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MICROFINANCE : SOCIAL ENTREPRENEURSHIP AND SOCIAL CONSCIOUSNESS-DRIVEN CAPITALISM?

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ABSTRACT

Microfinance, a recently coined vocabulary in rural finance literature, refers to small-loan commercial banking facilities created specifically for meeting the financial needs of the poor. This financing program is different from the traditional microcredit program in that the former has profit motives, while the latter being non-profit NGOs, do not. Because of this commercial feature, microfinance programs are susceptible to criticism. To undermine the severity of this criticism, suggestions are being made to treat them as social-consciousness-driven capitalist ventures and their owners as social entrepreneurs. This paper investigated this overwhelming proposition, particularly in the light of Adam Smith's moral and economic theories. The analysis seems to suggest that the proposition has difficulties both from theoretical and policy-making perspectives.

I. INTRODUCTION

The term, microfinance, is a recent introduction in the-development discourse: Conceived and coined in the early 1990's, it became a popular rural finance vocabulary by the end of the decade (Robinson, 2002). This development demonstrates the critical role that this innovative idea is playing in international development policy related, particularly, to poverty alleviation.

Although the idea is so popular and used so widely, it, by no means, conveys an unambiguous or un-ambivalent perception to either ordinary or intelligent minds. This is due to the profit-making idea related to this concept. The concept is founded on the traditional banking idea. Banking is defined as 'financial intermediation' and banks are called 'financial intermediaries' that provide credit and savings services to the public for profits. The microfinance idea is no different from this traditional banking concept except in one respect: While the formal banks serve mainly the big businesses and rich clients in urban and semiurban areas, the microfinance institutions (MFIs) meet financial needs of the rural poor. In other words, besides the clientele difference, MFIs are profit-making commercial ventures just like the formal banking institutions (Remenyi, 2000).

This conceptualisation seems substantially different from the perspectives of the international development theory and policy. Public agencies, both national and international,

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used to support microcredit programs with the understanding that they are operated by non-profit organizations, popularly known as NGOs. If new organizations come forward with the objective of running commercial financial ventures, or the old organizations change their motives, then national and international public agencies need to develop new rationales to support them. This might be the reason that inspired Muhammad Yunus, a foremost pioneer of the microcredit idea, to suggest that microfinance should be treated as a social-consciousness-driven capitalist venture and the owners of these ventures be treated as social entrepreneurs (Yunus, 1998).

Then characterizing MFIs as altruistic (social-consciousness-driven) capitalism creates theoretical problems. The discipline of economics is founded on the premise that human beings are selfish by nature.

This native quality inspires some individuals to accumulate private wealth. Since society is an aggregate of individuals, this private prosperity ultimately leads to public prosperity. The author of this economic theory is none other than Adam Smith himself, who is also famous for his moral theory of 'sympathy', which says that human beings are by nature 'sympathetic' or 'fellow-feeler'. Thus, the ideas of social entrepreneurship and social-consciousness-driven-capitalism might be theoretically weak, which suggest that policies formulated based on this theory may further complicate the third world's (TW) poverty problems instead of than solving them.

The main purpose of this paper is to examine this new rural finance theory, particularly because it has remained virtually unexamined. The paper has been organized as follows. The next section highlights the main differences between microcredit programs and MFIs. Section III discusses the ideas of social entrepreneurship and social consciousness driven capitalism. In section IV, Smith's theories of moral sentiment and of capitalism are discussed to show their conceptual differences. Section V examines the ideas of social entrepreneurship and social consciousness driven capitalism in the light of above discussion and the paper is concluded in Section VI.

II. MICROCREDIT AND MICROFINANCE

The terms, microcredit and microfinance, are often used synonymously in the current development discourse (Morduck, 1999; Ledgerwood, 1999). This practice has apparently created a good deal of confusion and contradiction in intellectual discussions as well as policymaking process, which Yunus (2005) sarcastically notes in his keynote address to an international seminar on 'attacking poverty with microcredit' held in Dhaka: "The word 'microcredit' did not exist before the seventies. Now it has become a buzzword among the development practitioners. In the process, the word has been imputed to mean everything to everybody."

