Hype and Hope: The Worrisome State of the Microcredit Movement

2005 has been declared the 'Year of Microcredit' by the UN, thus acknowledging the journey of microcredit from an obscure experiment in the mid-1970s to the status of a worldwide movement. The movement has captivated not just the entire development aid industry, but journalists, editorial writers, policy makers and much of the general public in both the North and the South.

Microcredit is what you might guess - credit in tiny amounts. The term, and the practice, came into being when a few aid agencies began offering loans of as little as $10 or $20 to poor people with no collateral in the developing countries. As with many other new ideas in development, microcredit was meant to be a response to a more profound understanding of third world poverty - in this case the awareness that millions of working poor were stuck in a kind of capital-paucity hell, one so banal in its minute details that Marx himself would probably have overlooked the problem.

Imagine a shoeshine man in Nairobi who can buy the shoe polish but cannot afford the brush. He has to rent the shoe brush from someone else, paying an exorbitant percent of his earnings to that owner of 'the means of production'. Imagine people needing cash for emergencies (poverty is very much about the risk exposure of people for whom a child's minor illness becomes a major economic crisis) whose only option is to borrow from a money lender at an effective annual interest rate of 1,000%.

Is credit a human right?

If these poor people could get small loans at manageable rates, they could break out of the cycle of poverty, or so the theory goes. John Kenneth Galbraith spoke to the point 30 years ago. 'The function of credit in a simple society is, in fact, remarkably egalitarian. It allows the man with energy and no money to participate in the economy more or less on a par with the man who has capital of his own. And the more casual the conditions under which credit is granted, and hence the more impecunious those accommodated, the more egalitarian credit is.'

Thus, the shoeshine man could own his own brush; the rickshaw driver his own rickshaw; the seamstress her own sewing machine. It is not surprising that Mohamed Yunus, founder of Bangladesh's Grameen Bank and grandfather of the microcredit movement, has called credit a 'human right'.

Yet microcredit is an almost perfect case of a phenomenon that has come to characterise much of development assistance - a widening gap between reality and propaganda. For while the promise of microcredit is irresistible - help the poor out of poverty using their own entrepreneurial energies, and in the process get our investment back - the hoped for poverty reduction impact of microcredit remains elusive. While much has been learned about managing microcredit in a sound manner, many newcomers to the field succumb to the temptation to trumpet success prematurely.

I began working in microcredit in the early 1980s and have formally evaluated over 30 microcredit programmes in 18 countries in Africa and Asia. In the course of the evaluations work I have talked with and visited the activities of roughly 700 to 800 microcredit recipients. When I started in the field, the term microcredit had to be explained to almost everyone. Many who did understand the term, such as World Bank economists, scoffed at the idea. Today the World Bank funds a great deal of it.

Microcredit on a macro scale

In 1995 and 1996 the World Bank's 'Sustainable Banking with the Poor' Project conducted a worldwide inventory of institutions providing microfinancial services to at least 1,000 clients and who were operating microcredit services with a poverty reduction mission for at least three years, including commercial banks, credit unions and NGOs. The list included about 1,000 such institutions. As a participant in the project, I guestimate there are 3,000 to 5,000 providers absent the minimum criteria used in the survey.

Practically every traditional aid donor got involved in the sector. Today a conservative 'guesstimate' would be at least 10,000 operators, large and small, with hardly a single country in the world left out. Virtually every development project I see these days, from maternal and child health, to women's education, to soil conservation, to social forestry, to old fashioned integrated rural development, has a 'microcredit component.'

The hope has bred hype. Pro-microcredit editorials abound. World-class papers like the *New York Times, The Wall Street Journal* and *Le Monde* write about it, and scores of books have been published, including *The Miracles of Barefoot Capitalism; Pathways Out of Poverty; Hands Around the Globe; Back Alley Banking; Defying the Odds; Give Us Credit; The Price of a Dream.*

In February 1997 a huge 'Microcredit Summit' was held in Washington. Accompanied by the booming theme from the film 'Chariots of Fire,' three huge screens showed the first of three video segments, the inspiring story of Makgomo Mangena, a 'microentrepreneur' from South Africa. Hillary Clinton spoke about microcredit in the presence of the president of the World Bank, the head of Canadian CIDA, the prime minister of Bangladesh, the Queen of Spain, and the president of Uganda. Almost all the 2,000 delegates signed on to the goal that emerged from the Summit: 100 million of the world's poorest families receiving microcredit by the year 2005. Microcredit had come to be seen as a real answer to poverty.

