

Bridging Social Gaps: A Theoretical- Conceptual Approach to Local Development and Microfinance

Patricia I. Garcia^{1*}, Rolf Jergman²

1The City University of New York, Kingsborough, USA

2University of Sfax, Tunisia

** Corresponding author: serchre43an@gmail.com*

Abstract

The phenomenon of poverty as a public problem invites us to reflect more and more on the responsibility that the State has towards its citizens . The objective of this article is to explore the different theoretical approaches to the notions of local development and microfinance in order to establish them as tools for addressing the socioeconomic needs of people with limited resources . Thus, in this work we start from the hypothesis that local development and microfinance are , in fact , fundamental instruments for responding to social needs , as causes of poverty . In reality , outside of official banking and informal lenders , microfinance institutions have revolutionized the financing of economic and social development , especially in Asia , Africa and Latin America . Through an analytical review of the literature , we come to the conclusion that the rationalization of microfinance is a conceptual operation of utmost importance ,

Keywords : poverty; needs; local development ; microfinance; microcredit; public problem.

Introduction

Today, several states are involved in two important processes, among others: in the economic sphere, they are immersed in a continuous process of integration into the international economy; in the political and social sphere, they are experiencing a process of deepening of the political system (democracy, in general). However, both processes are complex and are often characterized by the neglect of “the local”. These transitions are central aspects that influence the socio-economic policies of these states, as well as the living conditions of citizens whose real needs are being relegated to the third or last plane. This situation has undoubtedly generated permanent processes of impoverishment of many people and communities.

On the one hand, research on social needs has led to different approaches, generating countless definitions of this phenomenon. In fact, due to its fundamentally dynamic nature, the study of needs has become the object of controversy, ambiguity and confusion, resulting in the unscientific impression that the word or phenomenon of needs is self-evident and there is no need to reflect further on its essence, meaning and manifestations. We consider, on the other hand, that it is important to take the complexity of the concept of need not as a limitation, but as a value or a positive corollary of a permanent adaptation to the realities described or analyzed, because it refers to the interconnection of multiple sociopolitical, cultural and economic factors.

On the other hand, both local development and microfinance must be understood in their multiple dimensions: economic, social, environmental, political, cultural and institutional. In this sense, both realities could serve as strategies to combat poverty, generated by the needs of individuals. In effect, poverty is not only the existence of unsatisfied basic needs or reduced economic income; it is also the lack of equitable access to the assets and opportunities offered by society (Becker, 1995). This argument allows us to consider needs as a category capable of generating poverty and social marginalization. Therefore, when reflecting on some strategies.

To combat poverty, we have come up with a theoretically functional method, namely local

development , the potential of which can be achieved through microfinance .

The objective of this article is precisely to explore the different theoretical approaches to the notions of local development and microfinance in order to establish them as tools for addressing the socioeconomic needs of people with limited resources . It is worth highlighting its theoretical - conceptual character , based on an analytical review of the literature. In this sense, we consider needs as a source of poverty that, in order to be addressed by the authorities, must be included in the government agenda as a “public problem”; once included in said agenda, public policies must be implemented to address it . This methodological approach is based on the conviction that the vision of decision - makers in governments regarding social needs and their consequences has been short and fragmented.

Local development and microfinance are fundamental tools for addressing the socioeconomic needs of individuals and therefore both realities are conceived as tools for enhancing endogenous capacities . However, in many cases governments, with approximate development philosophies and incongruent decision - making strategies, tend to get lost in the complex, broad and turbulent scope of the economic segments, which mitigates their potential as means of addressing the real needs of individuals and , therefore , catalysts of local development .

In reality, actions aimed at recovering the potential of disadvantaged citizens (the poor and marginalized) must be based on the constant search for balance between the imperatives of public policies and social objectives , with a view to obtaining a shared vision of the values and principles that shape society . This perspective allows, on the one hand, to break with a welfare -paternalistic approach to development without comprehensive results for human development and, on the other, to establish a concrete basis for channeling efforts aimed at harmonizing economic and social development so that “ new ways of doing things ” emerge .

Needs as a source of poverty. Complexity between needs and their satisfiers from the systemic approach of Parsons and Hopenhayn. The concept of “needs” generally refers to

certain types of problems faced by an individual or group of people. According to Feinberg (1973), “in general terms, it can be said that if s needs x it is because he would be harmed if he did not have it .” That is why , in this article, when we talk about “needs” we refer to “social needs”, defined as “needs that are not social, that is , needs ...defined as a series of common requirements shared by a population. For Durkheim (1982), for example, society has among its attributes the ability to define its own needs and, consequently, the social needs derived from consumption practices and the moral demands required for the functioning of society must find a legitimate source of regulation .

This approach makes it clear that society in general and the people who make it up are subject to a wide range of needs; some are very obvious and easily recognizable (food, rest, breathing, drinking), but others are more difficult to identify (self-esteem, personal fulfillment, etc.). The conceptualization of needs has a marked relevance for the formulation of public policies and the design of other social protection systems and subsystems. This implies that the validity and relevance of a public policy depends on the government's philosophy about the needs of people. Due to its relevance, numerous investigations from different disciplines and paradigms have been dedicated to conceptualizing and systematizing a typology of needs, without the boundary between theoretical positions is clear . What is significant is that much of the theoretical - conceptual debate on needs has focused on universal dilemmas .

zation/relativization and subjectivity/objectivity of needs . Beyond these dilemmas, social needs generally arise from people's real deficiencies , due to the desire to raise their standard of living. The study of the satisfaction of human needs has given rise to different theories, such as Maslow's psychosociological approach , Galtung and Wirak's theory of needs development, Bradshaw 's value approach , Ander-Egg 's social theory , Agnes Heller's ontological approach , Doyal and Gough 's universalism , and Parsons and Hopenhayn 's systemic paradigm . Likewise , one of the goals of governments , at all levels - at least at a discursive level - is precisely to foster the conditions for individuals to satisfy their needs. In this framework, we are interested

in resuming the systemic perspective of social needs.