Microcredit programs, which critically depend on private and public financial assistance, are supposed to be run by non-profit organizations. On the contrary, the microfinance

programs are profit-making financial ventures that are meant to be self-financed eventually. Thus, although the operational principles and policies of these small-loan programs are similar, they are fundamentally different with respect to their motives and means of operation. Naturally, confusions are created when these two small-loan programs are treated as synonymous. The following discussion pinpoints both functional and conceptual differences in order to examine the microfinance proposition properly.²

Experimentation with the microcredit idea began in different parts of the TW during the first half of the 1970's. However, the chronology of events shows that the idea became popular after the currently famous Grameen Bank was founded in Bangladesh in the early 1980's. In general, microcredit programs have five key principles that distinguish them from conventional financial institutions (Grameen Bank, 2005a). First, the loan size is small, averaging about US \$100. Second, the primary customers of these loans are the rural poor, women in particular, who have little access to conventional banking facilities. Third, the purpose of these loans is to create income-generating activities in the rural non-formal sectors through self-employment. Fourth, these loans are collateral-free. Finally, the micro lenders have integrated the credit and savings mobilization functions. Unlike the conventional banks, regular savings are a pre-condition for getting loans from the micro financial enterprises.

These features are not supposed to be similar across the microcredit programs, meaning that the operational principles of different microcredit programs might vary slightly. Keeping this point in view, Grameen Bank's basic principles and policies are used to highlight the nature of unique credit delivery system developed by the microcredit programs. The underlying premise of Grameen bank is that, poor women in rural areas can create their own enterprises, however small these might be, if they could access to credit. This will, in turn, help them escape poverty as well as the clutches of usurers and middlemen. Grameen developed this premise to disprove the traditional rural banking postulate that tangible collaterals (land) are needed to secure loans and hence those who cannot provide collaterals are not creditworthy.

Anyway, Grameen's credit delivery system is described as follows (Grameen Bank, 2005b): A bank branch, which covers about 15 to 22 villages, is set up with a branch manager and a number of centre managers. The manager and other bank workers first familiarize themselves with the local milieu and identify prospective clienteles. They then help form groups of five prospective borrowers, of which only two of members receive loans in the first stage. The borrowers are required to repay their loans and make savings on weekly or biweekly instalments.

Each group is observed for a month to see if its members are conforming to the rules of the bank. If the first two borrowers begin to repay the principal plus interest over a period of six weeks, then other members of the group become eligible themselves for loans. This system of credit operation creates substantial group pressure to make the borrowing members

making regular payments of their instalments. In the Grameen system, this peer monitoring, called social collateral, is used as the loan security.

This practice of meeting the poor's credit needs through private people is older than the recorded history. In prehistoric times, credit probably existed before the development of common measures of value or mediums of credit, while in historical times, credit preceded the coining of money by over two thousand years (Homer and Sylla, 1991). In our time, different kinds of informal creditor, including money lenders, mainly met the poor's credit needs before the international donor community helped the TW governments to intervene in the rural credit market.

There are, however, several features of the current microcredit movement that make them decidedly different from the traditional informal credit agencies. First, the microcredit movement is an NGO approach to poverty-alleviation. The current NGOs have their origin in the non-profit value-based voluntary organizations, which have been working throughout the world, particularly in the West, for centuries (Hall, 1987; Korten, 1987). This means that, like the traditional informal credit agencies, the NGOs do not have the profit motives. Second, there are charity organizations, which also help the poor with small loans under the assumption that their poverty was due to 'personal failings' (Robson, 1997). The current NGO approach is different from the personal failing theory in that it believes poverty is created through social processes by depriving the poor from their rightful access to social resources. One of these social resources is credit, which the microcredit leaders treat as a kind of human right. Finally, the microcredit leaders believe that they can inspire social and economic revolutions in the TW through organizing the poor under the banner of the Grameen type microcredit organizations.

The tremendous success of the microcredit programs in outreaching the poor, particularly the poor women, and recovering outstanding loans (95 per cent), soon attracted donors' attention. In this regard, the most significant event is the Microcredit Summit of 1997, which gathered 2900 delegates from 137 countries representing 1500 organizations from all over the globe in Washington DC (Microcredit Summit, 2005). This popularity, in turn, led the transformation of the microcredit idea into another similar conception called, microfinance.