The UN General Assembly and Kofi Annan announced the year 2005 as the UN's Year of Microcredit, and in the fall of 2004 at a Microcredit Summit follow-up meeting in Jordan, Annan stated that 'microcredit has been one of the success stories of the last decade,' while USAID's microfinance unit claimed that microfinance 'has tremendous potential to generate income and expand employment?' The new website of the 'International Year of Microcredit' is even more unequivocal about the development potential of microcredit: 'Currently, microentrepreneurs use loans as small as $100 to grow thriving businesses…leading to strong and flourishing local economies.'

Africa is increasingly on the microcredit agenda. The UNDP has recently committed its energies to raising $500 million for an expansion of its microcredit programme in Africa.

Does microcredit lead to development

Economic development is often conflated with short-term poverty reduction, which is in turn confused with a mere lightening of the burden of poverty ('poverty alleviation'). But development and poverty alleviation are about as similar as clearing a swamp to eradicate mosquitoes is the same as applying a repellent to one's skin to keep the mosquitoes away for a few hours. To date, there is little evidence that microcredit leads to economic development.

There is also an important difference between credit used for enterprise growth, productivity and job creation, and credit used to smooth the ups and downs in the cash flow cycle of the poor (especially in the seasonally dependent rural areas)? If microcredit results only in making the lives of the poor a bit less terrible, is that sufficient reason to laud it? And if borrowers repay microloans does this automatically mean that microcredit is a useful intervention in poverty reduction? And if it is marginally useful, is it cost-effective?

Where does microcredit properly belong? Solely in the realm of banks and other formal financial institutions? Or can it also be practiced successfully by NGOs and other non-bank institutions that may depend on subsidies in order to reach a larger number of poor clients? And what about the distinction between informal credit systems (which exist virtually everywhere in the developing world) and the new formalised ones we call microcredit? Why intervene at all if informal systems (like rotating savings and credit associations run by extended families or groups of friends and acquaintances) already exist?

These are just some of the questions that should be answered to clarify what can rightly be expected from microcredit. There is room in this article only to address a few of these questions, but at the least I hope to temper the high expectations of microcredit, point to some of its very real limits, and suggest where the real future challenges lie.

Historical perspective

For most of history, credit has had more detractors than enthusiasts, and the availability of credit to the average person in the 'north' hardly figured in its development. For most of the history of what we now call the 'advanced industrial nations,' borrowing money from others has been a tainted temptation, if not a source of shame. Which led Shakespeare to advise: 'Neither a borrower not a lender be.'

As recently as 50 or 60 years ago most people in the 'developed' countries had little contact with financial services or formal credit. A working class or rural American, Briton, or Frenchman tended to see banks as institutions for businessmen and the rich. Many people believed that if you could not pay for something, you could not (and should not) buy it. The working person, if he had contact with a bank had a small savings account, or by the 1950s, at best a mortgage.

The $2 trillion in consumer debt in the US alone testifies to a sea-change in attitudes. But two important facts remain: First, the development of the advanced industrial countries did not depend on the average middle class or poor person having access to credit. The rise of the middle class (a relatively recent phenomenon) depended upon economic growth - the expansion of the economy - which created jobs which led to buying power. And second, the large majority of people in the North are not entrepreneurs and never will be. The closest most of us get to entrepreneurship is a childhood experiment in selling lemonade on a suburban sidewalk - with mom supplying free cups and lemonade.

Are we (as we have tended to before) assuming the poor of the developing world are a different order of human being than we are? If the large majority of us in the advanced economies are not entrepreneurs, and have had in our past little sophisticated contact with financial services, and if most of us use credit, when we do, for consumption, why do we make the assumption that in the developing countries, the poor are budding entrepreneurs who will use credit wisely for investment in income production?

