"The Imposition of a Global Development Architecture: The Example of Microcredit"

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Abstract

Poverty reduction is now a prime concern of global policy makers. Renewed global efforts *for* poverty reduction are presented as the *Post*-Washington Consensus. In this context, I identify an emerging *Global Development Architecture* that entails new patterns of inter-linkages between the WTO, IMF, World Bank, Regional Development Banks and Bilateral and Multilateral Development Agencies. Using the example of microcredit and poverty reduction I address the political economic implications of the emerging *Global Development Architecture*. I argue that microcredit (i) facilitates financial sector liberalisation and the global trade in financial services; (ii) functions as a political safety-net, containing or dampening resistance at the community level to liberalisation policies and economic austerity measures. Through a critical review of the *Global Development Architecture* the article reveals how global and local political economies are being linked *via* the poverty reduction agenda. Normative discourses underpinning the *Post*-Washington Consensus are argued to be instrumental to efforts to consolidate constitutionally what *continues* to be the Washington Consensus.

Key words: Finance and Development, Microcredit, Microfinance, Poverty, Washington Consensus.

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Introduction

Poverty reduction and development are now central concerns of global policy makers. 'Pro-poor growth' has become foundational to globalisation for which 'pro-poor enabling' policy environments are prescribed.[1] In this context, it has been observed that '[t]he emerging development paradigm breaks with previous international models.'[2] This comes amid the expressed recognition by policy makers that for both, globalisation and development,

> (..)1999 could well have been a turning point, from three angles: implementation of poverty reduction strategies; promoting real and operational partnership, based on shared responsibilities; and a systematic focus on the principles of policy coherence and governance.[3]

To be sure, 1999 does reflect substantively at the level of policy, the conceptual shift from the Washington Consensus to what has been identified as the *Post*-Washington Consensus.[4] The term Washington Consensus captures the neoliberal orthodoxy of the 1980s and early 1990s, the limits of which were brought to the fore in the light of its adverse implications for social justice[5]: The 1980s came to be known as the 'lost decade of development'. In this context, the Washington Consensus was challenged to respond to calls for 'adjustment with a human face'.[6]
The *Post*-Washington Consensus may thus be captured in terms of policy responses to address the limits of the Washington Consensus. But it goes beyond that: Global institutional efforts have

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[1] See for example, OECD, *DAC Scoping Study of Donor Poverty Reduction Policies and Practices* (London: ODI, 1999) p. viii. See also a study commissioned by the UK Governments Department for International Development (DFID) on poverty in Africa, Research Report 51, by Martin Greeley and Rob Jenkins, *Mainstreaming the Poverty-Reduction Agenda: an Analysis of Institutional Mechanisms to Support Pro-Poor Policy Making and Implementation in Six African Countries* (Sussex: IDS, 2001).
[2] OECD, 'Development Co-operation 2000 Report', *The DAC Journal- International Development*, 2:1 (2001), p. 11.
[3] OECD, 'Development Co-operation 2000 Report', p. 11.
[4] For a discussion and analysis of the 'mood swing' from the Washington Consensus to the *Post*-Washington Consensus see Richard Higgott, 'Contested globalization: the changing context and normative challenges', *Review of International Studies*, 26 (2000). For an outline of the development policies prescribed in 1999 see OECD, 'Development Co-operation 1999 Report', *The DAC Journal- International Development,* 1:1 (2000).
[5] See Caroline Thomas, *Global Governance, Development and Human Security* (London: Pluto Press, 2000).
[6] Giovanni Andrea Cornia *et al* (eds.), *Adjustment With a Human Face: Protecting the Vulnerable and Promoting Growth*, *Vol.1* (Oxford: Oxford University Press, 1987).

been stepped up in support of the international development targets.[7] Two key policy initiatives are noteworthy: Firstly, the decision to increase the link between international debt relief and poverty reduction. Secondly, the decision to move beyond the debt initiative by making 'poverty reduction' the foremost conditionality of international financial institutions and bilateral and multilateral development agencies. The *form* of policy restructuring for poverty reduction at the global level under the *Post*-Washington Consensus has pertinent implications for global political economy.

This article critically explores the poverty reduction agenda[8] of the *Post*-Washington Consensus policy framework. The objective of poverty reduction is central to the making of what I identify as an emerging *Global Development Architecture*,[9] which may be distinguished on two accounts: Conceptually, it has an explicit normative framing; practically it entails a comprehensive structural reconfiguration of global order. The latter refers to a consolidation, constitutionally, of a distinctive policy framework for *development* at the *supranational* level, reflected in an associated process of policy harmonisation.

The rules and norms of the emerging *Global Development Architecture*,[10] however, I show to coincide with wider global trends towards policy convergence,[11] in the logic of what Claire Cutler refers to as the *unification movement*.[12] The norms central to the unification movement are

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[7] These include the commitment to 'reduce the proportion of people living in extreme poverty by half between 1990 and by 2015'. See OECD, 'Development Co-operation 2000 Report', pp. 41-42.

[8] See for example, World Bank, World Development Report 2000/2001-'*Attacking Poverty'* (Oxford: Oxford University Press, 2000); Dan Ben-David *et al*, *Trade, Income Disparity and Poverty* (Geneva: WTO Publications, 1999); The *Global Poverty Report,* prepared by the Multilateral Development Banks and the International Monetary Fund for the G8 Okinawa Summit, July 2000.

[9] An outline of such an architecture is evident in World Bank President, James Wolfenson's, *A Proposal For A Comprehensive Development Framework* (Washington, DC: World Bank, 1999).

[10] For example, the normative underpinnings of the emerging *GDA* may be deduced from an interpretation of its prescribed development strategies which include: An institutional and legal framework which supports the emergence of an enterprise-based economy and an efficient public sector. The development of a competitive environment which enhances the efficient functioning of markets. See OECD, 'Development Co-operation 1999 Report', p. 28.

[11] See Hugo Radice, 'Globalization and national capitalisms: theorizing convergence and differentiation', *Review of International Political Economy*, 7:4 (2000); Saskia Sassen, 'Embedding the global in the national-Implications for the role of the state', in David A. Smith *et al* (eds.), *States and Sovereignty in the Global Economy* (London: Routledge, 1999); Colin Hay, 'Contemporary capitalism, globalization, regionalization and the persistence of national variation', *Review of International Studies*, 26:4 (2000).

[12] A. Claire Cutler, 'Public Meets Private: The International Unification and Harmonisation of Private International Trade Law', *Global Society*, 13:1 (1999).

those of 'the law merchant (*lex mercatoria*) or private international trade law'.[13] Through the location of the poverty reduction agenda in global political economy, I demonstrate how it is itself instrumental in efforts to consolidate the unification movement. I argue that its primary function is to link the unification movement at the supranational level with local social policy. Consequently, the rules and norms of the global unification movement are extended to the level of individuals within local communities.

I substantiate this argument by drawing on the example of microcredit and poverty reduction. Microcredit has salient local ramifications, as well crucial multi-level policy implications. It thus affords crucial insights for locating the poverty reduction agenda in global political economy.

The example of microcredit and poverty reduction [14]

The idea that microcredit -- as the road to self-reliance[15] -- is an effective intervention for the 'empowerment of women'[16] in particular, and poverty reduction more generally, has come to occupy the status of a hegemonic discourse.[17] Locally, microcredit is purported to stimulate a

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[13] A. Claire Cutler, 'Locating "Authority" in the Global Political Economy", *International Studies Quarterly*, 43:1 (1999), p.59. See also Jarrod Wiener, *Globalization and the Harmonisation of Law* (London: Pinter, 1999), esp. pp. 151-183.

[14] The concern of this article is with the particular global institutional approach (as outlined below) of microcredit and poverty reduction. It includes local operations that are informed and shaped by the global institutional approach, either formally or informally, directly or indirectly. See *Micro and Small Enterprise Finance: Guiding Principles for Selecting and Supporting Intermediaries* (pink book) produced in 1995 by the 'Committee of Donor Agencies for Small Enterprise Development' and the 'Donors' Working Group on Financial Sector Development'. Available from the CGAP, World Bank. The 'pink book' rules have been endorsed across the board among the donor community.

[15] This understanding informed the Hearing before the (US) Subcommittee on International Economic Policy and Trade of the Committee on International Relations House of Representatives (105th Congress, Session I). See the report of this hearing, *Microcredit and Microenterprise: The Road to Self -Reliance* (Washington, DC: US Government Printing Office, 1997).

[16] The Microcredit Summit in Washington DC, in 1997 focussed primarily on the potential of microcredit to *empower* 'destitute' women. *The Microcredit Summit Report, February 2-4 1997* (Washington, DC: c/o RESULTS Educational Fund, 1997).

