ESRC Research Group on
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How relevant is wellbeing to microfinance?

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A short answer to this question is that microfinance is of course about wellbeing. Expanding the range of financial services to which relatively poor people have sustainable access expands their *freedom to* save, invest, insure, move money, and achieve otherwise unobtainable goals, as well as their *freedom from* vulnerability to shocks and their dependence on more costly alternative services and coping strategies. Greater security, choice, autonomy, livelihood resilience, and options for consumption smoothing arising from access to financial services all improve clients' wellbeing. The simple fact of taking up a service, if not done under duress, is a strong indicator of this – still more so the continued loyalty of clients when alternatives services are available.

In this note I do not dispute the potency of this way of thinking about microfinance and development, a test of which is that it combines ideas of how wellbeing *is* (poverty etc), how *it should be* (enhanced freedom) and how it *could be* (better financial services). However, I argue that this is only one way of thinking about microfinance and wellbeing, and that it is worth reflecting on others as well. In so doing I am drawing on a rapidly growing empirical literature that defines and measures wellbeing in terms of how people *think* and *feel* as well as what they *have* and *do.*

One of the better known branches of this literature explains variation in people's *happiness*. There is evidence that increasing the income of very poor people does indeed make them happier, although the effect becomes much weaker as their income rises. However, it doesn't follow that *overall* happiness necessarily also rises, because if income growth is unequal then there is evidence that the happiness of those relatively better off is offset by the unhappiness of those falling behind. Understanding such *polarising effects* is relevant not only to politicians concerned about social stability but also to anyone interested in understanding socio-cultural constraints to individual saving and capital accumulation. How much and in what contexts does microfinance, for example, contribute to actual and perceived social mobility? And how much does it accentuate feelings of resignation and hopelessness among those refused membership of a savings group or unable to graduate to larger loans?

Happiness is of course only one indicator of wellbeing. People's overall life satisfaction is enhanced not only by improved capabilities and freedoms but also by a stronger sense of *relatedness* or belonging. Different ways of providing microfinance can profoundly add to, as well as erode this. Group-mediated financial services, for example, can both undermine and strengthen trust among members. Any decision to use a financial service is a *social process* susceptible to peer pressure and to more explicit forms of manipulation and coercion. The same applies to non-use of financial services. In the rush to address physical and financial barriers to access, the more profound cognitive and emotional barriers have perhaps been neglected. These obstacles are not just about individuals, they are profoundly social because acquiring the confidence and skills to manage money is mostly learnt experientially through family, friendships, groups and networks.

What is well-being?
"A state of being in society where people's basic needs are met, they can act effectively and meaningfully in pursuit of their goals, and they feel satisfied with their life." (cited in Copestake, 2007)

The literature on wellbeing challenges us to question the assumption that people are always highly knowledgeable and rational optimizers of their own interests. Of course, the marketing and advertising industry have always known this, and drawn on research into the attitudes and *mental models* of different segments of the market to promote uptake of new products. When these products entail entering into often complex contracts and when potential clients are relatively poor, vulnerable, lacking in formal education and culturally diverse then the case for doing this is even stronger. And such understanding is obviously highly pertinent to improving social as well as financial performance. In addition to product development it is particularly relevant to financial education (including debt counselling), consumer protection and human resource management.

Building a wellbeing perspective into development policy and practice is related to the challenge of balancing economic and human development perspectives. In high income countries it is already informing debates about how to understand and respond to *affluenzia* – including mental illness, obesity, substance abuse, family and community breakdown. Wellbeing research in lower income countries has been held back in part by the assumption that policy makers already know what poor people need, but this is changing fast. A comparative study of wellbeing in Ethiopia, Bangladesh, Thailand and Peru at the University of Bath has concluded that wellbeing research is highly relevant to international development at four levels.

Micro. Systematic enquiry into how individuals think and feel about their wellbeing offers a new approach to *needs assessment*. For example, empirical evidence indicates that even very poor people do not always separate material goals from social and symbolic goals (how they relate to people and ideas as well as things) and give them a higher priority. A better understanding of this is critical to building respectful working relations. An emphasis on individual as well as community and household goals and needs also reveals critical differences according to age, gender, race, ethnicity, ability and income.

Meso. It can inform understanding of when *collective action* is and is not possible. For example, a better understanding of social identity and culture helps to explain how and why free-riding problems are often overcome. Likewise a wellbeing perspective can aid understanding of *organisational culture*, how this affects its interaction with external stakeholders and its overall performance. It can help to explain *cultural disconnects* between stakeholders that often undermine aid effectiveness in particular.

Macro. It can inform analysis of how public and private sectors interact at the country level, including analysis of *welfare regime* stability, drivers of change and potential tipping points. Public policy, for example, is influenced as much by *cultural resonance* between politicians and the public as it is by rational argument.

Theory and self-reflection. It provides a useful *discursive space* within which to understand and possibly even reconcile policy perspectives and priorities. Different assumptions about the nature of human wellbeing lie behind emphasis on the importance of economic growth, poverty reduction, human development, human rights and local cultural affirmation. A wellbeing perspective serves as a framework for identifying these and the trade-offs associated with shifting priorities.

Some further reading.

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