'Business' or merely survival activity?

The economic contexts in which most poor operate (especially in Africa) are not modern economies so much as default modes.

Much of microcredit use in sub-Saharan Africa fits the old saying 'all dressed up and no place to go.' Much of Africa offers an infertile context for borrowing as the only customers available to the poorest are other very poor people. In such infertile economic contexts, the people at the bottom are by definition the ones who 'need' credit the most, but can do the least with it.

In part because microcredit continues to be targeted to the very poor, the majority of microcredit in Africa goes to clients like these (examples are from my field evaluation notes):

- A lady in rural Malawi, age 35 with three children, breaks rocks into smaller pieces using a small hammer. She sets out the piles of small rocks on the roadside hoping to sell to construction crews as aggregate for concrete. She sells a few piles a week to contractors working on a nearby aid agency sponsored road project. Once the road is finished, she will have no more market.
- A woman in Nairobi who buys 150 gram packets of spice and re-packages them in tiny plastic bags of 5 to 10 grams. Her 'capital' investment is a stapler. She works from a stall that is actually a one square metre space in her house, with the goods displayed in a window that faces the street. The packets are stapled to strips of cardboard, 10 to a strip, cut with scissors from whatever she can find. Lately she's been using old cigarette cartons. I look at the wall of her space and see perhaps 20 strips with 6 to 8 packs per strip hanging there. Why is she adding stock if these have not sold yet? She doesn't answer the question. She tells me that more and more women in the neighbourhood are doing this; there are other microcredit NGOs besides the one she is associated with and people see that all they need is a pair of scissors and a stapler, which they can buy with their microcredit. In addition her expenses have gone up. Because of competition she now has to scrounge more to get old cigarette cartons or other sources of cardboard strips. Now she is paying someone to scout pieces of cardboard for her. Within a radius of 300 metres there are 20 baggers and sellers of spices, all women, and all using the same kinds of plastic and staplers.
- A lady in Mamou, Guinea selling small piles of dried chilli peppers, and red pepper paste. She has been in business for eight years. Her main turnover comes from buying a 1 kilogram can of red pepper paste for 12,000 Guinea Francs (about $3.63 in March 2005) and then bagging it into tablespoon size bags which she sells at 100 GF each. By midday on the day I speak to her she had sold 60% of one can, and if she sells the whole can she'll gross 14,000 GF. After deducting the price of the plastic bags which come in several sizes, her profit is about 1,500 GF ($0.45) or about 12.5% on her investment. She does not count the 'opportunity cost' of her time or labour.

- A woman in a peri-urban market outside Kampala selling rice by the cup from a 50 kilo bag. She is in the same area as a dozen other women rice sellers and her rice is no different than that sold by the others; the price is basically the same. How does she get customers? She allows them to buy on 'credit'.
- A man who patches bicycle tires in the 'mechanics' section of the main Niamey (Niger) market place. He is located in the open, and squats on the ground. He has a hand pump, a small can of rubber cement, some patches, a few wrenches and two screwdrivers.

These microcredit clients are all in a sense 'helped' by microcredit. But as one delves into the details of their 'business activity,' as I have done many times, it emerges that the clients with the most experience got started using their own resources, and though they have not progressed very far - they cannot because the market is just too limited - they have enough turnover to keep buying and selling, and probably would have *with or without the microcredit*.

For them the loans are often diverted to consumption since they can use the relatively large lump sum of the loan to pay for food, medicine, etc. during a time of crisis. Since the mid-1990s much research on microcredit use has found that it often goes to 'help the poor smooth consumption over periods of cyclical or unexpected crises…'[1] Again, there is no question that such a use of credit helps the poor, but this is fundamentally not what the majority of microcredit enthusiasts claim it can do - start or expand a viable business activity.