[17] For more of an institutional perspective on issues and case studies of microcredit and microfinance see for example, Maria Otero and Elisabeth Rhyne (eds), *The New World of Microenterprise Finance: Building Healthy Financial Institutions for the Poor* (London: Intermediate Technology Publications, 1994); Hartmut Schneider (ed.), *Microfinance for the Poor* (Paris: IFAD/OECD, 1997); For a general overview see David Hulme and Paul Mosley, *Finance Against Poverty,* Volumes 1 & 2 (London: Routledge, 1996); Geoffrey D Wood and Iffath A Sharif, *Who Needs Credit? Poverty and Finance in Bangladesh* (London: Zed Books, 1997). I have engaged the issue of impact disaggregating institutional success and social impact and experiences of microcredit programs (especially in relation to some of the literature from diverse perspectives) elsewhere. See Heloise Weber, 'Global Governance and

transformation of the 'vicious circle' of poverty into a 'virtuous cycle' of economic advancement. Microcredit has been endorsed and adopted by the World Bank, Regional Development Banks and Bilateral and Multilateral Development Agencies and United Nations (UN) agencies.[18] In February 1997, it was given global coverage through the Microcredit Summit in Washington, DC, which inaugurated an action plan to reach 100 million of the worlds poorest families, and particularly the women of those families, with microcredit by the year 2005.[19] The Summit's goals have been endorsed and are supported by actors including the Councils of International Financial Institutions and Donor Agencies.[20] The UN has adopted a resolution to declare the year 2005 as the year of microcredit.[21]

Explaining microcredit

Microcredit is the provision of small loans to poor individuals usually within groups as capital investment to enable income-generation through self-employment. Microcredit programs may be complemented by the extension of microfinancial services (e.g., options for insurance schemes or savings).[22] Microcredit differs significantly from other targeted poverty reduction strategies in that it is embedded in a commercial framework. Furthermore, it relies on the provision of *credit only*. No advancement of skills through training schemes (capabilities enhancement) accompany the packages. The approach has therefore come to be termed as microcredit *minimalism*.[23] Microcredit is provided in the absence of conventional forms of collateral. Instead, group (mutual) guarantee mechanisms, such as peer monitoring and peer pressure are employed as a form of social collateral. Interest rates are charged on a commercial basis. In some cases it is a

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Poverty Reduction: the Case of Microcredit' in Rorden Wilkinson and Steve Hughes, *Global Governance: Critical Perspectives*, *forthcoming,* (London: Routledge, 2002).

[18] Details of the integration of microfinance at policy level can be found at the web-sites of respective institutions and agencies.

[19] *The Microcredit Summit Report,* p. 1.

[20] *The Microcredit Summit Report*, pp. 47-49.

[21] United Nations, 'Resolution Adopted by the General Assembly [on the report of the Second Committee (A/53/613)]. 'Resolution 53/197. International Year of Microcredit, 2005' (New York: United Nations, 22 February 1999).

[22] For the purposes of this article, microcredit and microfinance will be referred to interchangeably.

[23] For example the 'pink book' guidelines are explicit on the minimalist approach. See *Micro and Small Enterprise Finance: Guiding Principles for Selecting and Supporting Intermediaries* (see note 14 above).

condition that Non Governmental Organisations (NGOs) or Microfinance Institutions (MFIs) do *not* lend to the poor below a given commercial rate.[24]

Public discourses on microcredit have presented it as a panacea for poverty reduction. Much of its legitimacy has also been sustained through its association with the 'success' stories of the Grameen Bank in Bangladesh,[25] which has come to serve as a model of the 'virtuous' outcomes of microfinance minimalism.[26]

However, impact assessment studies have challenged the conventional wisdom of the poverty impact of microcredit, including the 'success' stories of the Grameen Bank.[27] The World Bank's own studies have cautioned on the 'band-wagoning'[28] of microcredit minimalism for poverty

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[24] For example a World Bank supported institution in Bangladesh is clear on this policy: The Palli Karma-Sahayak Foundation (PKSF), (whose operations include acting as an apex financial institution for microfinance) in lending to its Partner Organisations (POs, i.e. NGOs and Microfinance Institutions) to onlend microcredit at the level of individuals 'imposes a minimum lending rate of 16% to ensure that POs do not lend below commercial bank rates.' See World Bank, *Bangladesh, Poverty Alleviation Microfinance Project* (Washington DC: World Bank, 1996) p. 51.

[25] A representative of the Grameen Bank gave evidence on the virtues of microcredit to the US Congress. See *Microcredit and Microenterprise: The Road to Self –Reliance.* Grameen was also presented as a key 'success' story at the Microcredit Summit in Washington, DC, 1997.

[26] See World Bank, *Financial Systems and Development* (Washington, DC: World Bank, 1990), see esp. pp. 98-103.

[27] See for example, McDonald Benjamin & Joanna Ledgerwood, 'Case Studies in Microfinance, Non-Governmental organizations (NGOs) in Microfinance: Past, Present and Future - An Essay, May 1999 (http://www-esd.worldbank.org/sbp/end/ngo.htm). This study is based on research conducted by the World Bank under the Sustainable Banking with the Poor (SBP) project, other literature on microfinance and their (authors) own experience over the last 15 years. On the issue of loan use, this study confirms that cross-borrowing is a part of survival strategies of the poor (i.e., where money is borrowed from one NGO to pay off the other); Shahidur Khandker, *Fighting Poverty with Microcredit (*World Bank, Poverty and Social Policy Department - unpublished research document) p. 2. Khandker has also noted that 'microcredit induced self-employment is a complement to child labor and that self-employed activity financed by a microcredit program may facilitate child employment', p. 48; Aminur Rahman, *Rhetoric and Realities of Micro-Credit for Women in Rural Bangladesh: A Village Study of Grameen Bank* (PhD Thesis, Department of Anthropology, University of Manitoba, Canada, 1998); Aminur Rahman, 'Micro-credit Initiatives for Equitable and Sustainable Development: Who Pays?', *World Development,* 27:1 (1999); Mubina Khondkar, *'Women's Access to Credit and Gender Relations in Bangladesh'* (University of Manchester, U.K: PhD thesis, Institute for Development Policy and Management, 1998); Jude L Fernando, 'Empowerment Through Indebtedness: NGOs, "Gender Politics" and the Political Economy of Microcredit', Paper presented at the International Studies Association, 42nd Annual Conference, Chicago, February 2001; See also Helen Todd, *Women at the Centre: Grameen Bank Borrowers After One Decade* (London: Westview Press, 1996). These studies point to the adverse social implications as a result of the credit intervention, such as an increase in violence at the community level, particularly against women, an increase in child labour and further impoverishment resulting from a rising spiral of debt. My own participant observation of microcredit and poverty in Bangladesh confirmed the critical research findings. See Weber, 'Global Governance and Poverty Reduction: the Case of Microcredit'.

[28] Benjamin & Ledgerwood, 'Case Studies in Microfinance', see esp. pp. 10, 33.

reduction.[29] Such critical findings have not translated into policy rectification, rather policy makers have reacted by changing the terms of reference. Thus, where the widespread use of microcredit for purposes other than investment for self-employment prevails, policy makers now refer to 'consumption smoothing'. The equally widespread practice of poor clients borrowing from one NGO (and / or MFIs) to pay off the other is simply referred to as 'cross-borrowing' or 'over-lapping'. The taking of new loans to service repayment of old loans is referred to as 'pyramid loans' system. In this context, the question arises as to *what* really motivates the microcredit agenda?

Closer scrutiny suggests that microcredit may be motivated primarily by its capacity to perform a 'dual function' in global political economy. Firstly, as a financially steered targeted poverty reduction strategy, microcredit, via its implications for policy facilitates financial sector liberalisation as well as extends the policy of trade in financial services to the local level. Secondly, microcredit minimalism has a disciplinary potential that renders it particularly conducive to functioning as a political safety-net. In the latter case, it offsets 'income-insecurity' and absorbs surplus labour in growing informal sectors.[30] Appropriated as a *political* safety-net, microcredit dampens or contains resistance to the implementation of neoliberal policies at the national and local levels. In addressing microcredit in terms of its 'dual function' (strategic embedding) in global political economy new light is shed on the political economic implications of initiatives advanced to link local political economies with global political imperatives.[31]

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[29] Shahidur R.Khandker *et al, Grameen Bank, Performance and Sustainability* (Washington, DC: World Bank, 1996), p.86.

[30] For more on the role of microcredit in a rising informal sector, see the International Labour Organization (ILO) *World Labour Report 2000* (Geneva: ILO, 2000).

[31] The case of Bangladesh is illustrative as an example of how the dual purpose of microcredit functions. In 1996 the World Bank authorised a poverty alleviation microfinance project for Bangladesh. This project is also recognised as part of an overall strategy for financial sector liberalisation. See World Bank, *Bangladesh, Poverty Alleviation Microfinance Project,* p. 15. Prior to this, in 1995 a report on privatisation and adjustment in Bangladesh cited microcredit as a strategy to overcome potential resistance to this agenda. See World Bank, *Bangladesh*, *Privatization and Adjustment* (Washington DC: World Bank, 1994), p. 49.

Contextualising microcredit: linking global and local political economies?