Microfinance is defined as a development approach that provides financial as well as social intermediation (Ledgerwood, 1999; Robinson, 2002). The financial intermediation includes the provision of savings, credit and insurance services, while social intermediation involves organizing citizens' groups to voice their aspirations and concerns for consideration by policy makers, development of self-confidence etc. These services are provided by three types of lender: formal institutions, such as rural banks and cooperatives; semiformal institutions, such as nongovernmental organizations; and informal sources such as moneylenders and shopkeepers. Institutional microfinance includes microfinance services provided by both formal and semiformal institutions called Microfinance Institutions (Asian Development Bank, 2005).

Apparently, the basic functional difference between microcredit and microfinance programs concerns the type of services provided. As indicated earlier, microcredit programs, such as Grameen Bank, provide mainly one kind of service- loan distribution and recovery that are inseparably attached with group formation and compulsory savings mobilization. Microfinance programs, on the other hand, provide all kinds of financial service, including microcredit. Thus, microcredit is just one, albeit the most important, element of the current microfinance movement. To paraphrase the popular methodological maxim of economics, microcredit is a necessary, but not the sufficient, element of the new financial sector that is emerging to cater to the credit needs of the poor who do not have access to formal sources.

Thus, from the functional point of view, the difference between microcredit and microfinance ideas seems quite clear. And their historical developments suggest that microfinance revolution is a transformation of the microcredit revolution that started in the mid 1970's. This is perhaps the reason the two ideas are often used synonymously; or the two programs are examined under the same heading (Morduck, 1999; Ledgerwood, 1999). The authors, using these terms interchangeably, are probably aware of this functional difference, for they describe the differences between the two ideas as mere semantic.

This benign view, however, cannot be maintained long if one critically looks at the supply side of microfinance programs. The issue has become so critical in the development discourse that Yunus (2005) took particular note of it in illuminating the future issues of microcredit movement: "The point is that every time we use the word 'microcredit' we should make it clear which type (or cluster of types) of microcredit we are talking about. Otherwise we'll continue to create endless confusion in our discussion ... I am arguing that we must discontinue using the term 'microcredit' or 'microfinance' without identifying its category."

Yunus identifies nine categories of microcredit/microfinance providers: (i) traditional informal microcredit- moneylenders, pawn shops, friends and relatives, consumer credit in informal market, etc., (ii) microcredit based on traditional informal groups- ton tin, su su, ROSCA, etc., (iii) activity-based microcredit through conventional or specialised banks agricultural credit, livestock credit, fisheries credit, handloom credit, etc., (iv) rural credit through specialised banks, (v) cooperative microcredit- cooperative credit, credit union, savings and loan associations, savings banks, etc., (vi) consumer microcredit., (vii) bank-NGO partnership based microcredit, (viii), Grameen type microcredit or Grameencredit (ix) other types of NGO microcredit, and (x) other types of non-NGO non-collateralised microcredit.

This categorization shows the extent of heterogeneity in the motives of micro lenders supplying loans to the poor. For example, microcredit NGOs and moneylenders should not be treated in the same manner concerning their lending activities. This is particularly so, because the NGO approach arose as a remedy to help those who do not have adequate access to institutional credit and for that reason are exploited by informal lenders. Thus, besides

functional differences, conceptual differences between the two small loan ideas need to be considered seriously in order to evaluate their effects on poverty alleviation in the TW.

Few studies, however, discuss the microfinance revolution from the above conceptual perspective. Remenyi and Quinones Jr. (2000) seems to be only writers who make clear conceptual distinction between microcredit and microfinance ideas in their edited volume, *Microfinance and Poverty Alleviation- Case Studies from Asia and the Pacific*. This book takes the traditional banking view for defining microfinance. Banking, defined as financial intermediation, involves bringing together 'the independent acts of savers and borrowers to facilitate one another's goals'. Microfinance is no different from this traditional banking concept except that the market for microfinance consists primarily of poor people in rural areas of TW countries who need credit for pursuing small enterprises in the informal sector. The microfinance entrepreneurs are usual business people, who meet this demand with normal profit motive. This also means that they are supposed to be self-financed eventually: "Subsidized credit and subsidized banking with the poor are inimical to 'best practice in microfinance (Remenyi, 2000, p. 27)."