Indeed, in part because of what has been aptly called 'microfinance evangelism', the prospect of significant returns from microcredit made available to solid enterprises has become less likely.[2] This is because those who can really leverage a small loan are not the poorest or the most destitute. Yet it is those people - somewhere between poor and well-off - who have already got a genuine business going against all odds. They began their businesses the way most people in the history of the world have, by borrowing informally from friends, relatives, other traders, or using own savings.[3] But this slightly more affluent class has much greater potential to create jobs, growth and underpin widespread economic development than the destitute. They could use a loan not of $20 - but of $2,000 - to import equipment or build larger premises.

Too rich for credit

This has been my experience observing the poor in their use of microcredit, and it is corroborated by the research: '…the better off the borrower the greater the increase in income from a micro-enterprise loan. Borrowers who already have assets and skills are able to make better use of credit. The poorest are less able to take risks or use credit to increase their income. Indeed, some of the poorest borrowers…became worse off as a result of micro-enterprise credit, which exposed these vulnerable people to high risks...'[4]

Following a misplaced dedication to poverty alleviation, many donors require that microcredit programmes target the poorest of the poor and exclude those with slightly more income but far more potential to put a loan to good use.

This is the paradox of microcredit: the poorest people can do little productive with the credit, and the ones who can do the most with it are those who don't really need microcredit, but larger amounts with often longer credit terms.

The poorest clients, or those with the least experience - like the rock breaking lady - who was enabled to buy the hammer she uses, end up often in a dead end as the market 'niche' they have entered closes. The others are simply part of the general phenomenon that is the 'informal sector' in today's Africa. They are there not because they chose to be entrepreneurs but because there is nothing else they can do to make a little cash.

An additional limitation is that many microcredit clients are reduced to 'copycat' behaviour, everyone selling the same thing, and more sellers saturating the market as more microcredit is made available. In this sense, expanding microcredit can actually lower incomes.

In some places, Bangladesh for example, microcredit is such a common development intervention that many people borrow from one project to repay another. In that context, even if a woman borrower increases her volume of sales by 100% say from 10 bunches of bananas to 20, she is still limited by her inability to add any value to what she sells, limited by her low skills, and the copycat pattern that almost always prevails at the low end of the informal sector, where the 'barriers to entry' as the economists call it, are low. To be sure there are cases where microcredit has helped someone to build up a tiny business; to enable someone to buy a bicycle and thus become an owner of a productive asset, but such examples are far fewer than the cases of those who are caught in subsistence activities with no prospect of comparative advantage.

The informal sector in much of Africa is in fact a default mode, a function of failing economies. It is not the incubator of economic growth but a holding action where everyone (including government employees) is forced to go since little else is available to them.

The women in the spice or pepper paste repackaging 'business' are, an MBA might argue, 'discovering a market niche', but if so it lies literally at the bottom of the barrel. The sellers of single cigarettes, razor blades, tea bags, or cubes of sugar, are market atomisers. They exist because there is such limited purchasing power. To suggest, as the UN's International Year of Microcredit website does, that these women are budding entrepreneurs standing at the threshold of participation in the wider economy, who play a key role in wealth creation is an illusion.

What would permanently help these women, and if not them, their children, are governments that get their acts together and provide structures, laws, and institutions under which people's evident interest in getting ahead in the world could be transformed into reality. Such interventions, however, require a far larger, more coordinated effort, such as organised efforts to train farmers, buy their produce, and certify, package and find export customers for it. To the extent that microcredit it is hyped as a genuine broad-based solution to poverty, it is a diversion.

Rhetoric versus reality

In March 2005 I was in Mamou, Guinea, evaluating a UNDP microcredit project. I recalled something I had seen earlier on the USAID website, describing a client of a programme supported by USAID in Guinea, by coincidence also in Mamou:

'Mme Kadidiatu Barry, a PRIDE/Finance client in Mamou, has successfully managed a series of micro-loans to run a modest business selling sweet cakes to school children in the courtyard of a nearby school. Before she hooked up with the local school, Madame Barry used to travel long distances to other towns to sell her wares, leaving her six children at home to fend for themselves for days and weeks at a time.

However, through management counselling and investment capital from PRIDE/Finance, Madame Barry has found a market close to her home, allowing her to fulfil her family responsibilities, and run her business at the same time. She is proud of the two-room house she has since built to replace the hut on her property, and is now teaching her daughter how to manage her first micro-loan. She is in the process of diversifying her activities by creating a small boutique next to her home to sell commercial food products.'