Global efforts to advance particularly the financial sector imperatives[32] of the unification movement via effecting policy changes may encounter multi-level political as well as social constraints.[33] This is because,

> [t]he global unification movement privileges the private sphere and, facilitates the further denationalization of capital and *the disembedding of commercial activities from governmental and social control.* Unification thus operates as a corporate strategy designed to assist the reconfiguration of authority in the global political economy in line with the disciplinary neoliberal agenda.[34]

The implications of the unification movement are social as well as political: They can be seen to 'blur the distinction between public and private authority in global political economy'.[35] This 'obscures the political significance of private economic power through the association of authority with the public sphere and its disassociation with private activities'.[36] Private economic power as *public authority* not only undermines the 'democratic provision'[37] but also limits the parameters of *how* entitlements to public goods and services might be secured.[38] This is 'reconfiguring political authority as significant decisions over the disposition of resources are being devolved to the private sphere, free from societal and political controls'.[39]

The social tension inherent in artificially abstracting the economic from the political through a

[32] The unification movement is driven by sectors that include transnational insurance, financial corporations and national chambers of commerce. See Cutler, 'Locating "Authority" in the Global Political Economy', p. 72.

[33] For more on finance in relation to the global public goods debate see Geoffrey R.D. Underhill, 'The Public Good Versus Private Interests in the Global Monetary and Financial System', *International and Comparative Corporate Law Journal,* 2:3 (2000).

[34] Cutler, 'Public Meets Private', p. 48 (emphasis added).

[35] Cutler, 'Public Meets Private', p. 26.

[36] Cutler, 'Locating "Authority" in the Global Political Economy", p. 72.

[37] Robert Latham, 'Globalisation and Democratic Provisionism: Re-reading Polanyi', *New Political Economy*, 2:1(997).

[38] See for example, Underhill, 'The Public Good Versus Private Interests in the Global Monetary and Financial System'; Kanishka Jayasuriya, 'Globalization, Law, and the Transformation of Sovereignty: The Emergence of Global Regulatory Governance', *Indiana Journal of Legal Studies*, 6:2 (1999).

[39] Cutler, 'Public Meets Private', p. 28.

‘public/private’ distinction,[40] which is a ‘differentiation within the political sphere’,[41] may well need to be managed through disciplinary neoliberalism.[42] Thus, if the advancement of the unification movement proceeds through neoliberal discipline at the global level, then its extension to the level of individuals within local communities may also reflect this dynamic. In this context, the ‘dual function’ of microcredit becomes relevant: Its capacity to facilitate the advance of the unification movement while at the same time off-setting its socially disembedding logic via its function as a political safety-net. Its disciplinary component may be crucial to the objective of extending the socially disembedding logic of the global unification movement to the level of local communities.

The global framing of the poverty reduction agenda in these terms under the *Post*-Washington Consensus suggests an approach to development based on a strategy of crisis management. The objective seems to manage what is perceived as ‘two crises’: the crisis of global poverty[43] and the crisis of global capitalism.[44] Through insights drawn from Karl Polanyi it will be shown below *how* such a conceptualisation may mis-inform global responses to poverty reduction.

Polanyi’s Double-Movement: Understanding the ‘Two Crises’

The two crises -- the crisis of global poverty and a crisis of capitalism -- are salient features of contemporary global political order: They are at the centre of such globalisation debates[45] as James Mittelman captures in terms of the ‘globalisation syndrome’.[46] Globalisation as a process

[40] A. Claire Cutler, ‘Artifice, ideology and paradox: the public/private distinction in international law’, *Review of International Political Economy*, 4:2 (1997); A. Claire Cutler, ‘Global Capitalism and Liberal Myths: Dispute Settlement in Private International Trade Relations’, *Millennium,* 24:3 (1995).
[41] Ellen Meiksins Wood, ‘The separation of the economic and political in capitalism’, *New Left Review,* 127 (1981), p. 82.
[42] Stephen Gill, ‘Globalisation, Market Civilisation, and Disciplinary Neoliberalism’, *Millennium*, 24:3 (1995).
[43] OECD, ‘Development Co-operation 1999 Report’, p. 119.
[44] For a discussion of this see for example the collection of essays in Werner Bonefeld and John Holloway (eds.), *Global Capital, National State and the Politics of Money* (London: Macmillan, 1996).
[45] See for example Samir Amin, *Capitalism in the Age of Globalization* (London: Zed Books, 1997); Caroline Thomas, ‘Where is the Third World Today?’, *Review of International Studies,* 25 (1999); Julian Saurin, ‘Globalisation, poverty and the promises of modernity’ in S Owen & P Yeros (eds.), *Poverty in World Politics* (London: Macmillan, 2000). [Originally in special issue of *Millennium* (Poverty), 23:3 (1996)]; See also Julian Saurin, ‘The Global Production of Trade and Social Movements’ in Annie Taylor and Caroline Thomas (eds.), *Global Trade and Global Social Issues,* (London: Routledge, 1999), pp. 217-236.
[46] James H. Mittelman, *The Globalization Syndrome: Transformation and Resistance* (Chichester: Princeton University Press, 2000), p. 4.

may be conceived in terms of both the expansion (and consolidation) of the unification movement[47] as well as in terms of increasing trends to conceive of a humanist global project based on Universal Rights and Duties, anchored in notions of substantive democratic participation.[48] This means that expectations of *empowerment* for the 'better life' are increased simultaneously as the unification movement is advanced. However, the tendency of the unification movement to operate in a socially disembedding logic may undermine the emanicipatory project and thus result in the de-legitimation of the unification movement itself. This tension was brought to the fore, challenging the Washington Consensus. It is in such a context that questions pertaining to the legitimacy of globalisation increasingly came to global prominence.[49]

The two crises are neither new nor *independent* of each other. In *The Great Transformation* Polanyi captured what is at stake in this context in dialectical terms and theorised it as a 'double movement':[50] He referred to the specificity of capitalism on the one hand to disembed the economy from society allowing the free-market to self-regulate with reference to public goods. However, Polanyi observed that this ideal was a 'stark utopia'[51] that set in motion a dialectical process comprising society's attempts to recapture and re-embed the economy within social and political control.[52] The dialectic of the 'double movement' was thus discerned to be the tension between 'market society' and 'society with markets'. The former refers to the 'propensity of

[47] It is such a conceptual understanding of globalisation that is employed in this paper, rather than appropriating globalisation as the *explanation* of transformation. For more on this see Justin Rosenberg, *The Follies of Globalisation Theory* (London: Verso, 2000).
[48] Some of these issues are discussed in Tim Dunn and Nicholas J. Wheeler (eds.), *Human Rights in Global Politics* (Cambridge: Cambridge University Press, 1999). See also the collection of essays in Morten Ougaard and Richard Higgott (eds.), *Towards a Global Polity* (London: Routledge, 2002).
[49] One of the most visible politics of resistance was recently evident in Seattle. See the discussions on Seattle by Mary Kaldor, Jan Aart Scholte, Fred Halliday and Stephen Gill in the *Millennium*, 29:1 (2000), pp. 103-140.
[50] Karl Polanyi, *The Great Transformation: the political and economic origins of our time* (Boston: Beacon Press, 1957).
[51] Polanyi, *The Great Transformation*, p. 3.
[52] To be sure, conceptions of 'politics' underpin both the (neo)liberal idea of the market society, as well as alternative versions of 'societies with markets'. The political conception of the second movement entails the more radical democratic idea of a politics of the life-world, which subjugates the logic of market exchange to a solidarist and holistic ideal of emancipation and mutual advancement. (For supporting arguments on the limitations of liberal political theory and particularly the predominance of a narrow conception of liberty as *negative liberty*, see e.g., Anne Phillips, *Which Equalities Matter?* [Cambridge: Polity Press, 1999]; C.B.Macpherson, 'Berlin's Division of Liberty' in *Democratic Theory: Essays in Retrieval* [Oxford: Clarendon Press, 1973]; Ellen Meiksins Wood, *Democracy Against Capitalism* [Cambridge: Cambridge University Press, 1995]).

capitalist society to define and to quantify social life in market terms'[53] the latter to socially embedded forms of exchange predicated on reciprocity and redistribution.[54]

Although Polanyi's insights are historically specific, it has been argued that the analogy of the 'double movement' may be equally applicable to present circumstances.[55] However, rather than an analogy it is better understood as a historical continuum of the tension inherent in the 'push' factor of *market forces* and the 'pull' factor of the social life-world. In the contemporary context, what might have changed to a degree however -- since the post-1945 political order -- is the role of the state as a counter-force to protect society from the potentially adverse consequences of the tendency of capital to become disembedded.[56] Thus, for example, the trajectory of the transformation of the state relative to the imperatives of capital, since the post-1945 economic order, may be described as one of 'embedded liberalism'[57] to the 'competition state'[58] and to its latest phase as the 'cooperative state'.[59]

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[53] Stephen Gill, 'Theorising the Interregnum: The Double Movement and Global Politics in the 1990s' in Bjorn Hettne (ed.), *International Political Economy: Understanding Global Disorder* (London: Zed Books, 1995), p. 87.

[54] Bjorn Hettne, 'The International Political Economy of Transformation' in Hettne, *International Political Economy,* pp. 4-5.

[55] Gill, 'Theorising the Interregnum'.