Needs as a complex system

The systemic perspective of needs is based on the hypothesis that every social system has four functional imperatives that must be satisfied for the system to survive: economic needs, political needs, motivational needs, and integration needs. This approach is crystallized in the characterization of the needs/satisfaction binomial. Starting from the assumption that needs are both lack and potential, Parsons summarizes the dialogical relationship established between needs and their satisfaction with the following axiom: depending on how human needs are defined, both the form and the type of satisfaction vary.

content of the policies promoted to satisfy them (Abercombrie, 1986: 156). Parsons considers that each economic and sociopolitical system adopts different styles to satisfy human needs. In each system, these are satisfied (or not) through the generation (or not) of different types of satisfiers. In this sense, one of the aspects that defines any system is its choice of satisfiers.

From this perspective, the needs not met by rational mechanisms of a system must, in a desirable situation, be met through the action of a certain public institution responsible for channeling certain resources to provide the knowledge, infrastructure and administration relevant to resolving, to the extent of available resources, people's deficiencies.

Unlike traditional linear approaches (Maslow's psychosociological approach, Galtung and Wirak's developmental theory, Bradshaw's value approach, Ander-Egg's social theory, Agnes Heller's ontological approach, Doyal and Gough's universalism, etc.), Parsons (1951) does not adopt a sequence of needs that are satisfied over time. His systemic approach is based on the premise that human needs, depending on how they are satisfied - or frustrated - have specific ways of influencing each other, which is why it is not scientifically necessary to formulate a long taxonomy of needs considered fundamental (the case of Maslow).

This means that the complexity of the phenomenon of needs prevents the adoption of a linear perspective for their satisfaction, that is, it is not a question of first resolving the subsistence (basic) needs and, once these have been overcome, thinking about higher needs. Rather, it is a question of thinking about how these different needs can reinforce each other to avoid producing a mutually exclusive effect. This is transcendental if one starts from the consideration that needs are , at the same time , homogeneous , heterogeneous , of different kinds, whose satisfaction is indispensable for development, both personal and social.

This vision of Parsons evokes to a certain extent the systemic approach of Edgar Morin, who states that: “Every system is one and multiple [...] its diversity is necessary for its unity and its unity is necessary for its diversity” (Morin, 1994 : 53). By considering needs as a complex system , Parsons distances us from relativizing them. In effect, it is not a matter of opposing or differentiating some needs from others but, on the contrary, of optimizing the way of facing them by means of the potentialization of satisfiers. Consequently, the quality of the satisfiers depends not only on the degree to which they satisfy certain deficiencies, but especially on the systemic effect they provide, that is, on how they simultaneously (or consequently) affect various needs.

Hopenhayn and the systematization of satisfiers

Hopenhayn (2003) explains Parsons' complex perspective in a more illustrative way , arbitrarily taking a group of traditionally recognized needs, such as subsistence, protection, affection, participation, knowledge, creativity, identity and freedom . The ways of satisfying these needs include goods, services, institutions, values , public policies , forms of organization and attitudes, among others. For each of these ways, Hopenhayn selects a group of satisfiers: food would be a satisfier of the need for subsistence; housing would be a satisfier of both subsistence and protection and can also be a satisfier of identity and affection ; health , of subsistence and protection ; a democratic political model can be a satisfier of the need for participation and freedom ; an equitable economic model would be a satisfier of needs such as protection and participation ; education is a satisfier of the

need for knowledge , but it can also be a satisfier of the needs for creativity and identity ;

The family is a satisfier of needs such as protection , affection and identity .

In this same vein, three different types of satisfiers are considered, depending on the systemic effect they produce on the set of needs considered (subsistence, protection, affection, creativity, participation, knowledge, identity and freedom). These are inhibitory, singular and synergistic satisfiers.

Inhibitory satisfiers are those that, by the way in which they resolve a certain need, obstruct the possibility of satisfying others. In this case, for example, the repressive State pretends to be a satisfier of the need for protection, but denies the satisfaction of needs such as freedom , participation and identity .

Singular satisfiers are those that aim to satisfy a single need and do not necessarily have a positive or negative impact on the satisfaction of other needs. For example, food supply programs that solve a pressing subsistence problem , just as voting responds to the need for citizen participation in political life.

Synergistic satisfiers are those that, by the way they serve a certain need, stimulate and contribute to the simultaneous satisfaction of others. For example, breastfeeding , which by solving a subsistence need, stimulates protection and affection ; as well as self - managed productive forms , which aim at subsistence, but at the same time can stimulate the development of knowledge, participation , creativity and identity .

From this systemic perspective, the key question that Hopenhayn raises about a development aimed at optimizing the satisfaction of multiple needs is : What modifications of institutional criteria and public policies are appropriate to minimize the inhibiting satisfiers and maximize the synergistic ones , based on available resources, existing structural limitations and untapped potential ?