Beyond the easy story

It is easy to read such enthusiastic stories about microcredit and not question what is really going on. It does seem, after all, a little mean-spirited to raise questions about such inspiring stories. I have met people like Madame Barry. They are honest, hard-working people.

But there is considerably *less* here than meets the eye, and for that reason, it is indeed worth taking a closer look. Mme Barry for example was evidently in 'business' before she got her microcredit loan. Yet the implication in the vignette is that she could not have begun to be successful without the microcredit programme. The empirical evidence, as noted earlier, suggests this is not so. Those with real entrepreneurial ambition find ways to make a go of it. The rest tend to fail, or live at a subsistence level whether they have access to credit or not.

Making sweet cakes is not technically challenging. Almost anyone can do this ('low barriers to entry'). Market forces are market forces and pretty soon others are selling sweet cakes to school children ('copycat behaviour'). In short what we are not told in these moving vignettes is that the Mme Barrys of the world (especially in such economic disaster areas as Guinea) have no comparative advantage and are unlikely to go beyond the marginal activity they now have.

Not quite smoke and mirrors, it's true, but there is obfuscation, and it runs pretty much throughout the microcredit movement. After years of official development effort and billions spent on microcredit these stories are pretty much the sole face of the microcredit movement; the one thing a great many organisations have to put forward as a justification to continue to do what they do.

The little serious research we do have on microcredit's impact shows that it helps poor people bridge cash flow gaps in their consumption cycle, and it can give more confidence to women.[5] But it is a stretch to go from these limited outcomes to the 'business' imagery of phrases like 'successfully managed', 'management counselling', 'investment capital', 'diversifying her activities' which are meant to suggest that Mme Barry is one of the foundation stones of a newly emerging economy.

What Jagdish Bhagwati has said about globalisation's effects on America almost a decade ago applies today to everyone who wants to engage in sustainable economic activity, not just to firms and industries, but more and more to anyone in a commercial activity, anywhere: '...what we are facing now is a new and steadily encroaching economic universe in which the nature of comparative advantage is becoming thin, volatile, kaleidoscopic and creating vulnerabilities for industries, firms, and workers...The continuing integration of the world's financial markets, the increased transnationalisation of production by multinationals, and the convergence in technological ability among the OECD countries, have all combined to make competition among firms across nations fierce…The margins of competitive advantage have, therefore, become thinner: a small shift in costs somewhere can now be deadly to your competitiveness.' [6]

Ignoring this encroaching reality, every microcredit organisation wants to convey an impression of economic effectiveness. Consider the website of FINCA International, a 20-year-old pioneer in a microcredit method called 'village banking'. FINCA operates on three continents including Africa where it has programmes in the DRC, Malawi, South Africa, Tanzania, Uganda and Zambia.

Today, the village banking method - as practiced by FINCA and many other non-profit agencies in more than 32 countries worldwide - possesses all the characteristics of a successful anti-poverty tool. It represents a lasting solution by providing the poor with the means to increase their incomes. It targets women, who are the poorest segment of the global poor, and yet the most significant force in family nutrition. It is cost-effective, providing not grants, but credit that returns to the village bank to be used by other members of the community.

The village banking method's most valuable feature is that it offers a long-term solution to some of poverty's worst suffering - malnutrition, preventable disease, illiteracy, inadequate housing - by helping the poor create their own solutions with dignity and self-reliance.'

We are meant to pick up on the phrases 'successful', 'powerful', 'anti poverty tool', 'lasting solution', 'long term solution', etc. And this tactic is no accident. FINCA spent about $1 million dollars of its 2003 budget of $45 million dollars on fund-raising and marketing.

Undercutting real gains

The microcredit movement has become in a sense a victim of its own propaganda. The hype has bred demand to have more donors focus on the field and that has created more microcredit projects and components of projects, to the point where an aid donor and a development programme are not perceived as legitimate if they do not have microcredit as part of their portfolio of interventions. As more and more operators have got involved, the quality of microcredit operations has deteriorated just as the serious veteran players have reached the point of perfecting their lending techniques. This is all the more disturbing since microcredit operations are technically demanding and throughout the movement's history relatively few projects have performed optimally from a financial standpoint.