[56] See for example Susan Strange, *The Retreat of the State*, (Cambridge: Cambridge University Press, 1996). However, I qualify this statement on three accounts: Firstly, historically, the evolution of the state system has been shown to have occurred in relation to the imperatives of capital, see Justin Rosenberg, *The Empire of Civil Society* (London: Verso, 1994). Secondly, post-colonial states often did not develop the full capacity for social consolidation needed to capture the normative *transformation* implied. See for example, Robert H. Jackson, *Quasi-States, Sovereignty, International Relations and the Third World* (Cambridge: Cambridge University Press, 1990). Thirdly, the 'new' states have historically been subject to *supranational* policy and political influence relatively more than advanced capitalist states. See for instance, Caroline Thomas, *New States, Sovereignty and Intervention* (Hants: Gower Publishing, 1985). Together, these trends have meant that most 'developing' states have been severely limited in their ability to respond in accordance with social democratic principles regarding the provision of public goods. This should not be understood as a blanket endorsement of state-centrism as the only possible framework for realising solidarity based conceptions of (distributive) social and political justice. These can be conceived, for example, in accordance with transformed conceptions of political community as advanced by Linklater in *The Transformation of Political Community* (Cambridge: Polity Press, 1998).

[57] John Gerard Ruggie, 'International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order', *International Organization*, 36:2 (1982).

[58] See Philip G. Cerny, *The Changing Architecture of Politics: Structure, Agency and the Future of the State* (London: Sage, 1990).

[59] This stage may be captured in terms of global drives for policy *harmonisation* as well as *unification* for commercial trade law. The constitution of the World Trade Organisation (WTO) can be seen to uphold the principle of 'fairness' in relation to capital. State Membership of and commitment to the WTO thus can be seen to reflect the stage of state 'co-operation' in relation to the imperatives of capital. For an overview of the WTO see John H. Jackson, *The World Trade Organization: Constitution and Jurisprudence* (London: Pinter, 1998). See also Wiener, *Globalization and the Harmonisation of Law.*

Thus, in the latest phase, the tension of the 'double-movement' can be captured between the agencies of a *transnational* elite class[60] (advancing Polanyi's first movement, the market) and what might be loosely defined as 'global social movements'[61] (counter-advancing Polanyi's second movement).[62] This shift in political struggle from the traditional Westphalian model to levels above and below might imply that 'solutions to the problems of security and welfare' must now be 'found in transnational structures, global or regional'.[63] In this sense, it may be argued that contemporary global transformation has merely extended the dynamic of the 'double movement' to levels above and below the Westphalian model.[64] It is in the context of these trends and transformations that 'local' social policy (particularly of low income states) has increasingly come to be set and defined at the level of global institutions. Bob Deacon recently referred to this dynamic as the *supranationalisation* of local social policy.[65]

Thus, in addition to providing an understanding of the tensions between 'capital and society' under capitalism, what Polanyi's insights provide is a backdrop for locating and understanding the historical continuity of the poverty reduction agenda of the *Post*-Washington Consensus. In this sense, the specific example of microcredit and poverty reduction can be best understood if situated in an historical process of crisis management. For this a brief engagement with the crisis of the 1970s and the evolution of the Washington Consensus is instructive.

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[60] Kees van der Pijl, *Transnational Classes and International Relations* (London: Routledge, 1998); Leslie Sklair, 'Social movements for global capitalism; the transnational capitalist class in action', *Review of International Political Economy*, 4:3 (1997).

[61] Fantu Cheru, 'Transforming our common future: the local dimensions of global reform', *Review of International Political Economy,* 7:2 (2000). For an analysis of the limits and potentials of 'social movements' see William Robinson, 'Latin America in the Age of Inequality: Confronting the New "Utopia"', *International Studies Review*, 1:3 (1999).

[62] The way this tension is in fact played out renders the practices of the proponents as less sharply distinguished than is implied by the constellation of a transnational elite class versus the politics of social movements. This, however, does not mean that these practices themselves are not anchored in this constellation in the way implied. Rather, it captures the tensions between the constituents of the constellation in terms of social/political struggle.

[63] Hettne, 'The International Political Economy of Transformation', pp. 12-13.

[64] Importantly, of course, this dynamic is as old as the capitalist state itself. There have been important social-political struggles and alliances at levels above and below, which always have pointed to the limitations of conceptualising global social formation in Realist/Westphalian terms (see e.g., Rosenberg, *Empire of Civil Society;* Christopher Chase-Dunn, *Global Formation: Structures of the World Economy* [Oxford: Blackwell, 1989]). Not withstanding, social-political struggle now occurs in qualitatively altered circumstances, with the site of political authority contested more saliently at different levels and in manners which suggest trends towards a transformation of modes of social political integration.

'Crisis Management' of the 1970s [66] and the Genesis of the Washington Consensus: Advancing Polanyi's 'First Movement'?

The Genesis of the Washington Consensus can be seen to take its roots in the capacity crisis of the 1970s. It has been argued that this crisis began, 'with the erosion of the basis of postwar prosperity in the late 1960s (before the first oil shock of 1973), leading to a collapse of opportunities for productive investment'.[67] In seeking opportunities for capital accumulation, the pursuit of the potential to *trade in services*, and specifically financial services, emerged as a crucial objective of the advanced capitalist states.[68] These states were now post-industrial societies, with a thriving services sector.[69] As Ruggie observed then 'the blurring of boundaries between domestic and international realms' were 'both hastened and deepened by the growing significance of traded services'.[70]

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[65] Bob Deacon, 'Social Policy in Global Context', in Andrew Hurrell and Ngaire Woods (eds.), *Inequality, Globalization, and World Politics* (Oxford: Oxford University Press, 2000), p. 213.

[66] This period has been identified as the 'beginning of the crisis' of the post-war years. See Amin, *Capitalism in the Age of Globalization*, p.16; R. J. Barry Jones, 'Globalization in Perspective' in Randall Germain (ed.), *Globalization and its Critiques: Perspectives from Political Economy* (London: Macmillan, 2000); Susan Strange, *Casino Capitalism* (Oxford: Basil Blackwell Ltd, 1986); Esthan B. Kapstein, *Governing the Global Economy, International Finance and the State* (Cambridgr, Mass.: Harvard University Press, 1994); Bonefeld and Holloway, *Global Capital, National State and the Politics of Money*.

[67] Amin, *Capitalism in the Age of Globalization,* p. 20. For an account of the relationship between finance and the 'real economy' in the context of changing political economy during this crisis period see Phillip G Cerny, 'The political economy of international finance', in. Cerny (ed.), *Finance and World Politics: Markets, Regimes and States in the Post-hegemonic Era* (Hants: Edward Elgar Publishers Ltd, 1993).

[68] With reference to the emergence of a trade in services agenda in the context of the oil shock in 1973, see Jacques Nusbaumer, vice president, 1986 of the Services World Forum, in the preface to Orio Giarini (ed.), *The Emerging Service Economy* (Oxford: Pergamon Press, 1986). The trade in services agenda was advanced steadily by the 'developed' states and the United States (US) in particular. See Helena Stalson, 'U.S. trade policy and international service transactions' in Robert P. Inman (ed.), *Managing the Service Economy: Prospects and Problems* (Cambridge: Cambridge University Press, 1985); Jagdish Bhagwati, 'International Trade in Services and its Relevance for Economic Development', in Giarini, *The Emerging Service Economy*, see esp. p.25; John Gerard Ruggie, 'At Home Abroad, Abroad at Home: International Liberalisation and Domestic Stability in the New World Economy', *Millennium*, 24:3 (1995), esp. p.514. It is during this period of uncertainty surrounding the capacity crisis of the advanced capitalist states that 'international economic law only began to address the legal framework' for trade in services ('in the late 1970s') See K.N.Schefer, *International Trade in Financial Services: The NAFTA provisions,* (London: Kluwer Law International Ltd, 1999) See preface, pp. Xxii, 48.
For an account of the political sanctioning of the re-emergence of *haute* finance during this period see Eric Helleiner, *States and the Reemergence of Global Finance* (Cornell: Cornell University Press, 1992).

[69] See for example also Robert P. Inman, 'Introduction and overview' in Inman (ed.), *Managing the Service Economy*, p. 1.

[70] Ruggie, 'At Home Abroad, Abroad at Home', p. 513.

Capacity crisis, trade in services and trade in finance

In the context of efforts to advance the services sector, finance, as an investment category in itself was to be included in the *trade in services* agenda by the advanced capitalist states.[71] The 'decision in 1973 to abandon fixed exchange rates for good',[72] set in motion the 'formal' transition from a restrictive financial order to a liberal financial order.[73] One consequence has been the dynamic expansion of the financial services sector that saw the rise of non-bank institutions engaging with banking services and banks engaging with innovative financial investments.[74] With reference to the implications of these shifts in political economy Robert Cox noted their implications for options and choices of national policy making. He stated then, that, '[a]djustment to global competitiveness is the new categorical imperative'.[75] Overall, representatives of 'developing' states have been reluctant to 'adjust' to the new global imperatives, and have been particularly cautious of liberalising their financial sectors. However, primarily, although not only, through the instrumental role of particularly the IMF and World Bank adjustments of state policy to the new global imperatives have been facilitated.