To find an answer to this question, it is necessary to conceive of needs as a complex system and to think about the type of resources related to the ways in which different actors with their own identity are inserted, interrelate and interact in the functional dynamics of sociopolitical and economic systems. This requires prioritizing the allocation

and social redistribution of resources, the real and effective articulation of the different actors in decision-making and productive organizations (formal and informal) in the process of multidimensional development of society ; this undoubtedly results in a very diverse range of social expectations. In reality, regardless of the paradigm with which they are conceived, needs are a source of problems both for the people who have them , as well as for the subsystem in charge of regulating the functional dynamics of society (the government) .

Ultimately , the definition of a “need” is determined by the relationship between specific problems and possible responses or solutions. Therefore, Spicker’s (1993) statement: “needs are an essential source of people’s poverty” is supported by the following:all its foundation. The intensification of basic needs leads to a level of poverty that is related to the inability to generate resources for subsistence. The dynamic nature of needs alludes to the fact that the phenomenon of poverty is reinvented , reconstituted and constantly evolving, due to the multidimensional changes that occur in societies. Likewise, a relevant aspect that we are interested in exploring is the link or relationship between social needs and local development .

Local development : a challenge for modern economies

Some generic aspects of local development

The notion of local development is fraught with ambiguities, controversies, inaccuracies and difficulties in definition, which is why its approach requires a critical reading of the dominant paradigms in the academic and sociopolitical spheres. In general, reflections on local development tend to emphasize the anthro-sociological dimensions that exist between local actors. To this argument , Arocena (1995) criticizes the tendency to think of local development as something separate, without contact with the regional, national or global. To understand the challenges facing local development , it is necessary to incorporate into the analysis several indicators that cover, among others, forms of public management, social capital, associative efforts, cooperative economic relations and productive networks , poverty , backwardness and social marginalization

(Arocena , 1997). In the context of this article, when we talk about local development we refer to the identification and use of endogenous resources and potentialities that can serve as a tool to meet social needs. These potentialities can be of individual , family, or community origin (neighborhood or city). It is a series of potentialities that each locality has with respect to economic, non-economic, social, cultural, historical, institutional, and other factors . That is, all the decisive factors that militate in favor of local economic development ; here it is a process of transformation of the economy and society to satisfy their needs, overcoming existing difficulties and challenges. In accordance with this argument, local development is established as a tool to improve the living conditions of the population , through concerted action between the different socioeconomic , public and private agents , tending to use existing endogenous resources in a more efficient and sustainable way (Pike, Rodríguez-Pose and Tomaney, 2006). This process occurs through the use of the entrepreneurial capacities of the actors involved in this dynamic, which can lead to the gradual mitigation of individual deficiencies. This approach also considers the importance of social capital and cooperation links with external agents to enhance human , technical and monetary resources . - among others, that contribute to the implementation of local development.

In Latin America , it is notable that the economic growth experienced by the region has not been accompanied by an increase in equity or a decrease in poverty at the local level . This situation indicates that the explanatory dynamics of development have “lowered” in scale. In fact, it is a sign that as local, national, regional and international economies are radically restructured and transformed, new forms of social organization are created (Enríquez, 2011); modern economies try to react to these new forms of organization in order to connect with the challenges of an increasingly competitive and interdependent world .

In Europe, between 1980 and 1990, a considerable number of initiatives for sustaining the local economy emerged from actors (public and private) that responded to the needs of the economy and society, with the experimentation of new models of local

intervention and agreement. This interest arose from research work on the "pioneers" of local economic development to reinforce the potential of endogenous development. This process has been implemented with a set of political actions arising from a new regional problem, which has given rise to new development models in Europe. Various community programs sponsor this type of initiatives. Paunero, Sánchez and Corona (2007) state that multiple experiences of local development have been studied in some countries of the Maghreb and in several European countries (France, the Netherlands, Germany, Denmark, Norway, Sweden, the United Kingdom, Ireland, Portugal, Italy, Spain and Greece), in which a phenomenon of decentralization generally stands out.

It has allowed micro and small businesses to modify their business structure based on the needs of citizens and urban hierarchies. For the most part, these processes have been consolidated and strengthened thanks to self-entrepreneurship supported by a dual economy between the formal and informal sectors.

In Asia, in general, economies are continually faced with challenges that subject their social structure to "extreme situations"; changes in the international economic landscape and the expansion of globalization have led to new approaches to development oriented towards the local level. Likewise, in order to promote comprehensive local development since the 1990s, a series of training initiatives have been carried out in Asia in collaboration with national and regional institutions (Mballa, 2015). Examples include the University of Nanjing, with specific programs developed in China in the field of small and medium-sized enterprises, supported by microfinance; the VV Giri National Institute of Labour in India, the Institute of Rural Management (IRMA) in Pakistan and the Agency for Safety and Health at Work in South Korea; these actors have been promoting local development as a strategy to meet local needs.

In Africa, the concept of local development is the meeting point of fundamental human rights, since it is considered the right of every person to participate and contribute fully to the process of building human integrity. This is reflected in the

fact that in sub-Saharan Africa, in particular, local development seeks to reconcile human beings with themselves, with society, with their environment and with future generations. History has shown that development projects carried out by Western financial institutions (International Monetary Fund, World Bank, etc.) have failed because they do not correspond to the real needs of African peoples. This explains why, despite the injection of millions of dollars over the last three decades, most African countries do not enter into the development logic of their providers of funds. In reality, it is not about the amount of money invested to promote the development of Africa, but about a change in structures and development strategies (Mballa, 2009).