Clearly then, there are two fundamental conceptual differences between microcredit and microfinance ideas. The first is profit-motive. By definition, microcredit programs are NGOs, meaning that they cannot run their operations with the objective of making profits. The microfinance, on the other hand, is a profit-making private venture. The second fundamental conceptual difference concerns the means of financing micro lending operations. Microcredit programs, being non-profit organizations, depend upon external finance, but microfinance programs must eventually become self-financed, because they are profit-making ventures. For example, moneylenders use their own money to do their business; they do not approach either national or international donor agencies for investment funds. And national and international agencies cannot help them pursue their lending ventures for obvious reasons.

III. NEOCLASSICAL ECONOMICS, SOCIAL ENTREPRENEURSHIP AND SOCIAL-CONSCIOUSNESS-DRIVEN CAPITALISM

Thus, MFIs are profit-making financial ventures like any other private financial agencies. The main feature that distinguishes them from the like agencies is that the MFIs are meant to meet the financial needs of the unfortunate section of society- the poor women in the rural areas. This noble longing no way conflicts with the normal financial rules, under which private people operate business ventures, i.e., operating business activities with resources collected from private sources. However, conflict is created in the case of MFIs, because they demand financial supports, at least at the initial stages of their operations, from the public, both national and international, as well as non-public agencies. Since this kind of help is normally meant for the nonprofits, new and additional socio-economic justifications are required for extending this assistance to private profit-making business ventures. Two varieties of such justifications are found in the literature. The first one comes from Joe Remenyi(2000), who invokes the infant-industry argument to justify subsidizing the operations of MFIs (for details,

see (Elahi and Rahman, forthcoming). Mohammad Yunus is the author of the second class, who rationalizes the creation of the MFIs in the TW from economic and political perspectives. This paper examines Yunus' thesis, beginning with a brief history of the paradigm shift in international development discourse.

Paradigm Shift in International Development Policy

The development policies for the TW countries have changed dramatically over the past two decades. These changes, described as a paradigm shift in the approaches to international aid and loan distribution, are respectively called, the 'top-down' and 'bottom-up' approaches.

The development paradigm, which the bilateral and multilateral agencies undertook after WWII, is called the top-down approach. In this approach, the major thrust was given on channelling large amounts of aid and technical assistance from the North to the South accompanied by good national planning articulated primarily by the international aid agencies (Harcourt 1997). This development agenda, often described as the Marshall Plan for the South, was founded on the Keynesian economic theory. It was believed that if the underdeveloped countries were given enough resources along with Western scientific and technological expertise, the South would eventually catch up to the North and in the process, poverty and social injustice would disappear.

The basic ingredients of this Marshall Plan for the South were (i) supplying agricultural inputs, (ii) providing credit for rural and industrial development, (iii) creating agricultural research facilities and (iv) developing physical and social infrastructures. As the market forces were not developed enough to supply these critical development inputs, the central focus of the assistance policy was to create para-statal agencies to serve the purpose. These para-statal organizations were (i) agricultural development corporations for supplying agricultural inputs- seeds, fertilizers and irrigation equipment, (ii) agricultural and industrial development banks for supplying agricultural and industrial credits, (iii) integrated rural development programs as special projects for providing financial and extension services to the rural people and (iv) agricultural research institutes for developing new varieties and studying agriculture-related problems.

This development agenda was pursued until the 1980's. However, many development practitioners noticed, as early as the end of 1950's, that the objectives of international assistance were being frustrated (Rehnema, 1992). Much of the blame for this failure was attributed to the perception that the people, supposed to be benefited from the development projects, were not included in the process of designing, formulating and implementing these projects. With this understanding, suggestions were made to change the prevailing donor-sponsored development approach to more participatory methods of interaction as an essential dimension of development.