For example, Samir Amin locates the 'actions of international institutions after 1970' in this context. [76] He refers to the roles of the IMF and the World Bank in managing the crisis of this period and specifically to the development and promotion of Structural Adjustment programs (SAPs) by and through these institutions.[77] If it can be argued that SAPs, to a degree, represent policy initiatives to advance Polanyi's first movement in response to the crisis of the 1970s,[78] the counter-response by the second movement was to follow.

[71] For an account of the early policy level developments of the trade in services agenda and the implications for the financial sector see, Schefer, *International Trade in Financial Services*.
[72] Strange, *Casino Capitalism*, p. 7.
[73] Strange, *Casino Capitalism*, p. 5.
[74] Murray Gibbs, 'Continuing the International Debate on Trade in Services', *Journal of World Trade Law*, 19:3 (1985), see esp. p. 208; Strange, *Casino Capitalism,* p. 54; Kapstein, *Governing the Global Economy*, p. 30.
[75] See Robert Cox, 'Structural Issues of Global Governance' in Stephen. Gill, (ed.), *Gramsci, historical materialism and international relations* (Cambridge: Cambridge University Press, 1993), pp. 60-61.
[76] Amin, *Capitalism in the Age of Globalization*, p. 17.
[77] Amin, *Capitalism in the Age of Globalization*, p. x.
[78] This does not imply that SAPs were *primarily* a strategy in direct response to the capacity crisis. They have been more closely associated with managing and restructuring the international debt crisis, which built in the context of petro-dollar recycling along the capacity crisis.

SAPS, the Washington Consensus and Polanyi's second movement

The implementation of SAPs increased rapidly during the 1980s and 1990s. As their impact became more far reaching a 'politics of disquiet' took shape at multi-levels and particularly at the local level.[79] At this juncture, initial discernable indications arose of the imminence of pushes in terms of Polanyi's 'second movement'. One of the most evident manifestations of the potential of the 'second movement' to resist the advance of the socially disembedding logic of the 'first movement' occurred in Bolivia during the implementation of the New Economic Program (NEP) in 1986.[80] To off-set the demands of the 'second movement', the Emergency Social Fund (ESF) for Bolivia was created. Microcredit minimalism was a key component of the ESF.[81] The ESF approach departed from traditional public welfare programs. It was both conceptually and in its practical design oriented towards the 'private entrepreneur' - which suited well the objectives of the NEP.[82]

The Bolivian ESF: the counter-response against the second movement?

The Bolivian ESF was, from its inception, informed primarily by strategic political considerations.[83] The 'dual function' of microcredit minimalism served well to sustain as well as facilitate the liberalisation agenda from the 'bottom-up'. Analysis of the ESF for its potential for replication concluded that,

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[79] See John Walton and David Seddon, *Free Markets and Food Riots: The Politics of Global Adjustment*, (Oxford: Blackwell Publishers, 1994).
[80] For more on this see James Dunkerley, *Bolivia: Political Transition and Economic Stabilization*, *1982-1989* (London: Institute of Latin American Studies, University of London, 1990); Jeffrey D.Sachs (ed), *Developing Country Debt and Economic Performanc: Country Studies - Argentina, Bolivia, Brazil and Mexico, Volume 2* (London: The University of Chicago Press, 1990), esp. pp.157-266.
[81] See Jorgensen *et al*, *Bolivia's Answer to Poverty, Economic Crisis, and Adjustment: The Emergency Social Fund* (Washington, DC: World Bank, 1997), p.6.
[82] This was well noted by the researchers at the World Bank. See Jorgensen, *Bolivia's Answer to Poverty,* p. 120.
[83] Jorgensen, *Bolivia's Answer to Poverty,* p.51; Frances Stewart (with Willem van der Geest), 'Adjustment and social funds: political panacea or effective poverty reduction?', in Stewart, *Adjustment and Poverty* (London: Routledge, 1995), p. 115.

> [t]he *basic principle of a financial intermediary* that provides grants to local groups on a demand - driven basis using flexible and well designed management strategies is more *globally applicable*.[84]

The ESF approach has been replicated through the World Bank's Social Funds policy framework in comparable political situations elsewhere.[85] The strategic role of Social Funds (and safety-nets more generally) in disciplining the poor has been well researched.[86] There is evidence to support a causal linkage between the strategy itself, as well as its methods of implementation, and pre-empted political outcomes, at least in the formal sense. The ESF strategy was to become a crucial element in the poverty reduction policy inventory of the *Post*-Washington Consensus, particularly since it has been acknowledged that the social costs of 'adjustment' may not be a temporary 'problem of transition' but rather long-term.[87]

The 'Double Movement' and Complex Multi-lateralism: towards the *Post*-Washington Consensus

The Bolivian experience reflected the potential implications of political contestations for the implementation of SAPs: From a Polanyian interpretation, the politics of the second movement was increasingly gaining prominence. In 1986, the IMF recognized the urgent need to

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[84] Jorgensen, *Bolivia's Answer to Poverty,* p.114 (emphasis added).

[85] Deepa Narayan & Katrinka Ebbe, *Design of Social Funds-Participation, Demand Orientation, and Local Organizational Capacity* (Washington, DC: World Bank, 1997), pp , 2-3, 52-71.

[86] See for example, Jessica Vivian, 'How Safe are "Social Safety nets"', in Vivian (ed.), *Adjustment and Social Sector Restructuring* (London: Frank Cass, 1995). See also in this volume, Lourdes Beneria and Breny Mendoza, 'Structural Adjustment and Social Emergency Funds: The Cases of Honduras, Mexico and Nicaragua'. Generally, all the essays in this volume provide an interesting angle on this issue. See also Joan M. Nelson, 'The Politics of Pro-Poor Adjustment', in Nelson *et al*, *Fragile Coalitions: The Politics of Economic Adjustment* (Washington, DC: Overseas Development Council, 1989); Stewart (with van der Geest), 'Adjustment and social funds: political panacea or effective poverty reduction?'; Giovanni Andrea Cornia, 'Social Funds in Stabilization and Adjustment Programmes: A Critique', *Development and Change*, 32 (2001); For instance an analysis of this strategy in the African context concluded that : 'Social action programs have targeted special measures on vulnerable and vocal though not necessarily particularly poor groups of the population', see , Poul Engberg-Pedersen, Peter Gibbon, Phil Raikes & Lars Udsholt, *Limits of Adjustment in Africa* (James Curry : Oxford, 1996) p.58.

[87] See Philip J. Glaessner *et al*, *'Poverty Alleviation and Social Investment Funds: The Latin American Experience'* (Washington, DC: World Bank, 1994) p.xiv; Anthony G. Bigio, *Social Funds and Reaching the Poor:Experiences and Future Directions* (Washington, DC: World Bank, 1998), p. 36; Helena Ribe *et al*, *How Adjustment Programs Can Help the Poor* (Washington, DC: World Bank 1990).

proactively counter-act such tendencies.[88] These concerns were incorporated into policy in the form of 'confidential standard instructions' from 1988 onwards,[89] which stipulated that the IMF 'in concert with the member country, may seek a solution within the framework of the programme'[90] to counter-act any potential social and political resistance. It is in this context, that a distinctly reformed poverty focus also reemerged in the World Bank.[91] The focus being on' (..) the poorest groups in countries that are undertaking adjustment programs'.[92] The World Bank developed a "Master Plan" which included '(..) involvement with NGOs, poverty programs, women's programs, and *micro-enterprises*'.[93] These efforts resulted in the adoption of the Program of Targeted Interventions (PTI) for poverty reduction. [94] In 1991 an Operational Directive on poverty (OD 4.15) was approved. As targeted approaches to poverty reduction increased so did the appropriation of microcredit.[95] By 1995, '(a)bout 18 Latin American and Caribbean countries' had adopted 'some version of the ESF model'.[96] It may have seemed that the World Bank was finally responding to calls for 'adjustment with a human face'. However, the increase of targeted interventions that accompany 'investment lending'[97] must be understood in context: They facilitate as well as support 'top-down' adjustment from the 'bottom-up'.