Consider the UNDP, which is on the verge of a major expansion of its microcredit activity in Africa. In 2002 it took the bold step of asking an outside agency (CGAP - the Consultative Group to Assist the Poor - a microfinance secretariat representing many donor agencies and housed in the World Bank) to undertake a 'peer review' of its portfolio of microfinance projects.

Using a five point scale, CGAP evaluated 66 UNDP microfinance projects. Here is a selection from the final revised report, 'Review of UNDP Microfinance Portfolio':

'The average grade for all UNDP's projects is on the lower end of 'Weak'. Out of 66 graded projects, only 14 projects (21%) were rated 'Good' and 28 projects (42%) were judged 'Unacceptable'. This unhappy picture places UNDP toward the lower end of the spectrum of donor agency effectiveness in microfinance - a finding that is consistent with the results of the peer review process…No trend of improvement is visible: recent projects did not score materially better than older projects.'

Where microfinance was a component in larger projects, the report states 'not a single component got a Good rating.' As for community managed revolving loan funds (similar to the village banking method promoted by FINCA), the report states clearly: 'Performance of community-managed revolving loan funds was so consistently bad that this model never represents a sensible gamble.'

The report has not deterred the UNDP from embarking on a major expansion in Africa, where in more than a few countries there is as yet no fertile ground for microcredit.

Avoiding questions of Impact

It is curious that there are so few challenges to microcredit, so much do we all want to believe in such a seemingly simple and straightforward solution to poverty. The reality is that the movement has in large part shied away from rigorous studies of impact, and increasingly turned inward to focus on the performance of the lending entity.

Richard Rosenberg, the author of the CGAP report on the UNDP portfolio, captures the matter of impact succinctly: 'It is notoriously difficult and expensive to quantify household benefits resulting from financial services and to demonstrate causality, so it is not practical for most projects to produce such impact studies.'

Instead the movement has relied on proxies for impact, the rate of loan repayment for example - the idea being that, as Rosenberg states: 'If the clients are willing to pay enough interest to cover all the costs of their loans, and repeatedly repay those loans in order to keep access to the service, then they are 'voting with their feet', - i.e., demonstrating that they judge the benefits of the loans to be greater than the costs.'

But the 'voting with their feet' proxy, reasonable as it may seem, is not a substitute for full impact studies that not only trace the use of the credit but also the nature and level of the client's poverty. Money is fungible and in many cases the repayment money may come from other borrowing, from remittance income donated by a relative working abroad, or from a wage earner in the family. In others the ease of repayment may reflect the fact that the client is fairly well-off and not really poor. We simply do not know in the majority of cases whether the client's repayment means the client is using her 'business' activity as the source of repayment.

The 'so what' argument is often brought in at this point in a discussion of impact. If microcredit plays a role in staving off worse poverty, then it is not, and cannot be, a bad thing. I believe, on the contrary, that it can be a bad thing, if microcredit gets in the way of grappling with solutions to the problem of poverty that are genuinely promising. And that, my experience tells me, is what is now happening.

Hype prevents microcredit progress

Among some of the leading veteran practitioners of microcredit, there is recent evidence of a deep questioning of microcredit orthodoxy along with considerable discomfort with what has been happening in the field. ACCION, an American microfinance NGO working in Latin America; BASIX, a development oriented microfinance bank in India; the Kenya Rural Enterprise Programme (KREP), which created KREP Bank in 1999; and a handful of others - with decades of experience, and who know firsthand the limits of microcredit - have created a small group, now called the Development Finance Forum. In 2004 the Forum put out a paper called 'Capital Plus.' The central premise of the paper is that 'development' - permanent poverty reduction through sustained economic development - has been leached out of the microcredit movement. One of the key questions the group asked was: 'How do we break the orthodoxy of minimalist credit, especially the myth that everybody wants to be self-employed, and how do we tell the truth about the limitations of microcredit, particularly with reference to the poorest?' [7]