International donors accepted the idea at the beginning of 1970's by recognizing that a structural crisis has been created in the TW, because billions of dollars invested in

development projects had fallen in wrong hands. This realization was brought to the centre stage of policymaking in international development by Robert McNamara, the then president of the World Bank through his address to the Board of Governors in 1973. McNamara told his audience that no program would help small farmers if people who had little knowledge of their problems designed it and is operated by those who had little interests in their future. This current participatory program is called the 'bottom-up' approach to the TW world poverty alleviation.

Neoclassical Economics and Poverty

Naturally, the original theories and policies of the TW development- the top-down' approach- were subjected to substantial criticism. One of these criticisms concerns the relevance of neoclassical economics in addressing the TW's poverty problems. It is argued that neoclassical theories are responsible for creating these problems, because they influence the shaping of interrelations among individuals, nations and institutions, and day-to-day activities of all people (Yunus, 1998). "Economics text-books create the mindsets, mindsets create the world. I think economics has mistreated this world. It got us into a lot of troubles and many human tragedies. For one thing seeds of poverty are planted firmly in the pages of economics text-books (p. 1)."

The reason for this devastating effect on TW development is that the neoclassical economics basically investigates the causes of the wealth of nations, not the causes of poverty. Since concepts, institutions, legislations and political programs are created by these theories, they cannot address the TW's poverty issues. Economics, Yunus says, makes three fundamental assumptions that are responsible for creating the mindset which disfavours the poor: (a) credit is a neutral tool, (b) entrepreneurs are select groups of people, and (c) capitalism only concerns profit maximization. Yunus describes these assumptions as the three basic fallacies of neoclassical economics.

Neutrality of Credit: Economic theory, Yunus says, regards credit as a 'lubricant' that stimulates commerce, trade and industry. In this sense, credit is a neutral economic instrument. This perception, however, misses the fundamental fact that credit creates entitlement to resources, which, in turn, creates economic power and mobilizes social power. Thus, the policies about who should have access to this powerful resource, how much and on what terms, are critically important social issues. Banks being the custodians of this social resource, wield substantial powers over the creation of poverty as well as progress in society. They normally deny the poor access to their resources on the ground that they cannot supply tangible assets to guarantee their loans, i.e., they are not creditworthy.

Collateral is a very critical ingredient in the credit business. The conventional bankers generally recognize only one type of collateral that refers to some kind of tangible asset. This literally means that the poor people are not entitled to access to their services. However, years of experience and experimentation have proved that another kind of collateral, popularly

known as peer-monitoring or social collateral, can ensure far better recovery rate than that of the traditional system. Although the microcredit NGOs have proved that this social collateral is indeed an effective mechanism for both distributing credit and mobilizing savings from the poor, the conventional bankers still refuse to accept this effective social collateral, mainly because of their neoclassical economic training.

Entrepreneurs in Neoclassical Theory: The neoclassical production theory has four conventional factors of production- land, labour, capital and organization or entrepreneurship. Land is normally assumed a fixed factor, because its supply is exogenously given. Therefore, the normal production function shows optimal combinations of labour and capital that an entrepreneur makes to maximize output or profit. Evidently, this conceptualisation divides human beings into two categories as they relate to production in the capitalist economy: Entrepreneurs, who constitute a specially gifted group of people, organize production and all other human beings act as labourers earning wage for their contribution in the production process. Therefore, the neoclassical production function rules out the possibility of selfemployment of masses as another source entrepreneurship.

This conceptualisation of production in neoclassical economics is greatly at variance with the socio-economic realities of TW, because the overwhelming majority of masses of these countries make their living through small-scale self-employment. In a sense, neoclassical economic theory is responsible for the production of poverty in the TW, because it slowly erodes the creativity of average persons to become self-employed entrepreneurs.

Profit-Maximization in Capitalism: Adam Smith is generally recognized as the main architect of the theory of capitalism. He articulated the theory by combining the fundamental attribute of human nature with an economic system that is capable of maximizing social welfare. Human beings are assumed selfish by nature. Accordingly, if these self-seeking individuals are allowed to pursue their economic dreams, they will employ their material and mental resources to the most efficient uses. This will make both individuals and society rich, because the wealth of society is simply the sum-total of individual wealth. The propensity that inspires individuals to work hard to become wealthy is often implied with the following quote from Smith: "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their self-interests; we address ourselves not to their humanity but to their self-love and never talk to them of our own necessities but of their advantages (Smith, 1937: 26-27)."