Poverty reduction and financial sector liberalisation: legitimating coercive convergence?[98]

Given that financial sector steering through poverty reduction had already been institutionalised from the 'bottom-up',[99] the stage had already been set to smoothen the process of macro level

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[88] Eric Denters, *Law and Policy of IMF Conditionality* (The Hague: Kluwer Law, 1996), p.135.
[89] Denters, *Law and Policy of IMF Conditionality,* p.135-ftns. 70 & 71.
[90] Denters, *Law and Policy of IMF Conditionality*, pp.136, p.135/6 see note 38.
[91] For an analysis of the early origins of targeted poverty reduction strategies during the cold-war and their strategic motivations see Robert Ayres, *Banking on the Poor: The World Bank and World Poverty* (London: MIT,1984).
[92] D Kapur *et al*, *The World Bank-Its First Half Century*, Vol. 1 (Washington, DC: Brookings Institute, 1997), p. 368.
[93] Kapur, *The World Bank,* p. 368 (emphasis added).
[94] Kapur, *The World Bank,* p. 368.
[95] For example the 1990 World Development Report (on poverty) was to cite microcredit and particularly the Grameen Bank approach of microcredit minimalism as a potentially viable strategy for poverty reduction. (Washington DC: World Bank, 1990).
[96] See for example, Beneria and Mendoza, 'Structural Adjustment and Social Emergency Funds', p. 54.
[97] See World Bank, *Poverty Reduction and the World Bank- Progress in Fiscal 1998,* (Washington DC: World Bank, 1999) p. 3.
[98] For a discussion of the application of coercion in achieving policy convergence see Hay, 'Contemporary capitalism'.
[99] The financial liberalization drive, although brought to the forefront of policy making in the development context since the 1980s, was already taking shape since the 1970s. This may be recalled by reference to the role of the

policy convergence in the logic of the unification movement between and within institutions. For example, trends in the global financial services sector have reflected in the transformations of the original mandates of both the IMF and the World Bank.[100] In this context, Key has observed that '[n]ew relationships and lines of communication are being established between the IMF, the World Bank and the WTO as regards liberalization'.[101]

In keeping with its responsibility for financial sector development in accordance with the institutional division of labour between itself and the IMF,[102] the World Bank adopted an Operational Directive 8.30, on Financial Sector Operations (OD 8.30) in 1992. It has been stated that OD 8.30 was a result of the 1992 Levy Report which 'challenged the Bank to find new ways to do business in the field of finance'.[103] It set strict guidelines on the use of subsidies and advocated commercial on-lending interest rates. However, due to uncertainty about how to implement the guidelines into practice,[104] OD 8.30 was recast in 1998 as an Operational Policy (OP 8.30) on Financial Intermediary Lending (FIL).[105]

In recasting its operational policy for the financial sector, the World Bank has explicitly incorporated microcredit minimalism into it.[106] Moreover, it is anticipated that the World Banks's forthcoming Operational Policy 4.15 (OP 4.15) on Poverty will cite microcredit as a

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International Development Association (IDA) in advancing rural agricultural credit. The rural financial markets were one of the first inways in the World Bank's efforts for achieving financial liberalization. (The 'Ohio School' financial systems approach has had an influence on the shaping of the World Bank's financial systems approach to development. See for example J.D. Von Pischke, *Finance at the Frontier: Debt Capacity and the Role of Credit in the Private Economy* [Washington DC: World Bank, 1991]; J.D.Von Pischke, D. Adams and G. Donald, *Rural Financial Markets in Developing Countries: Their Use and Abuse*, [Washington DC: World Bank, 1983]. For a critical engagement of the application of this approach in development policy see Alister Mcgregor, 'Towards a better understanding of credit in rural development: The case of Bangladesh', *Journal of International Development*, 1:4 [1989]).

[100] See IMF, *Annual Report 1998* (Washington, DC: IMF, 1998).

[101] Sydney J. Key, 'Trade liberalization and prudential regulation: the international framework for financial services', *International Affairs,* 75:1 (1999). Key provides an account of the roles of the IMF and the World Bank in relation to financial liberalization under the GATS (*Services 2000)*, in the WTO, p. 74.

[102] See Denters, *Law and Policy of IMF Conditionality*, p. 160. See also The World Bank Group Operations Policy and Strategy, 'Poverty Reduction Strategy Papers Internal Guidance Note', January 21, 2000. (avaialable at www.worldbank.org).

[103] CGAP, 'A Review of the World Bank's Microfinance Portfolio' (Washington, DC: World Bank, 1997), p. 2.

[104] CGAP, 'A Review of the World Bank's Microfinance Portfolio'.

[105] World Bank, Operational Policy 8.30 (OP 8.30) Financial Intermediary Lending (FIL), (Washington, DC: World Bank, Operational Manual, July 1998).

[106] I explore this in more detail in Weber, 'Global Governance and Poverty Reduction: the Case of Microcredit'.

targeted poverty reduction strategy.[107] In this sense, OP 4.15 on poverty will complement, if not support, policy on financial sector operations. Although not yet formally co-ordinated, through the PTI and Social Funds lending modalities this has already effectively been achieved in practice. Importantly, by anchoring OP 8.30 (FIL) in the context of the microcredit and poverty reduction agenda, the advance of broader financial sector policy objectives is legitimated via the poverty reduction agenda.

The World Bank's role in facilitating the 'enabling environment' for the financial services sector via the microcredit and poverty reduction agenda is further exemplified by the creation of the Consultative Group to Assist the Poorest (CGAP) in 1995. The CGAP, a multi-donor initiative, is specifically charged with a mandate to facilitate the enabling environment for microcredit minimalism.[108] The CGAP has co-ordinated operations with the World Bank to achieve country level (and regional) commitments for financial liberalization. According to the CGAP, this has resulted in 'expedited financial sector reform' in several countries, including China, Brazil, Vietnam and Togo. [109] [See Annex A].

The implications for financial sector liberalization at multiple levels, as a result of policy co-ordination for poverty reduction through microfinance, are evident. The 'level of global integration in financial services has proceeded far further than in most other sectors of economic life'.[110] Significant progress has been made on the liberalization of the financial sectors of developing countries:[111] The contribution of microcredit conducive policy adjustments towards this outcome must not be underestimated.[112] Against the background of the argument so far, some general observations about the relationship between the Washington Consensus, the *Post-*

[107] Authors' interview with the Director of the Poverty Reduction and Economic Management Sector in the World Bank, February 1999.
[108] CGAP, 'A Policy Framework for The Consultative Group to Assist the poorest (CGAP): A Microfinance Program'- September 5 1995 (www.cgap.org).
[109] CGAP, *Status Report* (Washington DC: CGAP Secretariat, Word Bank) p. 24.
[110] Jones, 'Globalization in Perspective', p. 258.
[111] Andre Sapir, 'The General Agreement on Trade in Services: From 1994 to the Year 2000', *Journal of World Trade*, 33:1 (1999), p. 59.
[112] For instance microfinance has become a key issue of focus for the Private Sector Development Task Force (PSD Task Force), a body which includes all the major donors, IFIs and also the European Commission. The primary focus of the PSD Task Force is banking sector reform, enterprise privatisation and SME development. The PSD Task Force has been particularly interested in microfinance for its implications for the legal framework (i.e. broader

Washington-Consensus and the emerging *Global Development Architecture* are addressed below.

The *Post*-Washington Consensus and the making of a *Global Development Architecture (GDA)*

Under the *Post*-Washington Consensus, the global unification of private international trade law is consolidated in terms of an architecture for global development at the *supranational* level.[113] This entails the harmonisation of policy across a broad range of global institutions (e.g. World Bank, UN Agencies as the UNDAF[114] and multilateral and Bi-lateral development agencies). The Development Assistance Committee has been commissioned to oversee this process.[115] Key instruments for its implementation are the new poverty focussed conditionalities of the IMF and the World Bank: the Poverty Reduction Strategy Papers (PRSPs).[116] The framing of the emerging *GDA* in terms of the global unification movement means that it's central function is best understood against the backdrop of the 'double movement'. It may be designed to primarily reassert the supremacy of Polanyi's 'first movement'. This is clearly evident in the policy community standpoint in relation to the emerging *GDA*. Policy prescriptions may be interpreted as emphasising economic liberalization and the free-market approach as a prerequisite for other emancipatory goals.[117]

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policy implications). For a brief discussion of this see CGAP, *Focus Note 19 (In-Country Donor Coordination)*, April 2001 (Available at www.cgap.org/) p. 4.

[113] A key decision in this direction was adopted at the WTO's Ministerial Conference in Singapore in December, 1996. See the 'Comprehensive and Integrated WTO Plan of Action For the Least-Developed Countries' (Geneva: WTO, 1996). Pursuant to the *Plan of Action*, the approach underpinning the Integrated Framework was developed. (See wysiwyg://88/http://www.ldcs.org/intframe.htm)

[114] The UN has set in motion a policy to coordinate and harmonise in terms of policy the work of its various agencies through the UN Development Assistance Framework (UNDAF). See OECD, 'Development Co-operation 1999 Report', p. 107.

[115] OECD, 'Development Co-operation 1999 Report', pp. 124-125.

[116] For example see the World Bank Group Operations Policy and Strategy, 'Poverty Reduction Strategy Papers Internal Guidance Note'. I have engaged the role of the PRSPs as the central mechanism of implementation of the rules and norms of the emerging *GDA,* and also shown how microcredit is constituted as a key component of the PRSP policy framework elsewhere. See, Heloise Weber, 'The Poverty Reduction Strategy Papers: Global Constitutionalism and the 'new' Poverty Reduction Agenda'.

[117] These convictions have been endorsed by the new US Republican Treasury Secretary, Paul O'Neil. *Financial Times,* 15 February 2001, p.20.

