed the following people: 1) Alexander Counts, Grameen Bank Official, 2) Michael Farbman, Director of USAID's Office for Small, Micro, and Informal Enterprise, 3) Howard Walgren, Staff Member for Senator Dennis DeConcini, 4) Zahed Khan, World Bank Consultant, 5) WB1, an anonymous World Bank Official, 6) Peggy Clark, Aspen Institute Official, 7) WB2, another anonymous World Bank Official, 8) Lawrence Yanovitch, Legislative Director for FINCA International, 9) Elisabeth Rhyne, USAID Consultant, 10) Olivier Carduner, USAID Official, 11) Maria Otero, Associate Director of ACCION International, 12) Sam Harris, Founder and Director of RESULTS, and 13) Joan Hubbard, Consultant.

In thirteen of the fourteen interviews (I interviewed Michael Farbman twice), I tape recorded the sessions, and later went back and made transcripts. (WB1 and WB2 spoke to me on the condition that they remain anonymous.) Two of the most important issues discussed were the sustainability of micro-enterprise credit programs and credit vs. structural legal change.

REFERENCES

- Ahmed, Raisuddin and Hossain, Mahabub, "Developmental Impact Of Rural Infrastructure In Bangladesh," Research Report 83, International Food Policy Research Institute in collaboration with the Bangladesh Institute Of Development Studies, October 1990.
- "ACCION International 1992 Annual Report," Cambridge, Massachusetts, 1992.
- Carduner, Olivier, USAID Official, Interview conducted on October 4, 1993.
- Castello, Carlos, Stearns, Katherine, and Christen, Robert Peck, "Exposing Interest Rates: Their True Significance For Microentrepreneurs and Credit Programs," ACCION International, Discussion Paper Series, Document No. 6, July 1991.
- Christen, Robert Peck, "What Microenterprise Credit Programs Can Learn From The Moneylenders," ACCION International, Discussion Paper Series, Document No. 4, October 1989.
- Clark, Mary E., Ariadne's Thread: The Search for New Modes of Thinking, St. Martin's Press, New York, 1989.
- Clark, Peggy, Aspen Institute Official, Interview conducted on September 27, 1993.
- Counts, Alexander, Grameen Trust Official, Interview conducted on August 9, 1993.
- De Soto, Hernando, The Other Path, Harper & Row, Publishers, New York, 1989.
- FINCA International, Inc., "Fact Sheet," Alexandria, Virginia, 1993.
- FINCA International, Inc., "Fact Sheet #2," Alexandria, Virginia, 1993.
- Farbman, Michael, USAID Official, Interviews conducted on August 9, 1993a, and October 6, 1993b.
- Frank, Andre Gunder, "The Development of Underdevelopment," in: Perspectives on World Politics, Michael Smith, Richard Little, and Michael Shackleton, Editors, Croom Helm London in association with the Open University Press, 1981.
- Galtung, Johan, "Violence, Peace, and Peace Research," Journal of Peace Research, Vol. VI, No. 3, pp. 167-191.