In modern economic language, this production phenomenon is described by the phrase profit-maximization. Individuals interested in business are naturally motivated by the principle of profit-maximization with little considerations to the interests of their clients. Yunus disagrees with this principle of production of capitalism, because it portrays an entrepreneur as one who ensures financial return, ignoring any social dimensions or returns.

Social Entrepreneurship and Social Consciousness Driven Capitalism

The neoclassical economics has three basic difficulties in addressing the TW's poverty problems. Because of the mindset created, formal credit institutions considers only the rich clients as true entrepreneurs and refuses to recognize the importance of social collateral in giving credit to the poor. Then, the theory is only half true, because it is built upon the assumption that individuals pursue businesses inspired only by their selfish profit motives.

One solution to this problem is to treat owners of MFIs as social entrepreneurs (Yunus 1998). This theory argues that a species of profit-making private venture can be conceived that cares about the welfare of its customers. In other words, it is possible to develop capitalist enterprises that maximize private profits subject to the fair interests of their customers.

The rationale of the theory is like this: The current neoclassical production theory is incomplete, because it is founded on the assumption that individuals pursue businesses motivated only by the principle of profit-maximization. This cannot be a general model of capitalism, because it excludes individuals who are concerned about the welfare of their fellow human beings. A more generalized principle is one that assumes that an entrepreneur maximizes a bundle consisting of two rates of return: financial return (or profit) and social return. This assumption creates three groups of entrepreneurs (Elahi and Danopoulos 2004a). The first group consists of traditional capitalists who mainly maximize financial returns (or profits). Second, philanthropic organizations, like traditional microcredit NGOs, and public credit agencies, maximize mainly social returns. The third group consists of entrepreneurs who combine both rates in making their investment decision under an additional constraint that financial return cannot be negative. This group includes the microfinance enterprisers, who are to be treated as socially concerned people, and microfinance, which is to be treated as a social consciousness-driven capitalistic enterprise.

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

IV. ADAM SMITH'S MORAL AND ECONOMIC THEORIES

Microfinance, thus, appears as the part of a mega project that proposes to add a new chapter in the theory of capitalism by changing its foundational assumption about the human nature. Interestingly, both assumptions have been made on the basis of Smith's moral and economic theories, articulated respectively in *The Theory of Moral Sentiments* and *All Inquiry into the Nature and Causes of Wealth of Nation*. Therefore, theoretical soundness of Yunus' proposition can be better appreciated by reviewing Smith's moral and economic theories.

As noted above, the human selfishness is the prime mover of the creation of private wealth and hence, the main source of continued prosperity of any society. Although this moral maxim is the foundation of capitalism, the *Wealth of Nation* says little about it. Smith's moral theory is articulated in the *Moral Sentiments*, published seventeen years before the *Wealth of Nations*. The *Moral Sentiments* is an inquiry into moral psychology; its main concern is the nature of moral judgment (Raphael, 1985; Sprague, 1967). According to Smith, the original source of moral judgment lies in the conception of sympathy. No matter how selfish the human beings are, there are some principles in their nature that interest them in others' fortunes, although they may derive nothing from it except the pleasure of seeing it. These principles in human nature include such qualities as compassion and emotion, which we feel for the misery of others, when we either see it, or are made to conceive it in a very lively manner. "That we often derive sorrow from the sorrow of others is a matter of fact too obvious to require any instances to prove it; for this sentiment, like all other original passions of human nature, is by no means confined to be virtuous and humane, though they perhaps may feel it with the most exquisite sensibility. The greatest ruffian, the most hardened violators of the laws of society, is not all together without it" (Smith, 2002: 11).

This idea was an attack on the ethical theories of Thomas Hobbes and Bernard Mandeville and an indication of the central idea of his work on moral philosophy (Weinstein, 2001). In *The Leviathan*, Hobbes paints a very negative picture of human nature. He sees human life just as motion of limbs. The human heart is simply a spring; nerves are nothing but a complex system of strings; and joints are just wheels which give motion to the who al condition of war of every human being against every other in society. In this situation, the notions of right and wrong, and justice and injustice have little meaning. Where there is no common power, there is no law; and without law, there is no injustice. Force and fraud are two cardinal virtues in war. Consequently, reason, which basically means prudence of self-preservation, dictates that human beings must submit themselves under the care of civil authority through a voluntary social contract. In other words, the foundation of Hobbes' political theory is his conception of human nature: by virtue of their natural constitution, human beings are propelled only by self-interest.