> (..) take full advantage of opening markets; and promote the social and environmental agenda which *must b*e associated with liberalization. (…) attention that is paid, concretely and systematically to policy coherence. (..) Here, coherence means coherence between policies in the North and South a like, and of all within the multilateral organization.[118]

Thus, new forms of policy inter-linkages emerge.[119] Policy co-ordination at this level and in it's current phase relates particularly to *sectors* (e.g., finance, health, education) which coincides with current imperatives to advance the General Agreement on Trade in Services (GATS) of the WTO. With reference to the financial services sector, financial liberalization commitments in terms of the GATS now provide the World Bank and the IMF with both, criteria according to which they draw up conditionalities for SAPs, and legal leverage for their implementation.[120] 'Indeed, South Korea undertook to improve its GATS financial services commitments as part of its 1998 IMF programme.'[121] The example of microcredit is again particularly illustrative in this context.

Microcredit *minimalism* has been given explicit recognition as global best practice. The guidelines for the practice and implementation of 'minimalism' as outlined in the 'pink-book'[122] reflects the degree to which it is pre-structured for all levels of the extension process of the global financial system. Firstly, the guidelines are harmonized with the World Bank's position on financial sector operations. Secondly, NGOs as potential financial intermediaries to the poor are subject to status revision by the CGAP and donor community for 'best practice'. In many cases NGOs are now changing their status legally from 'NGO' to 'financial intermediary'.[123] Thirdly, the language used in the policy literature on microcredit is of creating the enabling

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[118] OECD, 'Development Co-operation 1999 Report', p. 3 (emphasis added).
[119] See Dukgeun Ahn, 'Linkages between International Financial and Trade Institutions: IMF, World Bank and WTO', in *Journal of World Trade,* 34:4 (2000), pp. 1-35; Gary P. Sampson, 'Greater Coherence in Global Economic Policymaking: A WTO Perspective' in Anne O. Krueger (ed.), *The WTO as an International Organization* (London: University of Chicago Press, 1998). (See also n. 106 above)
[120]. Key, 'Trade liberalization and prudential regulation', pp. 61-76.
[121] Key, 'Trade liberalization and prudential regulation', p. 64.
[122] See *Micro and Small Enterprise Finance: Guiding Principles for Selecting and Supporting Intermediaries* (pink book).
[123] For an example of such a transition see 'Metamorphosis from NGO to Commercial Bank- The case of BancoSol in Bolivia' in Hulme & Mosley, *Finance Against Poverty* - Vol. 2, pp. 1-32. See also Amy J. Glosser, 'The Creation of BancoSol in Bolivia' in Otera & Rhyne, *The New World of Microenterprise Finance*, pp. 229-250. The

environment to ensure *access* to credit for the poor, reflecting directly the legal language of the GATS of the WTO.[124] Crucial here is not the replication of language *per se* but rather policy implications of the legal interpretations for broader financial sector objectives. Implementation of the GATS is controversial.[125] The GATS is tantamount to 'direct investment' policy and *not* trade as conventionally understood.[126] The microcredit minimalism and poverty reduction agenda can be seen to make a significant contribution to the removal of barriers to capital *mobility* in terms of both direct policy implications as well as legitimating it in terms of increasing *access* to credit for the poor; creating 'pro-poor enabling policy environments'. The argument advanced here is discernable in the British Governments latest White Paper on

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relative success of such transformations in the Latin American context are now being pro-actively targeted as a strategy for microcredit in Africa. See CGAP, *Annual Report 2001*, p. 11 (Available from www.cgap.org/).

[124] For a discussion of this issue regarding the problematic of gaining consensus for market *access* see Richard H. Snape, 'Reaching Effective Agreements Covering Services', followed by a commentary by Robert E. Baldwin, in Krueger, *The WTO as an International Organization.*

[125] Securing commitments to GATS has been problematic from its early days. Most developing countries have rejected the GATS on the grounds that it could have potentially adverse implications for social consolidation and development goals. See for example the discussions and responses with reference to the issue of trade in services in UNCTAD, *Uruguay Round: Papers on selected issues* (New York: United Nations, 1989).

[126] Importantly, the problems with the GATS lie not so much with the 'access' argument *per se*, but rather with the comprehensive rights and obligations entailed to 'rights to access' in the logic of investor guarantees (as for instance anticipated for a Multilateral Agreement on Investment). In this context, the relationship between the language of access in connection with microfinance and the objectives of the GATS financial services provision must be considered in accordance with the logic of this reach. The potential implications of a volatile financial sector for attaining *development* goals has recently been most evident in Asian financial crisis. On this see the discussion in Nicola Bullard, Walden Bello & Kamal Mallhotra, 'Taming the tigers: the IMF and the Asian Crisis, *Third World Quarterly,* 19:3 (1998). Moreover, given the degree of the tendency of finance capital to increasingly re-produce itself in abstraction from 'real economy' development needs raises important questions pertaining to debates vis a vis finance as a public/private good. (See Underhill, 'The Public Good Versus Private Interests in the Global Monetary and Financial System'). The GATS can be seen to facilitate as well as safeguard the steering of finance in the logic of 'private' interests and *haute finance.* This is problematic for development not least because while services broadly conceived might comprise a nations basic economic infrastructure, *finance* is considered to be the *'infrastructure of the infrastructure'*. {See Philip G. Cerny ,'The political economy of international finance', in (ed.), *Finance and World Politics: Markets, Regimes and States in the Post-hegemonic Era* (Hants: Edward Elgar Publishers Ltd, 1993)} pp. 10, 17. In other words from the perspective of one school of thought it is foundational for a nations development infrastructure. For this reason, finance must be embedded within the 'real economy': it must be directed into the infrastructure to support 'real economy' development. To ensure that this happens, many scholars including Cerny have argued that 'the design capacity of the system must be highly interventionist in such a way as to channel money into more materially productive uses'. (Cerny, 'The political economy of international finance') p. 7. This would enable the building up and guaranteeing of public goods that not only meet the *needs* of society, but may also contribute towards re-building the social bond through a facilitation of mutual advancement. See note 52 above. See also Richard Devetak and Richard Higgott, 'Justice Unbound? Globalization, States and the Transformation of the Social Bond', *International Affairs,* 75:3 (1999).

(For a critical discussion of some of the implications for the public provision of health care with reference to the GATS and the health sector see David Price, Allyson M Pollock, Jean Shaoul, 'How the World Trade Organisation is shaping domestic policies in health care', *The Lancet*, 354 [1999]; Allyson M Pollock, David Price, 'Rewriting the regulations: how the World Trade Organisation could accelerate privatisation in health-care systems', *The Lancet*, 354 [2000]).

International Development, *Eliminating World Poverty: Making Globalisation Work for the Poor*.[127] By changing the terms of reference so as to render opaque the actual social experiences of the implications of such policies,[128] any direct engagement with their cause and consequences in *political* terms might be avoided.

Poverty Reduction *as* Crisis Management: A Polanyian After-Thought

Through the example of microcredit, the article has traced the dynamic of the poverty reduction agenda of the *Post*-Washington Consensus back to the crisis of the 1970s. Microcredit has been situated in a historical context of crisis management of the advanced capitalist states. Even from a narrowly conceived South-North political economy perspective, it is clear that the crisis management strategy adopted then has *not* solved the crisis of capacity of the advanced capitalist states. Rather, we have rising concerns, globally, including in the US, with growing 'surplus labour' operating in the informal sectors.[129] Thus, the implications of the poverty reduction agenda must be understood in the historical context of *global* political economy.[130]

It is worthwhile to refer back to the initial framing of the poverty reduction agenda in Polanyian terms. If the market was seen to move 'into a grove' once again in the 1970s, efforts to reassert its supremacy came up against social and political limits, especially at the national level of policy

[127] UK Government (Department for International Development [DFID]), *Eliminating World Poverty: Making Globalisation Work for the Poor* (Norwich: The Stationary Office, 2000). Microcredit (p. 49) as well as capital account liberalization (p. 64) are both promoted as crucial elements of the poverty reduction agenda.
[128] By this I mean for example, the conceptualisation and representation of adverse social experiences of microcredit in terms of 'consumption smoothing', 'cross-borrowing' and so on. There has recently been some recognition of the fact that microcredit (and particularly) minimalism might not be a panacea for poverty reduction. The concern however seems to focus on the implications this may pose for institutional sustainability. This quasi-acknowledgement has nevertheless *not* swayed the dominant shift away from minimalism or the comercialisation of microcredit for 'poverty reduction', rather it has served to strengthen this standpoint, while making 'exceptions' for situations under which it may still be applicable even if client capabilities may not hold to achieve entrepreneurial success. These exceptional situations seem akin to crisis periods under which Social Funds are employed. See CGAP, *Focus Note 20,* (Available at www.cgap.org/). Discussions between the CGAP, World Bank and IMF are exploring how better to integrate within the Social Funds strategy both the 'political safety-net' objectives as well financial sector objectives in the context of the microcredit agenda. The focus of attention and concern however is still primarily on achieving outreach and institutional sustainability of the microfinance industry: in this context discussions revolve around the issue of what strategies (or combination of policy tools) may best deliver these outcomes. This is discernable from the CGAP, *Annual Report 2001,* pp. 17-19. (See also CGAP, *Focus Note 20*).
[129] See, Ethan Kapstein, 'Winners and Losers in the Global Economy', *International Organization*, 54:2 (2000); See also ILO, *World Labour Report 2000*.

making, during the 1980s. A counter-response was shaped and was largely implemented by relevant global institutions through disciplinary neoliberalism.[131] This merely extended the dynamic of the 'second movement' to the level of the 'local' or the 'life-world', prompting a further counter-response focussed on problems of micro-level 'risk management' and thus setting the target for 'disciplining' directly at the community level. At its current stage, 'micro-level' risk management strategies are being complemented at the global level by enhanced policy co-ordination and policy cohesion.