In Mexico, local development represents a major challenge and is associated with great inequality in the way national wealth is distributed. Furthermore, the needs of the Mexican people have many dimensions, such as: human capabilities (education, health, security), access to infrastructure, income, vulnerability and social exclusion/marginalization (García, 2004). The denial of these multiple dimensions and realities can be conceived as an imperfect approximation to the notion of well-being in terms of freedom (or capacity) of a person to choose how to manage his or her life. This depends largely on the conjunction of the decision-making poles of governments, as well as the capabilities of citizens and their ability to becoming “beings and doings” (Mballa, 2013). This ability is determined by the political-economic context in which people live in Mexico.

Local development as a means of addressing the attributes of social needs Based on the above, needs emerge as one of the main sources of poverty. The experiences and theories of development in Latin America have shown that a large part of the strategies to combat poverty are based on a generally welfare-paternalistic approach, which instead of mitigating poverty, nourishes and perpetuates it. However, a public policy approach oriented towards local development to address social needs and mitigate subsequent poverty can break with the counterproductive effects of institutionalized welfare through

social programs. In this sense, the very complexity of conceptualizing local development requires ipso facto an analysis of the attributes that frame the problem of needs .

social in all its aspects (Mballa, 2015). This implies considering, at least:

- the presence or absence of cultural divides ;
- the presence or absence of ethnic, racial and/or religious divisions ;
- the presence or absence of regional and/or geographic cuts ;
- the presence or absence of “seasonal” conditions (e.g. “new” poor)

versus “historical” poor);

- the differential impact of poverty on various vulnerable subgroups (poverty has a different impact depending on whether it affects women, children, adolescents, men or the disabled).

This approach demonstrates the existence of a close relationship between local development and the degree of poverty that the local population may suffer. Obviously, both realities have multidimensional and interrelated aspects and their sociopolitical and economic effects on society are broad and profound . As Villarespe and Sosa (2008) point out , although poverty has existed for centuries, its conception and content have changed in accordance with the processes and mechanisms of social cohesion that operate at each moment of local development .

In Mexico, the unequal distribution of wealth has concentrated national income in certain sectors (export of goods and services), neglecting others, such as the agricultural sector and small and medium- sized businesses on which the local population largely depends . For these reasons, a development policy requires the political will of the different federal, state and municipal economic agents , in addition to the business will , to invest in “the local” and its development. This requires a State policy that is more concerned with revitalising the local environment and with those who are less fortunate. For those involved in decision- making (public administration in particular) this means giving a human face to local economic and social policy . In this sense , local development , from its very essence, must influence the search for attention to social

needs and , therefore , the fight against poverty .

Furthermore, one way of fighting poverty and simultaneously promoting local development is undoubtedly to take advantage of the endogenous potential of local actors . If a direct correlation between poverty and its effects is not established , there is a risk of limiting oneself to “compensating” the exclusive effects of the economic and social situation in general terms . Indeed , the analysis of local development experiences leads to questioning the traditional conceptions and programmes of development that have been dominant in recent decades and that have not achieved , in practice , the desired results .

Now , if it is true that, from a local development perspective, all social classes must participate in the process, it is also true that the development project has to be led by an elite, which, through an osmotic effect, must lead to the other actors towards this development dynamic . In this sense, Arocena (1995) considers the participation of a group of actors to be indispensable, among others: governments (at all levels), companies (of all types), training and/or capacity building centers , research institutes (academia) and organized civil society. These actors must assume the role of transformers of their own reality in the socioeconomic sphere to ensure greater efficiency , effectiveness and flexibility in the functioning of social structures , incorporating new forms of organization, far removed from bureaucracy and closer to citizens .

An efficient strategy to promote local development, with the goal of addressing social needs, is undoubtedly the microfinancing of development projects; this leads us to explore the epistemological content of the concept of “microfinance” and its importance for the implementation of local development.

Microfinance in theoretical debates

The term “microfinance” refers to the provision of financial services to individuals or groups whose access to traditional banking systems is limited or non-existent due to their socioeconomic status ; that is , to actors with low income levels , considered as unreliable clients by banks. These financial services can be savings , investment or

loan mechanisms , among others. According to the Bank ,In the global context , microfinance refers to the provision of formal financial services to poor , low - income , non-wage earners, and other people systematically excluded from the financial system. Here, the word “formal” refers to services provided by an institution that is legally registered with a public authority (World Bank , 2012) . In this sense , microfinance encompasses not only a variety of credit products for the purpose of addressing the economic needs of disadvantaged clients , but also savings , money transfers , and insurance .

In reality, microfinance as a system for financing the economy includes both financial intermediation and social intermediation, which means that in addition to providing credit , savings and insurance services , it also contributes to the formation of social interest groups, fostering the development of trust. From this perspective , they are established as tools not only for addressing social needs , but also as mechanisms for promoting local development.

They emerged in the 1970s as a result of several research works by economist Muhammad Yunus, a university professor in Bangladesh. The hypothesis that the various economic models developed limited the individual to the role of “ consumer ” led Yunus to question the unproductivity , utility and applicability of economic theory and , therefore , the deviation of the economy from its final objective : individual and social well - being (Valverde , 2010) . In effect , the disconnection of the economy from its social vocation has led to an error of perspective : “ reality must learn from theory , from the difficulty of its social application and from politics” (Vontrat, 2008) .