Mandeville gives similar description of human nature in his book *The Fable of the Bees*. He believes the production of necessities does not lead to national prosperity. To get his point across, Mandeville goes to the extreme, stating that the encouragement of vice benefits

society as a whole. Envy, vanity and other sentiments result in excessive spending, which in turn bring employment and wealth. Even crime keeps locksmiths and police employed (Weinstein, 2001).

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

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

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

V. SOCIAL-CONSCIOUSNESS-DRIVEN CAPITALISM- THEORETICAL OBSERVATIONS

The point that appears rather intuitive from the above discussion is that the microfinance proposition, at the minimum, is highly controversial, because it is founded upon controversial and contentious premises. This in turn calls into question the merit of the microfinance project to bring about sweeping changes in the TW development policy.³

The economic discipline is founded on a general maxim: the human selfishness is capitalism's prime mover, which suggests that this general maxim is a serious criticism of microfinance as an idea of social consciousness driven capitalism. Besides this weakness of the microfinance theory's metaphysical premise, there are certain practical implications that need critical consideration. This is particularly so because the current microfinance revolution

is founded on a very serious accusation: conventional banks in TW countries are prejudiced against the poor, specially the poor women (Yunus, 1996; Remenyi, 2000). The microfinance proponents argue that the poor people, particularly the women, possess different kinds of skills that they can use for generating income through self-employment. The ability to create self-employment, however, depends critically upon their access to credit facilities. Unfortunately, conventional banking policy, being uncomfortable with this idea, severely restricts poor people's access to formal financial institutions. This banking policy produces two socially undesirable consequences: First, it deprives many poor people their right of making a living through self-employment. Second, it forces them to borrow money from informal lenders at exorbitant rates of interest. Together, these two consequences contribute to the perpetuation of poverty in TW countries. More specifically, the formal financial sector in TW countries is a contributor to pervasive poverty problem.

When this accusation is combined with the theory of social consciousness driven capitalism, some very curious points emerge. First, it is not clear how these social consciousness driven entrepreneurs are to be identified, although national and international public authorities are supposed to supply funds for helping them start their businesses. This point is critically important for designing international development policies. In addition, the idea is value sensitive. Those who pursue economic and/or financial enterprises for profits are being characterized as having little social consideration- a proposition that is inconsistent with capitalism. If capitalism does not serve social purposes, then it cannot be the economic system of democracy, currently considered the most promising political theory of civil society. Finally, the proposition seems unfair to individuals serving, or intend to serve, the private banking sector in the TW. Suppose, after graduating from college, a young woman chooses to pursue a banking career. Very luckily, she gets two lucrative offers, one from a commercial bank and the other from a microfinance firm. If she accepts the offer from the microfinance firm, she will be lauded as a socially concerned person. If she chooses otherwise, she will be seen as having little social consideration. Yet, both are private undertakings and have profit making as their ultimate motive.

VI. SUMMARY AND CONCLUSIONS

The microfinance literature accuses the neoclassical production theory as inadequate to address the TW's pervasive poverty problems, because it mainly investigates the 'causes of the wealth of nations, not the causes of poverty'. Since concepts, institutions, legislations and public policies are developed based on this theory, it creates mindsets that disfavour the poor. In particular, the neoclassical production theory is founded upon three economic fallacies: (a) credit is a neutral economic tool, (b) entrepreneurs constitute a specially gifted group of people and (c) capitalism concerns exclusively of profit maximization. Because of these controversial premises, the neoclassical production theory provides only half-truth about the reality of production function in a capitalist economy, particular the TW. There are individuals in society who would like to undertake production activities with due

considerations of the welfare of their customers. In other words, it seems perfectly possible to develop capitalist enterprises that would maximize private profits subject to the fair interests of their consumers. More specifically, social entrepreneurs and social-consciousness-driven capitalism are the new ideas that should guide the formulation of both theory and policy for the reduction of poverty in the TW countries.