- Galtung, Johan, "A Structural Theory Of Imperialism," in: Perspectives on World Politics, Michael Smith, Richard Little, and Michael Shackleton, Editors, Croom Helm London in association with the Open University Press, 1981.
- Galtung, Johan, The True Worlds, The Free Press, New York, 1980.
- Gibbons, David S. and Kasim, Sukor, "Banking On The Rural Poor," Amanah Ikhtiar, Penang Malaysia, 1989.
- Gibbons, David S., "Replication of Grameen Bank Financial System," Grameen Bank, Dhaka, Bangladesh, October, 1991.
- Groom, A.J.R., "Paradigms in Conflict: the Strategist, the Conflict Researcher and the Peace Researcher," in: Conflict: Readings in Management and Resolution, John Burton and Frank Dukes, Editors, St. Martin's Press, New York, 1990.
- Harris, Sam, Founder and Executive Director of RESULTS, Interview conducted on October 18, 1993.
- Hatch, John, Testimony before the House Committee on Foreign Affairs, the Subcommittee on International Economic Policy and Trade, "Microenterprise Development," September 26, 1990, Congressional Record, U.S. Government Printing Office, Washington, D.C., 1991, p. 54
- Hossain, Mahabub, "Credit For Alleviation Of Rural Poverty: The Grameen Bank In Bangladesh," Research Report 65, International Food Policy Research Institute in collaboration with the Bangladesh Institute of Development Studies, February 1988.
- Hubbard, Joan, Former Official with the International Fund for Agricultural Development (IFAD), Interview conducted on October 19, 1993.
- Johnson, Otto, Executive Editor, The 1991 Information Please Almanac, Houghton Mifflin Company, Boston, 1990.
- Khan, Zahed, World Bank Consultant, Interview conducted on September 15, 1993.
- Khandker, Shahidur R., Khalily, Baqui, and Khan, Zahed, "Grameen Bank: What Do We Know," The World Bank, Washington, D.C., Draft: 19 October 1993.
- Otero, Maria, Associate Director of ACCION International, Interview conducted on October 15, 1993.

- Rhyne, Elisabeth and Otero, Maria, "A Financial Systems Approach to Microenterprises," GEMINI Working Paper No. 18, United States Agency for International Development, Bethesda, Maryland, April 1991.
- Rhyne, Elisabeth, Consultant, Interview conducted on September 30, 1993.
- So, Alvin Y., Social Change and Development, Sage Publications, Newbury Park, 1990.
- Sutcliffe, R.B., in the Foreword for: Aid as Imperialism, Teresa Hayter, Penguin Books, Inc., Baltimore, MD, 1971, p. 5.
- Walgren, Howard, Senate Intelligence Committee Staff Member, Interview conducted on September 7, 1993.
- WB1, World Bank Official, Interview conducted on September 24, 1993.
- WB2, World Bank Official, Interview conducted on September 28, 1993.
- Yanovitch, Lawrence, Legislative Director for FINCA, Interview conducted on September 29, 1993.
- Yaron, Jacob, "Successful Rural Finance Institutions," World Bank Discussion Papers, No. 150, The World Bank, Washington, D.C., 1992a.
- Yaron, Jacob, "Assessing Development Finance Institutions," World Bank Discussion Papers, No. 174, The World Bank, Washington, D.C., 1992b.
- Yaron, Jacob, "Rural Finance in Developing Countries," Working Papers, Agriculture and Rural Development Department, The World Bank, March 1992c.
- Yunus, Muhammad, "Grameen Bank: Organization and Operations," World Conference on Support for Microenterprises, Washington, D.C., June 6-9, 1988.
- Yunus, Muhammad, "Peace is Freedom from Poverty," Speech delivered at the Thirtieth Anniversary Celebration of the Returned Peace Corps Volunteers at Washington D.C., USA, on August 3, 1991.
- Yunus, Muhammad, "Acceptance Speech by Professor Muhammad Yunus, Managing Director, Grameen Bank, on the occasion of receiving the King Baudouin Development Prize, April 22, 1993.

