

3rd AFRICAN MICROFINANCE
CONFERENCE

Kampala, August 2007

WHAT'S WRONG WITH
MICROFINANCE ?

Micro finance is wonderful !

It has brought formal financial services to around 100 million households, about half a billion people.

The services are limited in scope, and of very low quality, but are (usually) better than nothing.

It is growing fast, and sometimes getting better.

But, there is a lot wrong with it !

India is different

300 million plus desperately poor people

Mainly rural, urban just starting

Microfinance done mainly by banks

Little donor influence

Major private sector investment interest

Less community-managed institutions

But; there are (?) many similar worrying features:

It promotes debt, not thrift.

It excludes the poorest, it does least for the poorest whom it includes, and it can seriously injure them.

It is like a dirty, time consuming and dangerous communal toilet; better than nothing, but none of those who promote it would tolerate it.

It forces its clients into time-consuming and oppressive groups.

It offers un-remunerative, inflexible and unsafe savings facilities

It is mainly for women, who employ themselves but do not usually create jobs

It discourages individualists

It fails to reach remote places and people, and is often badly managed when it does.

Its poverty outreach is exaggerated, and its empowerment effects are short-lived

It is far too expensive, particularly for farming

It offers inflexible rigidly scheduled loans, to people who are vulnerable to shocks

It reinforces local exploitative relationships

It drives some very poor people to suicide, and socially excludes others.

It forces its clients into perpetual dependence on debt.

The Microfinance Institutions which provide it:

Try to mix charity with money-lending, and they cannot and should not.

Are based on lending, not savings, and use inappropriate Asian models to promote indebtedness in Africa

Are vulnerable to crises unless they offer an integrated (and ‘unsustainable’) package of financial and non-financial services.

Microfinance Institutions:

Are unclear and confused about their aims and their need for subsidy

Have fallen prey to a long-lasting but inefficient development 'fad'

Are not transparent, and fall foul of politicians' need to protect their constituents from usury

Microfinance Institutions:

Are increasingly hypocritical, and are deluding themselves and society that ‘doing good’ and ‘doing well’ can be the same thing

Are leading the poor in poor countries into the same debt trap that credit cards and check cashing shops have created in the rich countries

Have made a few people very rich, and have kept millions of people rather poor.

In the Economies where it operates:

It runs contrary to development history, which starts with savings, and then proceeds to consumption credit.

In Bangladesh, it has created a donor and debt-dependent petty trading economy.

In Bosnia, it has de-industrialised the economy and destroyed social capital.

Its impact is poorly measured, and opinion is based on heart-warming stories of success, not on rigorous assessments of reality.

It is not the service that poor people need most, it creates unviable self-employment rather than jobs, and can crowd out livelihood assistance.

It does not include housing finance or small business finance, and crowds out institutions which might do so.

But, microfinance is getting better, sometimes:

VSLAs, no loans, no links (Niger to Bangladesh)

‘Ladders’, Grameen to Self-Help Groups to Joint Liability Groups to ‘real’ bank accounts.

Livelihood promotion (Basix), Value chains (‘One Network’), 50/5 men/women (UML).

(But, should banks get into such activities, with our savings ?)

Microfinance suffers
everywhere from exaggerated
expectations