Today , microfinance is a growing player in the provision of financial services to a segment of the economically active population . Until recently , it focused mainly on providing microcredits for microenterprises, but today it provides a whole range of financial services to businesses, poor households and individuals. There are also three types of microfinance modalities: individual credit , pooled credit and solidarity credit (Perez, 2003). Individual loans consist of the provision of credit to individuals who do not belong to a

group collectively responsible for repaying the loan . In the pooled modality of microfinance , clients generally work in the informal sector and need capital to acquire fixed assets . Solidarity loans , on the other hand , are granted to groups of people (usually women) in similar conditions and not related to each other.

The microfinance method was developed by the Grameen Bank of Bangladesh to serve rural women who needed financing to carry out some economic activity. Today, this method has been reproduced exponentially in Asia, Africa and Latin America. Pérez (2003) mentions that Grameen Bank type groups (solidarity credit) of 15 to 30 women are much more numerous than BanGente type groups (pooled credit) , which typically consist of four women or men. Also, the credit is only one and, in the case of Grameen Bank, it is distributed by the group leader. Credit is distributed by the same institution in the case of BanGente. The emergence of microfinance has given rise to several theoretical debates in academia among researchers on the subject. We are interested in addressing three currents or trends that stand out in the way of explaining the functional dynamics of microfinance , represented by the minimalists, the maximalists and the integral approach .

The minimalist perspective or model of intervention in response to social needs

The minimalist approach suggests that microfinance should focus on the financial sphere of its activity and only refer to the social sphere of its clientele indirectly . This perspective considers microfinance as the main form of growth for entrepreneurs with low economic resources. It assumes that the methodology adopted by microfinance institutions must be constantly modified to adjust to the real situation of clients, which implies developing the capacity to analyze the real conditions of clients from a social perspective. This trend implies providing all the necessary information to make appropriate credit decisions to applicants , who , as already mentioned , are considered as clients at risk by traditional banking institutions .

One of the central hypotheses of the representatives of minimalism is that the establishment of a microfinance organization allows for improved access to permanent

financial services at a lower cost for the borrower, which has a social impact because it helps alleviate some of the needs of people. Consequently, this authorizes the borrower to diversify the modalities of loan allocation, with the idea that the greater the profitability of microfinance institutions, the greater the probability of meeting the socioeconomic needs of disadvantaged citizens.

Iglesias (2008) mentions that minimalists see microfinance not only as a reaction to the problems of “integrated local development”, but also as a model of intervention in the face of the interconnected needs of low-income communities. According to Renaud and Iglesias (2008), specialization in microfinance modalities is necessary to achieve the effectiveness of local development, through the offer of an efficient credit service. In this sense, microfinance institutions direct their credit activities towards very specific sectors, which tends to increase costs, without this translating into tangible and significant benefits for clients. Minimalists adopt a decentralizing position for the exercise of microfinance: “Let the bankers be bankers” and let others, with different skills and experiences, take care of the other needs and aspirations of financially disadvantaged communities.

In short, by conceiving microfinance as a progressive financial activity, they consider it a tool for growth and consolidation of the credit market. This trend undoubtedly establishes microfinance not only as a serious option for addressing social needs, but also as a tool for supporting local development.

The maximalist approach : orientation towards social impact

The maximalist approach considers that microfinance should emphasize the direct social impact of financial services. Its main goal is focused on the process of improving the social conditions of the beneficiaries (health, education, social participation, food, housing, etc.). It is an approach that finds its essence in the welfare perspective of a large part of the NGOs in Latin America, Asia and Africa, mainly. Vontrat (2008) suggests that the representatives of maximalism could be associated with the Development School, considering microfinance, above all, as an instrument of development. For his part, the maximalist Christen (2001) estimates that microfinance

“belongs to the same category as programs that focus on the fight against AIDS , infant mortality or illiteracy . None of these programs is evaluated based on their profitability , but rather on their effectiveness in serving the most disadvantaged populations . ” From this theoretical perspective , microfinance is closely linked to the Millennium Development Goals (or MDGs) : “ microfinance, through permanent financial services provided to the poor, contributes to achieving the MDGs ” (VONTRAT , 2008), being The maximalists are fundamentally inclined towards the social impacts of microfinance services , so they have considered “ 2005” as the “ international year of microfinance ”, which is the driving force behind any organizational expression in favor of addressing the economic and financial needs of the poor .

which crystallized at the 2006 Halifax Summit .

It is worth highlighting here this event carried out based on the maximalist perspective of microfinance . Halifax , November 12, 2006: Nobel Peace Prize winner Muhammad Yunus, Queen Sofia of Spain , Peter MacKay – then Minister of Foreign Affairs of Canada – and thousands of delegates , including ministers of state and specialists in microcredit , as well as representatives of the Bill and Melinda Gates Foundation , traveled to Halifax from nearly one hundred countries to participate in the international summit on microfinance, “Microcredit and Development.” This historic meeting focused on the search for systems capable of lifting millions of people out of extreme poverty. The Nobel Peace Prize winner , in his opening speech at the meeting, told the delegates :

Delegates: “ Let us make this a historic summit, establishing effective strategies to create a world without poverty [...] Those who doubted us, we hope that they will now join this legitimate cause through the empowerment of microfinance .”