<i>Peace Science</i> by Richard E. Rubenstein	24.95	_____
<i>Conflict and Gender</i> by A. Taylor and J. Beinstein	24.95	_____
<i>Conflict Management and Problem Solving</i> edited by Dennis J. D. Sandole and Ingrid Sandole-Stamata	45.00	_____
<i>Conflict Resolution: Cross-Cultural Perspectives</i> by K. Anshen, P. Black and J. Sounedea	49.95	_____
<i>Conflict Resolution and Prevention</i> by John Burton	24.95	_____
<i>Conflict: Readings in Management and Resolution</i> by J. Burton and F. Duikes	45.00	_____
<i>Conflict Resolution Theory and Practice: Integration and Application</i> by Dennis J. D. Sandole and Hugo van der Merwe	24.95	_____
<i>Deviance, Terrorism and War: The Process of Solving Unsolved Social and Political Problems</i> by John Burton	11.95	_____
<i>Peace and Security in the Asia Pacific Region: Post-Cold War Problems and Prospects</i> edited by Kevin Clements	40.00	_____
<i>New Approaches to International Mediation</i> edited by C.R. Mitchell and K. Webb	55.00	_____
<i>The Structure of International Conflict</i> by Christopher Mitchell	12.95	_____
<i>Working Paper #1: Conflict Resolution as a Political System</i> by John W. Burton	3.50	_____
<i>Working Paper #2: Group Violence in America</i> by Richard E. Rubenstein	3.50	_____
<i>Working Paper #3: Conflict Resolution and Civil War (Sudan)</i> by Christopher R. Mitchell	3.50	_____
<i>Working Paper #4: A Willingness to Talk</i> by Christopher R. Mitchell	3.50	_____
<i>Working Paper #5: The OAU and African Conflicts</i> by Sam Amoo	3.50	_____
<i>Working Paper #6: Conflict Resolution in the Post Cold War Era: Dealing with Ethnic Violence in the New Europe</i> by Dennis J. D. Sandole	3.50	_____
<i>Working Paper #7: Personal Change and Political Action: The Intersection of Conflict Resolution and Social Mobilization Movements in a Middle East Dialogue Group</i> by Amy S. Hubbard	3.50	_____
<i>Working Paper #8: Microenterprise Development: A Tool for Addressing the Structural Conflict Between Rich and Poor</i> by Eric Beuhart	3.50	_____
<i>Occasional Paper #1: On the Need for Conflict Prevention</i> by John W. Burton	4.50	_____
<i>Occasional Paper #2: Negotiating Base Rights Agreements</i> by Daniel Druckman	4.50	_____
<i>Occasional Paper #3: Dialectics and Economics of Peace</i> by Elise and Kenneth Boulding	4.50	_____
<i>Occasional Paper #4: Prospects for a Settlement of the Falklands/Malvinas Dispute</i> by Peter Willetts and Felipe Noguera	4.50	_____
<i>Occasional Paper #5: On Taking Sides: Lessons of the Persian Gulf War</i> by Richard E. Rubenstein	4.50	_____
<i>Occasional Paper #6: Peacemaking and Conflict Resolution: A Decade of Development</i> by Samuel W. Lewis	4.50	_____
<i>Occasional Paper #7: Resolution: Transforming Conflict and Violence</i> by James H. Laue	4.50	_____
<i>Occasional Paper #8: Cities After the 1960s—Where Have All the Promises Gone?</i> by Roger Wilkins	4.50	_____
<i>Occasional Paper #9: Negotiation Theory—Through the Looking Glass of Gender</i> by Deborah Kolb	4.50	_____
<i>Occasional Paper #10: Peace and Identity: Reflections on the South Asian Experience</i> by Rajmohan Gandhi	4.50	_____
<i>CCAR Report: Interpreting Violent Conflict: A Conference for Conflict Analysts and Journalists</i>	4.50	_____
<i>ICAR Report #2: Frameworks for Interpreting Conflict: A Handbook for Journalists</i> by Richard E. Rubenstein	14.50	_____
<i>ICAR Report: Understanding Intergroup Conflict in Schools: Strategies and Resources</i> by Frank Blochman	2.95	_____
<i>ICAR Academic Programs: (Syllabi Book)</i>	20.00	_____
Publishers' prices are subject to change without notice.		
	SUBTOTAL:	_____
The charge for shipping and handling is \$ 2.50 for orders of \$ 20.00 or less; for orders more than \$ 20.00 please add 20%. For other than the U.S., Add 30% to all orders.	S & H:	_____
	TOTAL:	_____

=====

Check (Payable to GMU Bookstore)

VISA Mastercard American Express Discover Card No.: _____ Exp. Date: _____

Name (as it appears on Card): _____ Signature: _____

Mailing Address: _____

PLEASE MAIL TO: GEORGE MASON UNIVERSITY GMU BOOKSTORE SUB II FAIRFAX VA 22030-4444.
OR CALL (703) 993-2666