The fundamental objective of this paper was to critically examine this proposition. It concludes that the very idea of social entrepreneurship is critically controversial: Whether capitalist production function can be developed based on the 'fellow feeling' feature of humankind, is being debated in economic literature shortly after Adam Smith published his books on moral and economic theories. Beside this theoretical controversy, there are practical issues involved in formulating development policies based on this proposition. Unlike theory, which is basically concerned with explaining and predicting relations among ideas or variables, policy refers to actions to be undertaken to achieve certain objectives. Since the international donor community is supposed to supply funds for the development of the microfinance institutions, it must know how to distinguish between social entrepreneurs and non-social entrepreneurs. Yet, the proponents of social entrepreneurship in capitalism suggest no theoretical or practical mechanism by which two groups can be distinguished with some degree of objectivity. Consequently, there are reasons to apprehend that, instead of solving the TW's pervasive poverty problems, the promotion of microfinance institutions might further complicate them.

Foot Notes :

1. One of the referees has correctly pointed out that Yunus merely replicated the idea of microcredit that was being experimented in different parts of Africa and Asia. This is certainly true, yet credit of any discovery, whether scientific or social, goes to one who furnishes the ultimate or main leadership. In the case of microcredit movement, few people challenge the truth that Professor Yunus' untiring efforts, and charismatic leadership quality, have helped earn the worldwide recognition of this small credit idea.
2. The referee argues, "Microcredit programs can be run by profit seeking organizations like commercial banks or by private profit making organizations like moneylenders. On the other hand, microfinance programs are usually run by NGOs- non-profit organizations." Two points may be made about this argument. First, the referee apparently argues that micro financing, which simply signifies the provision of several financial services, including credit, to the poor, is an exclusive area of expertise of the nonprofits. This seems an exaggeration of the role NGOs are playing around the TW including Bangladesh (See the discussion in Section 2 and Elahi and Rahman, forthcoming.) For, private commercial ventures can easily operate this kind of financial venture if found profitable. Second, the economic analysis of profit-making motive ordinarily refers to private organizations. In the communist state, public agencies run profit-making economic ventures. Then in the non-communist state, many public and non-public organizations operate commercial enterprises, which does not make them profitmaking ventures in the way the term is understood. The critical question about profit making concerns the ultimate beneficiary of the extra revenues earned from the business ventures. Public agencies are usually applauded if they make profits, because these profits can be used for social-welfare augmenting activities. The same is not normally said about private organizations.

3. The reviewer makes a very interesting observation that relates to capitalism's social role: 'Pure capitalism' cannot serve social purposes- only a blending of capitalism with certain socialist/welfarist concepts can serve social purposes- that can justify microfinance'. This observation, which essentially echoes Yunus' argument of social-consciousness-driven capitalism, misses two critical facts. First, microfinance is a public policy issue, which is basically the activity of government. Since government is a political organization, public policies necessarily involve political issues and therefore, must be judged from political perspective. This truth, in turn, demands distinguishing between political and economic systems. Capitalism and socialism are economic systems of respectively the communist and non-communist systems of government (for details, see Elahi and Danopoulos 2004b, 2004c). Since the non-communist political system permits the possession and promotion of private property, its economic system, of which capitalism is the last phase, thrives on the materialization of individuals' selfish economic motives. Therefore, attaching negative attitude to the functioning of capitalism, as the reviewer has done, seems unjustified. Capitalism is failing to accomplish its social objective, because the political authority is failing to perform its responsibility. Thus, the solution of the TW's pervasive poverty problem subsists, not in manipulating their economic systems, but in reforming their political authorities. Second, it seems rather important to look closely at the personal and professional profiles of the people leading the civil society around the TW. In Bangladesh, for example, individuals who had been successful in either statal and/or parastatal organizations are currently leading the civil society. This naturally begs a serious question: How are these people going to improve the welfare of the state, including the fate of the poor people, when they could do little in carrying out their responsibilities while in the statal or parastatal organizations? One might also look at the salary structure of the civil society organizations to understand why people become so benevolent or social entrepreneurs.

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