In this approach , microfinance objectives focus on three main aspects :

- Address economic and financial needs to reduce poverty .
 - Strengthening the autonomy and entrepreneurial capacity of people , and especially of women : “ The autonomy of people is the raison d' être of microfinance”; 1
- “ All nations that have achieved greatness have done so by granting women the respect

they deserve .”²

- Ensure a positive and measurable impact on the standard and conditions of life of microfinance users and their families (health , education , food , housing , etc.). “Microcredit has a very favorable impact on poverty and, in turn , on nutrition , health and education.”³

The maximalist approach is the one that predominates in Latin America , Africa, Asia and most developing countries. We believe that this perspective leads to the subjectivization of the processes of quantification of microfinance activity, through providing inaccurate data and inadequate management of the multiple actors. According to Vontrat (2008), this tendency mainly results in the oversizing and artificial “inflation ” of microfinance .

The comprehensive approach or sustainability of microfinance services

The integrated approach considers microfinance as a multidimensional and multifaceted tool designed to address goals that transcend the strictly economic sphere. The central argument of this approach is that people with very low resources need to address the causes and effects of poverty ; this implies looking far beyond achieving some improvements in living conditions, through the implementation of small businesses . This approach, therefore , combines financial and non - financial services .

Institutions that follow this path have as their main challenge the achievement of microfinance sustainability , which implies much higher costs in carrying out financial actions. Valverde (2010) highlights some essential features of this approach:

¹ Remarks by John Hatch, founder of FINCA International, at the Microcredit Summit in Halifax , Canada, November 2006 .

² Remarks by S. Ivekananda at the Microcredit Summit in Halifax, Canada , November 2006 .

³ Remarks by Chris Dunford, President of the Freedom from Hunger Foundation , at the Microcredit Summit in Halifax, Canada, November 2006 .

- Guidance and support to clients to generate self-employment and creation of

micro- enterprises.

- Effort to reach a large number of people with small loans .
- Integration of the service with health , education, employment and other issues .
- Orientation towards women 's empowerment .

The main question raised by the integral approach to the minimalist approach is whether it is enough to create greater conditions of accessibility to credit and savings (which implies maximizing profits) to achieve an impact on the financial needs of individuals in their efforts to fight poverty. To counteract this structural deficiency of the minimalist approach, the integral approach points out the links between the dynamics within households , the community , the market and the State and, therefore , raises the need to modify the structural factors (social, economic, political and legal) that prevent the access of the deprived population to the financial market and/or interfere with their rights to control the use of microfinance (Iglesias, 2008). This approach recognizes the multidimensional nature of the socioeconomic needs that produce the poverty of millions of people, which is why it is imperative to address these needs through the implementation of different microfinance instruments .

This means that, in order for microfinance to be effective and efficient , it must be approached from a comprehensive perspective, considering all the elements that make up the context in which families live. This approach recognizes the importance of training and/or technical assistance to borrowers from microfinance institutions, with the aim of generating sustainable activities that generate economic surplus . In this sense , Renaud and Iglesias (2008) consider that microfinance should not be limited to just a redistribution of financial resources , but should stimulate the best use of these resources through the potentialization of capital accumulation mechanisms for the economically and financially disadvantaged population .

Implementing the integrated approach means providing borrowers with a coordinated and planned combination of microfinance services to improve their microenterprises, income, assets, health, nutrition, family planning, children's education, social support networks,

etc. This can best be seen in the implementation initiatives of business incubators with a purely social focus. These incubators provide a comprehensive space for people without financial resources, in addition to providing a series of services ranging from training, motivation, generation of entrepreneurial potential to the creation and consolidation of microenterprises (Vázquez , 1996). In fact, various institutions have successfully responded to the challenge of integrating microfinance from this perspective, without compromising the sustainability of their financial and general operations .

Microcredit as an instrument for strengthening local productive capacities

Microcredit represents one of the concrete forms of implementation or exercise of microfinance. The three analytical approaches presented in the previous section (minimalist, maximalist and integral) agree that microcredit is a small loan granted to poor people who cannot access loans granted by a traditional or conventional bank . This tool has been acquiring increasing importance as an instrument for the development of low- income social sectors , which are usually excluded from banking circuits. Microcredit is established as an instrument for strengthening productive capacities, under the hypothesis that making people with lower incomes eligible for credit in terms of trust constitutes a strategy for social inclusion and for combating poverty. Table 1 shows the view of microcredit from some theoretical approaches:

Table 1

Conception of microcredit from some theoretical approaches

Theoretical approach	Approach
Political realism	Microcredit is a tool of power that allows some actors to maintain dominance over others. Microcredit in this approach is conceived in utilitarian terms.

<p>Liberalism</p>	<p>Microcredit arises from the need to establish relationships of interdependence between State actors (those who request microcredit and those who grant it) . In this sense, institutions and constitutional regimes are responsible for regulating the modalities of these relationships so that they are beneficial to all actors involved in their functional dynamics .</p>
<p>Neorealism- neoliberalism synthesis (neo-neo debate)</p>	<p>Both of these approaches, being rationalist, admit that microcredit arises from questions of interests and strategies of negotiation and exchange. They see microcredit in utilitarian terms. That is, they raise the problem of how the structural conditions of power and authority within sovereign territorial units can be used to strengthen the position of one group of actors over others .</p>
<p>Pluralism</p>	<p>This approach emphasizes the diversity of actors (State, transnational corporations, institutions, elite influence, etc.). A broadening of the patterns of communication and exchange between different actors can reinforce the degree of utilitarian relations . In this sense, microcredit involves practices that are strong enough to ensure, over a long period of time , reliable expectations of capital exchange between various actors.</p>

Source: own elaboration .