Since the argument advanced here adopts a historical approach and is particularly shown to link to the crisis of the 1970s, something needs to said about the post-1945 'embedded liberal' compromise. Although embedded liberalism 'did indeed constitute a restructuring of the relationship between markets and political authority as Ruggie suggests' it never 'challenged the ultimate basis of the market as a disembodied institution itself'.[132] It 'could not last; it was undermined by the pressures of the market'.[133] As Lacher argues, 'embedded liberalism' as conceptualised by Ruggie, did not work precisely because it differed fundamentally from the 're-embedding' of the economy in society in Polanyi's sense. Re-embedding cannot mean simply the restriction of the free-market, 'but its complete subjugation to democratic control by society, including the extension of democracy to the economic sphere'.[134]

An analysis of the *Post*-Washington Consensus poverty reduction agenda using Polanyian insights helps not only to situate these recent trends within the broader context of capitalist crisis management but also to *understand* their implications for development. The crisis of global poverty and the crisis of global capitalism are not distinct from each other, but are constituted as 'one', and must be understood in dialectical terms. A re-conceptualisation of the 'crisis' in these

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[130] See Peter Burnham, 'Open Marxism and vulgar international political economy', *Review of International Political Economy*, 1:2 (1994); See also Chase Dunn, *Global Formation*.

[131] This was evident in a statement made by former Managing Director of the IMF, Michel Camdessus, '(…) adjustment is inescapable. If you do not do it voluntarily, it will take place as soon as you are cut off from international credit' Michel Camdessus, in *Time,* July 31, 1989, quoted in Denters, *Law and Policy of IMF Conditionality,* p. 1.

[132] Hannes Lacher, 'Embedded Liberalism, Disembedded Markets: Reconceptualising the Pax Americana', *New Political Economy*, 4:3 (1999), p. 345; See also Hannes Lacher, 'The Politics of the Market: Re-reading Karl Polanyi', *Global Society,* 13:3 (1999).

[133] Lacher, 'Embedded Liberalism', p. 345.

[134] Lacher, 'Embedded Liberalism', p. 345

terms, may explain why even the best of intentions have either failed or resulted in further immiseration. Understanding this, means understanding that '[p]overty is not a contingent social relation under capitalism; it is a *necessary* relation'.[135]

The non-recognition of the 'crisis' in these terms will mean that strategies in response will be based on the 'rejection or non-recognition of limits'[136] to crisis management. In this sense, the *Post*-Washington Consensus, perhaps 'the most evident manifestation of globalization, can be seen not as the resolution of capitalist crisis but as "the politics of the unresolved crisis"'.[137] The *political* implications of development *as* crisis management may well be regressive. This is already evident in that under the *Post*-Washington Consensus crisis management has been given a new twist. In practice, the imperatives of the first movement are advanced whilst disciplining and pre-framing the politics of the second. There is cause for concern. The way in which the *Post*-Washington Consensus policy framework is consolidated means that it actually aims at de-legitimating the politics of the second movement. This is tantamount to an attempt at 'social closure'.[138] Genuine political struggle -- political contestation -- of development is undermined. The emerging *GDA* has no space or option to accommodate contending political conceptions of development or contending routes to development.

Although it projects a normative appeal the *Post*-Washington Consensus poverty reduction agenda reveals a more complex structural re-configuration of global political economy: It seeks to constitutionally consolidate the key norms of the *Washington Consensus* on a global scale. In this sense, the emerging *GDA* falls within the broader global structural reconfiguration of what Stephen Gill defines as the 'new constitutionalism'.[139] But it is more than this: It confers *legitimacy* for the unification movement against the backdrop of a poverty reduction agenda.

[135] Julian Saurin, 'The Global Organisation of Disaster Triumphant: the unintended consequences of Enlightenment'. A Discussion Paper Presented at the ISA Convention, Chicago 20th-24th February 2001, p. 16, (original emphasis).
[136] Saurin, 'The Global Organisation of Disaster Triumphant', p. 2.
[137] Julian Saurin, 'Organizing Hunger: The Global Organization of Famines and Feasts', in Caroline Thomas and Peter Wilkin, *Globalization and the South*, (London: Macmillan, 1997), p.108 [Saurin quotes here, J. Peck and A. Tickell, 'Jungle Law Breaks Out: Neo-Liberalism and Global-Local Disorder', *Area,* 26:4, p.318].
[138] See Ronen Palen, 'Global Governance and Social Closure or Who Is to Be Governed in an Era of Global Governance' in Martin Hewson and Timothy J. Sinclair (eds.), *Approaches to Global Governance Theory* (Albany: SUNY Press, 1999).
[139] Gill, 'Globalisation, Market Civilisation, and Disciplinary Neoliberalism', see pp. 412-415.

Preserving the 'democratic provision' is important,[140] as is closer scrutiny of the renewed 'poverty reduction' agenda of the *Post*-Washington Consensus for 'policy continuity'[141] in the logic of the Washington Consensus. At least for now, the poverty reduction agenda of the *Post*-Washington Consensus is committed to re-staging what Saurin calls the 'modern tragedy'.[142]

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[140] For an excellent discussion of this in relation to the WTO see Markus Krajewski, 'Democratic Legitimacy and Constitutional Perspectives of WTO Law', *Journal of World Trade*, 35:1 (2001).

[141] A note of caution with reference to 'policy continuity' was offered by Richard Higgott in 1983. See 'From Modernization Theory to Public Policy: Continuity and Change in the Political Science of Political Development' in Higgott, *Political Development Theory* (Kent: Croom Helm, Ltd 1983).

[142] Saurin, 'The Global Organisation of Disaster Triumphant', p. 3.

Annex A

The case of nine West African countries is an interesting example of the capacity of the World Bank (together with CGAP collaboration) to bring about policy *shift* towards financial sector liberalization. This case, extracted from CGAP's *Status Report*[143] is reproduced below.

Policy forum for 16 West African countries

A large portion of West Africa's private sector is informal, and micro-finance institutions in the region play an important role in alleviating poverty. Recognizing micro-finance institutions' ability to mobilize savings, the governments of seven West African nations that make up the Union Economique et Monetaire de l'Ouest de l'Afrique (UEMOA) promulgated a law on the governance of credit unions in December 19993. The law provides a legal framework only for credit unions, leaving the regulatory and supervisory status of other micro-finance institutions somewhat ambiguous. But the law does subject West Africa's micro-finance institutions to usury laws, which place a ceiling on interest rates and limit micro-finance institutions' ability to become financially sustainable.

To address these policy and operational challenges, CGAP joined with the Centre International de Developpement et de Recherche, Caisse Francaise de Developpement, Canadian International Development Agency, and World Bank to organize a June 1996 forum for 16 West African countries. The forum sought to build awareness among governments about how best to assist the informal sector, identify policies and regulations needed to support the development of micro-finance institutions in the region, and define the roles of the various players in the process. The forum's most significant achievement was that the central banks of these 16 nations agreed to develop ways to define usury rates that are better suited to micro-finance operations.

Source: *Report of the West Africa High-Level Policy Forum on Micro-finance* (March 1997)

One immediate up-shot of this policy forum was that 'MFIs subject to the Law on Usury, were urged by UEMOA Ministries of Finance to seek an exemption from the ceiling by approaching

143 CGAP, *Status Report*, p. 21

their respective Ministry'.[144] This outcome it must be noted, transpired despite 'little consensus, [however] between practitioners and authorities from the UEMOA countries on the new Credit Union Law'.[145] Discussions on this particular case were on-going as of November 1999, with the 'CG members and the West African Central Bank' (BCEAO) on investigating the best option for MFIs under a proposal of four potential legal options.[146]

[144] CGAP, *Newsletter,* Issue No. 3, January 1997 (Washington DC : The CGAP Secretariat, World Bank) p. 7
[145] CGAP, *Newsletter,* Issue No. 3, p. 8 The 'UEMOA is the Economic and Monetary Union of the following seven West African nations: Benin, Burkina Fasa, Cote d'Ivoire, Mali, Niger, Senegal, and Togo.' For more on this see also CGAP, *Newsletter,* Issue Number 2, September 1996, (Washington DC : The CGAP Secretariat, World Bank) pp. 1, 10-11
[146] CGAP Annual Report – July 1998-June 1999 (FY1999) – http://www.cgap.org./reports/year4.htm, p. 22