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# [A PROPOSAL FOR A MICRO-INVESTMENT BANK]

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**A MICRO-INVESTMENT BANK**

Over the last two decades, there has been increasing interest in the role of non-government *microfinance* institutions in the developing world, as a means of alleviating poverty and facilitating development. The World Bank, for instance, is now a supporter of these modes of credit provision. Microfinance involves the provision of small loans to aspiring and latent entrepreneurs who, in turn, stimulate economic activity and, it is hoped, aid development. Newer forms of microcredit emerged as a response to the problems people experienced in the developing world, when trying to obtain credit, if they were lower down the income (or collateral) scale. Potential lenders faced insufficient information for risk evaluation and the small size of these loans rendered them cost ineffective (Hulme 1996). As a result, the poorest people were often not able to obtain the finance which would have otherwise instigated socially beneficial projects. During the sixties and seventies, finance institutions sponsored by governments (and their agencies) had sought to meet this need and provided microcredit, but arrears rates soon became high. The forces that were lobbying for the liberalization of finance at the time (such as the Ohio school) viewed this as a failure of state bureaucratic processes and, subsequently, advocated the private sector (and market interest rates) as a suitable vehicle (Mouatt 1997). In addition, the Ohio school claimed that the use of subsidy by institutions encouraged 'political manipulation'. Conversely, as the extensive Hulme and Mosley study revealed, there are many institutions that have successfully utilized credit subsidies and, targeted lending effectively. If certain design features are adhered to then lower long-run costs and default rates can lead to lower interest rates and the elimination of subsidy (Hulme 1996). The use of women groups, peer pressure and local knowledge, for instance, have all helped to improve these matters, as the famous Grameen bank has discovered.

However, for the cynical amongst us, recent microcredit provision could also be seen as an instrument for drawing increasing numbers of people in the developing world into the various modes of capitalist behavior, and debt-based money system, that exist in the West (Weber 2006). Many areas of the developing world presently experience much more 'communal' economies, often with complementary currency systems, than occur in the developed world. It could be argued these offer superior models for social existence. Bernard Lietaer, for instance, has provided a good case study of such a society in Bali, that uses its *Nayahan Banjar* alternative currency(Lietaer 2003). It is hoped that future microfinance institutions would be able to work in tandem with such practices.

My proposal (I have coined the phrase *Integrity Trust*), for a *micro* investment bank model, aims to build on the success and innovation of these microcredit organizations mentioned above. The recommendation is to set up a charitable status organization(s) in the developed world, with the express aim of raising sufficient funds to provide the asset base for an individual *micro* investment bank (or multiple branches) in a pre-specified location in the developing world. Whilst it is recognized that many people (and organizations) in the developed world are experiencing 'aid fatigue' at present, it is also hoped (and presumed) that many others are keen to donate funds but, are often concerned about the manner in which the money is used. In order to overcome this valid objection it is suggested that the bank-charity adopts a constitutional principle to provide complete *transparency* in all of its financial dealings, in addition to those required by the relevant legislation. With the advent of modern telecommunications technology, of course, this has become much easier. It is, therefore, recommended that a website be constructed that could provide *any* interested party with instant access to comprehensive jargon-free information on *all* book-keeping activities and records. Since money has so often been the cause of social distress in human history, the value of transparency in financial dealings cannot, in my opinion, be under-estimated.

Once funds have reached the required level, the plan is to make the monies available to a trusted (individual) partner, in the particular region of the developing world, where a personal relationship has already been established. This person would have complete responsibility for administering the account, for a specified remuneration, and make decisions regarding the granting of credit, in accordance with certain specified criteria. Yet, in contradistinction to other microfinance institutions, it is proposed that the loans are provided completely *interest-free*. The reason for this is twofold. Firstly, the credit would provide an opportunity to model the viability of many of the claims of the monetary reform movement, albeit on a much smaller scale. Secondly, the lending is likely to be much more acceptable to indigenous communities, and their traditional economic practices, and those with religious or philanthropic convictions.

At first glance, it appears that the proposed *micro* investment bank fund would, over time, be gradually depleted. Even given fortuitous circumstances, with no default on lending and the absence of corruption or theft, the administration costs would eventually diminish the fund. To combat this, the proposal is to instigate the requirement (similar to Islamic finance) that all (successful) businesses established, have to pay a percentage of their net profit to the bank, in addition to any principal repaid. This, it is further argued, should also be paid for a pre-specified period of time. The key advantage of this proposal is that the *social* responsibility of entrepreneurs is enhanced, as monies are re-circulated in order to assist the entrepreneurs of the future.
As far as the donors in the West are concerned, it is further suggested that they have the advantage of tracking the usefulness of their gift by logging on to the relevant website and, observing the success (or failure) of the particular beneficiaries and their specific activities.

Finally, it is proposed that in the event of default, or even theft, the loans extended are simply written off. It could be argued that this encourages irresponsible lending, known as *moral hazard*, as well as providing an incentive for corruption. However, it is my conviction that the *transparent* nature of the banking activities, including the details of the beneficiaries, would mitigate this as a result of the community peer pressure. Much would also depend on the particular skills, and qualities, of the fund administrator. In any case, since the monies are initially provided by charitable donation, there are not the same levels of obligation that are usually associated with investors.

To conclude, it is not suggested that this model is a global panacea for the difficulties faced by those in the developing world. Yet, it is hoped that the model would make some contribution towards a *concerted* effort to reform capitalism, in the developing countries, from several angles. Indeed, the achievement of social and economic justice, in the capitalist world of today, most likely requires the mustering of multilateral and multi-faceted forces. L