From what has been discussed so far , it is clear that the essential function of microcredit is to enable people without resources to meet their economic and financial needs . Indeed , there are differences between conventional credit and microcredit . Essentially , the differences can be grouped into three areas : credit methodology , integration of the loan

portfolio and institutional characteristics . These differences are explained by the non-traditional client base of microfinance institutions : self -employed, low - income people , who lack collateral or whose collateral is inadequate . Microfinance institutions often require their clients to make payments on a weekly or biweekly basis . This repayment plan is related to the underlying economic cycle of the microentrepreneur whose income and expenses generally occur at weekly intervals . Although it is a tool that emerged on the initiative of private institutions, such as non-governmental organizations and microfinance institutions, microcredit has been incorporated into public strategies aimed at microenterprises (Foschiatto and Stumpo, 2006). In recent years, there has been an increase in municipal microcredit policies . : Crocredit, through which the development of micro and small businesses is encouraged within the framework of a strategy aimed at strengthening local productive capacity. According to Foschiatto and Stumpo (2006), these initiatives go beyond the logic of welfare or paternalism that has characterized public interventions aimed at sectors of the population with fewer resources in the past ; they also respond to the purpose of developing smaller productive units that can more easily contribute to growth and the well-being of people and their families at the local level .

As Boza, Wood and Báez (2008) state, the original philosophy of microcredit is to provide the user with a small amount of credit to carry out an economic activity that can be marketed, giving them a status of economic independence that they previously lacked. Likewise , its management is conditioned by a series of factors: those that influence its effectiveness , measured in terms of the beneficiary 's profit and well -being . The most important thing is that these factors can influence its efficiency , that is, its performance or the relationship between the economic resources lent and the resources or benefits obtained. In this sense, microcredit becomes a key instrument to strengthen productive capacities , not only of individuals , but also of local development . A systematic analysis of this instrument allows us to propose actions that modify inertia and reverse spatial economic processes with the aim of stimulating local development . It is about developing a balanced and sustainable financing scheme , exploiting the competitive and comparative advantages of

microcredit . microcredit, combining socioeconomic well-being, the roots of the population in its territory , its culture , its idiosyncrasy and its real needs . This has been, of course, the great challenge that microfinance has not managed to overcome, generating many contradictions and criticisms about its scope in the attempt to meet social needs and contribute to the local development . This brings us to explore the other side of the microfinance coin .

Limitations and practical challenges of microfinance :

focus on social impact

In the report entitled *Banking Services for the Poor: Microcredit is Not Enough, the Poor Need Other Financial Services* , published by the Food and Agriculture Organization of the United Nations (FAO) on the occasion of the World Food Summit in 2002 , the negative effects of microfinance were warned about (FAO , 2002). Similarly , at the international symposium "Experiences and Challenges in Microfinance and Rural Development", organized jointly by the Rural Financial Services Program in the Northern Sierra of Ecuador, Banco Solidario and the Alternativa Foundation , under the auspices of the Kingdom of Belgium, through the Belgian Technical Cooperation in Quito , Ecuador , in October 2003 , the different experiences of microfinance were analyzed . The compilation of the work of microfinance specialists that resulted from this meeting today represents a systematized and practical conceptual resource that allows us to analyze the limits and challenges of microfinance .

One of the greatest challenges for microfinance regulators is finding a way to strike a balance between access to a microfinance product and stability, financial integrity and client protection . This complex and constantly evolving balance requires a sound analysis of the costs and benefits of microfinance products . According to microfinance experts at the World Bank , mainly from the Consultative Group to Assist the Poor (CGAP) , 4 THE search for such a balance is essential since ^a microfinance process often involves not only the lender- client duo , but also other public agencies , such as consumer protection agencies , competition promotion institutions , social welfare organizations and legal

authorities (World Bank , 2012) . Furthermore , the various problems arising from the provider - client relationship have made the different microfinance experiences a target for criticism and censure . Much of this criticism tends to emphasize the lack of solid communication and coordination between microfinance service providers and the authorities, leaving clients with real needs adrift and without protection. Indeed, since local and informal systems do not have much capital to grant loans , they cannot always finance more expensive investments and generally have to limit the granting of credits to a few local debtors . This increases the risk that most clients will not be able to afford them .

⁴ CGAP is an independent research center dedicated to promoting policies for access to financial services for the POOREST . It is supported by more than 30 development agencies and private foundations with which it shares the mission of improving the lives of poor people. Based at the World Bank, CGAP PROVIDES market research , standards promotion , innovative solutions development , and advisory services to governments, microfinance providers, donors, and investors .

fulfill their commitment to pay their debt on time and in full . To cope with this risk , lenders tend to charge higher interest rates , even on loans for basic necessities , which traps debtors in poverty .

It was for this reason that, at the height of the boom and effervescence of microcredit (2005-2006), some authors who are experts in microfinance expressed their critical stance . On the one hand, María Rubio (2006), perceiving its negative effects, warned that microcredit was only a dogma of faith for public opinion, but that reality and the most serious analyses denied that it was a panacea. On the other hand, Carlos Gómez Gil (2006) blamed microcredits for “ banking poverty ” and “ extending capitalism ” to the poor sector ; therefore, the strategy of eradicating poverty through indebtedness turns out to be very questionable and dangerous. In the same vein , Dean Karlan and Jacob Appel (2011) have argued that microfinance is , in essence , exclusively a means to an end and not an end in itself ; These give the lender the opportunity to increase their profits at the expense of the poor , who seek any means to satisfy their needs. In this sense, a relationship of unequal forces is outlined, with the potential to maintain the poor in

their status , which Lourdes Angulo (2014) calls “juggling with money”; therefore, the problem of microfinance is not its essence, but the way in which it has been structured, characterized by a resounding lack of evaluation of their multidimensional impacts .