Even the best performing microcredit organisations; those that embody 'best practices' and have their technical act together in terms of efficiency and loan collection, have in a sense forgotten about developmental impact. The book *Beyond Micro-Credit* puts it well:

'Technical experts in micro-finance need to see that there is more to the provision of micro-financial services than technical and managerial inputs to enhance performance and efficiency. Micro-finance organisations may be well managed financial organisations, but are they developmental? Indeed, if micro-finance is to achieve any developmental outcomes, the nature of these inputs must be shaped and guided by a clear understanding of the developmental outcomes sought.'[8]

Development is the current frontier of the microcredit movement, and the toughest challenge of all. In the end it is easy to give out microcredit, and using best practices developed over the years, even relatively easy to get the money repaid. But the marginal developmental returns from microcredit simply don't warrant the enthusiasm nor the money spent so far.

To fulfil the promise of long-term change, much harder things need to be undertaken and these cannot be undertaken everywhere, nor by every player in the development aid business who comes along, because they require sophisticated skills, vision, research, and risky experimentation. To move forward, the best operators of microcredit need to become banks, move more seriously into savings mobilisation, and learn to deal with banking policy and other aspects of the enabling environment. They need to come to terms with the constraints imposed by political correctness - by beginning to lend to real small businesses, and not to the subsistence activities in the informal sector. Finally, it needs to be acknowledged by even those who are ready to engage in such higher-level interventions, that like microcredit itself, the lessons of these successful lenders cannot be applied everywhere, not in the same way.

And so we come again to familiar territory in the development industry. An idea that, after all, can produce some modest changes in the life of poor people (cash flow smoothing, confidence building, etc.) but that really works well only in some circumstances, is carried off by hype and urgency, offered as much more than it really is, and applied everywhere. As it grows it is inevitably caught up in the decades-old incentive structure of the development aid industry - people and institutions are rewarded for mobilising and moving money, and for acting on the mistaken notion that the way to solve poverty is to go directly to the poor themselves. Since the 1970s, time and again our industry ignores complex and contextual approaches to development (institutional, legal, governance, and other reforms) in favour of superficial feel-good solutions that produce at best marginal changes, but satisfy the need to be perceived as 'doing something for the poor.' The tough question needs to be asked: Is the goal to ease the pain or to cure the disease? **- Thomas Dichter is a consultant and author of *Despite Good Intentions: Why Development Assistance to the Third World Has Failed.***

Endnotes

1. Bennett, Lynn and Cuevas, Carlos, *Journal of International Development,* Special Issue: Sustainable Banking with the Poor, 8 (2), 1996.
2. Rogaly, Ben, 'Microfinance evangelism, 'destitute women' and the hard selling of a new anti-poverty formula', *Development in Practice*, (Journal) 6 (2), 1996.
3. Anthropologist Clifford Geertz' comments on the nature of the bazaar economy in the 1950s (long before microcredit) show the importance of private informal credit (even when more expensive than formal credit) as an integrative factor in the bazaar. 'These credit balances… [binding larger and smaller traders together]… are only half-understood if they are seen only as ways in which capital is made available, for they set up and stabilize more or less persisting commercial relationships.' Geertz, Clifford, *Peddlers and Princes: Social Development and Economic Change in two Indonesian Towns*, Chicago, Illinois, University of Chicago Press, 1963, page 36.
4. Johnson, Susan and Rogaly, Ben, *Microfinance and Poverty Reduction,* Oxfam and ActionAid, Oxford and London, U.K., 1997, p. 11.
5. See for example, Littlefield, Morduch and Hashemi, 'Is Microfinance an Effective Strategy to Reach the Millennium Development Goals?,' CGAP Focus Note No.24, January, 2003, www.cgap.org/docs/FocusNote_24.pdf.
6. Bhagwati, Jagdish, 'The Global Economy and American Wages' in *The New Republic*, 19 May 1997.
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8. Fisher, Thomas and Sriram, MS, *Beyond Micro-Credit: Putting Development Back into Micro-Finance*, Vistarr Publications, New Delhi, 2002. p. 21.