Based on this series of criticisms, David Pérez (2014) recently came to the conclusion that, although the inspiration behind this financial tool (referring to Muhammad Yunus) won the Nobel Prize, the data do not support its success. In reality, people and communities that access this financial instrument are facing serious problems , such as over - indebtedness , loss of social capital , double or triple work shifts for women , with serious collateral effects related to domestic violence, due to pressure from lenders, which has even led to dramatic waves of suicide , such as the one that occurred in the state of Andhra Pradesh, in India .

Regardless of the approach from which microfinance is analyzed and beyond the underlying criticisms, there is generally a convergence of ideals regarding the need to achieve a social impact on the poor in order to improve their socioeconomic conditions. The necessary condition for deepening the social impact of microfinance is the focus and sustainability of microfinance services for citizens immersed in situations of poverty and social vulnerability. The realization of this implies certain aspects that tend to contradict the financial self-sustainability of microfinance service providers.

In order to finance any project with a social dimension that can contribute to the promotion of local development , Dr. Steven Funk considered that:

Now more than ever the Wall Streamers of the world need to understand that they must embrace poverty reduction not just for ethical or moral reasons, but because it is good business for them [...] This is a potential market that is wasted if looked at strictly from a business perspective. Commercial investors are able to raise large and impressive amounts of capital. The greater the provision of investment capital for microfinance, the greater the number of poor people that can be served and the better the delivery of microfinance for the benefit of the poor . Furthermore, the more the poor benefit , the more the human race benefits (Funk , 2009 : 14-15) .

Furthermore, as one of the ways of implementing microfinance, microcredit becomes one of the tools to promote local development and combat poverty . But it is important to mention that its use must be accompanied by other actions that enhance the productive capacities of individuals, regardless of their economic situation .

considerations

Orienting microfinance towards a social perspective is a conceptual operation of utmost importance that goes beyond the desire or will to support local development and meet the economic needs of the poor, since it is the result of a decision-making process with multidimensional impacts. It is a question of administration, in general, and of public administration , in particular, which should be based on a logic of institutional and inter-institutional planning to reduce the gap between political discourses (which often turn out to be empty and demagogic at the time of elections) and the implementation of a true development policy.

In this sense, microfinance needs to adopt systematic principles based not only on innovation, but above all on spatial-temporal planning to meet the needs of societies in a congruent manner .

It is essential that profound changes be generated in the behavior of the different actors , based on the minimum combination of aspects such as :

- Knowledge of the natural environment of the actors requesting microcredits , as well as the relevance and competitiveness of their projects .
- The establishment of actions based on appropriate and compatible information between different levels of government decision-making (local, state and federal, where appropriate).
- Cultivating genuine partnership between microcredit applicants and the various administrative and business levels that grant them .
- The implementation of an integrated approach to planning and management of microfinance policies.

On the one hand, we can highlight the important role that microfinancing plays in

housing , health , education and unemployment , as a way of addressing local needs that make low- income populations more vulnerable . In these cases, microfinancing processes act as buffers for these needs that often affect economic activity. In this order of ideas, we could speak of a direct impact when it is aimed at satisfying basic needs and of an indirect impact when it enables the development of a productive activity that, in turn, generates the necessary and sufficient income for the user to satisfy his needs (Rodríguez, 2008).

On the other hand, it is important to consider that microfinance should be considered far beyond the purpose of fighting poverty and improving the quality of life of the poor , to be conceived as a system of financial inclusion in a country. In this sense, Rodríguez (2008) stipulates that microcredits evolve the ways of operating of the financial entities that grant them , with economic and financial implications , generating a direct impact of a micro and macroeconomic nature. Thus , microfinance necessarily and directly promotes microenterprise development and, in doing so, encourages local economic growth and development, becoming a tool to combat poverty (Zarruk, 2005: 34).

What is generally undeniable is that the poor will always require credit services , whether informal or official . However , these are not enough ; integrated savings and credit systems must be implemented to enable the poor and vulnerable to free themselves from immediate (basic) needs and pay for their future . That is why we consider that a rationalization of microfinance is an intellectual operation of the utmost importance .

Rationalization in this context articulates the relationship between knowledge and facts , that is, between decisions made on poverty reduction policies and their effective implementation . This approach should not be seen as an absolutely linear or fragmented procedure , but rather as an integral approach to the interaction and interdependence between the multiple variables of microfinance processes; it is in this sense that the close power relationship that exists between microfinance service providers and the poor with real needs can be perceived .

Similarly, a rationalization of microfinance must foster new formulas for social economy that do not necessarily involve indebtedness and widespread impoverishment. It is about devising and implementing innovative communal forms of production , advanced systems of cooperatives and productive societies . This implies articulating mechanisms that provide disadvantaged citizens with adequate financing for their entrepreneurial activity .

The field of microfinance has experienced an expansion that has led to questions about the social character of private banking. Despite criticism and disapproval from some sectors of the population, especially from the academic sector , its success has gone beyond what was expected by becoming a tool to combat social backwardness . Over the last three decades, a new financial intermediary has been born. In fact , outside of official banking and informal lenders , microfinance institutions have revolutionized the financing of economic and social development , with an incredible expansion of these programs having been recorded, especially in Asia, Africa and Latin America .

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