Microfinance and the Illusion of Development: From Hubris to Nemesis in Thirty Years[1]

Milford Bateman
Department of Economics and Tourism, Juraj Dobrila Pula University, Pula, Croatia

Ha-Joon Chang
Faculty of Economics, University of Cambridge, Cambridge, UK

Abstract

The contemporary model of microfinance has its roots in a small local experiment in Bangladesh in the early 1970s undertaken by Dr Muhammad Yunus, the US-educated Bangladeshi economist and future 2006 Nobel Peace Prize co-recipient. Yunus's idea of supporting tiny informal microenterprises and self-employment as the solution to widespread poverty rapidly caught on, and by the 1990s the concept of microfinance was the international development community's highest-profile and most generously funded poverty reduction policy. Neoclassical economic theorists and neoliberal policy-makers both fully concurred with the microfinance model's celebration of self-help and the individual entrepreneur, and its implicit antipathy to any form of state intervention. The immense feel-good appeal of microfinance is essentially based on the widespread assumption that simply 'reaching the poor' with a tiny microcredit will automatically establish a sustainable economic and social development trajectory, a trajectory animated by the poor themselves acting as micro-entrepreneurs getting involving in tiny income-generating activities. We reject this view, however. We argue that while the microfinance model may well generate some narrow positive short run outcomes for a few lucky individuals, these positive outcomes are very limited in number and anyway swamped by much wider longer run downsides and opportunity costs at the community and national level. Our view is that microfinance actually constitutes a powerful institutional and political barrier to sustainable economic and social development, and so also to poverty reduction. Finally, we suggest that continued support for microfinance in international development policy circles cannot be divorced from its supreme serviceability to the neoliberal/globalisation agenda.

Key words: microfinance, microcredit, neoliberalism, impact, poverty, development.

1. Introduction

As originally conceived, microfinance (more accurately, microcredit[2]) involves the provision of a small loan, a microloan, that is used by a poor individual to support a tiny income-generating activity, thereby to generate an income sufficient to effect an exit from poverty. Since the early 1980s, the microfinance-supported proliferation of informal microenterprises and self-employment has been very widely promoted as the solution to poverty and under-development. By the 1990s, microfinance was the international development community's highest-profile and most generously funded poverty reduction policy (eg.

[1] The authors declare no potential conflicts of interest with respect to the research, authorship, and/or publication of this article. The authors received no financial support for the research, authorship, and/or publication of this article. This article is a substantially revised and updated version of a 2009 mimeo (Bateman and Chang 2009). We would like to thank all those who commented on our article on the World Economics Journal website, as well as those who in the past couple of years offered private comments on our original mimeo. The usual disclaimer applies.

[2] The term 'microfinance' is the most commonly used term today, so we use this term. Microfinance is actually the generic term covering all varieties of microfinancial interventions, such as microcredit, microsavings, microinsurance, micro-franchising, and so on.

Balkenhol 2007, p. 213). The expectation began to form that an historically unparalleled poverty reduction and 'bottom-up' economic and social development episode was in the making.

This article challenges the view that the microfinance model has a positive association with sustainable poverty reduction and local economic and social development. On the contrary, we find the microfinance model is most likely to lock people and communities in a 'poverty trap'. Moreover, in a growing number of 'microfinance-saturated' countries, regions and localities, the outcome of the microfinance model has been nothing short of catastrophic. Nonetheless, despite the growing evidence that it has failed in its original mission to reduce poverty, a fact that even long-standing proponents now concede, the microfinance model still largely retains its reputation and popularity within the international development community. To help explain why there is such a widespread misunderstanding of microfinance, we go on to argue that the microfinance model remains attractive to the international development community because of its huge political serviceability to the neoliberal worldview that centrally locates the main driver of economic development to be individual entrepreneurship.

The article is structured as follows. Section 2 briefly charts the rapid rise of the microfinance model after 1980 and its recent tribulations since mid-2007 that have contributed to people waking up to a completely new understanding as to its long-term impact. Section 3 then summarises the key areas where we feel the theory behind microfinance as opposed to its mere (possibly inefficient) execution, has proved to be most problematic. Section 4 explores the intimate links between the neoliberal globalisation project and the microfinance project. A brief conclusion summarises the argument.

2. Background

Broadly defined, microfinance has a long history and encompasses a diverse range of institutional formats, ranging from individual money-lenders through to more formal institutions, such as village banks, credit unions, friendly societies, financial cooperatives, building societies, state-owned banks for SMEs (Small and Medium-sized Enterprises), social venture capital funds, and specialised SME funds. The majority of these financial initiatives, especially those from the 18th and 19th century onwards, arose from a desire to transform the lives of the poor and the new industrial working classes**,** as they struggled to cope with the growing perils and exploitation associated with the rise of industrial capitalism. Noteworthy examples include the many Friendly Societies that were an outgrowth of the rapidly growing trade union movement (Thompson 1963) and the financial institutions established by the burgeoning Europe-wide cooperative movement that began in England and Scotland in the early 1800s (Birchall 1997). In short, the objective was not so much to help the poor to passively accept their poverty and exploitation under elite-dominated economic systems, but to challenge the emerging capitalist model and to genuinely empower the poor by enlarging the space of economic and social activity under their effective (and proto-democratic) ownership and control.

The recent explosion of interest in microfinance, and the foundation of a powerful 'microfinance movement', represents something quite different, however. At the forefront of this new microfinance movement was Dr Muhammad Yunus, the Bangladeshi-born and US-educated economist. Following a number of experiments in the mid-1970s with the provision of microcredit in and around the village of Jobra near Chittagong in Bangladesh, Yunus began to argue that the mere availability of a microloan would greatly benefit the poor everywhere, and especially women in poverty. The poor simply had to establish and operate an informal microenterprise in their local community and they would be well on the way to escaping their poverty. Yunus took to claiming that microfinance would "eradicate poverty in a generation" and he confidently predicted that very soon our children would have to go to a "poverty museum" to find out what all the fuss was about (eg. Yunus 1997).

The international donor community very much liked what Yunus was saying, and so agreed to underwrite his bold ideas for promoting self-help and individual entrepreneurship among Bangladesh's poor. This goal was to be achieved through a dedicated institution – the Grameen Bank. The Grameen

Bank was formed in 1983 and, largely based on Yunus's constant declarations that it was an enormous success, it was pretty soon being copied all over Bangladesh and then all over the world. Pretty soon, too, Yunus began to attract a dedicated band of followers, especially in the US, who all agreed (though often without any real analysis or evidence – see below) that microfinance would make massive inroads into global poverty. An efficient, private sector-led and market-driven model of poverty reduction and 'bottom-up' economic and social development appeared to have been found.

However, although neoliberal policymakers greatly appreciated the emphasis upon self-help and individual entrepreneurship, and thus also its implicit support for free market capitalism, they still had major reservations about the financing of the Grameen Bank microfinance model. This was because it soon became clear that Grameen Bank's operations, as with most microfinance institutions (hereafter MFIs) that had sprung up around the world at that time, actually depended upon a continuous inflow of subsidized capital. This funding was mostly provided by an MFI's own government and/or by the international development community. The neoliberal policymaking community began to feel increasingly awkward about using subsidies to keep the supposedly non-state, market-driven microfinance sector going. Spearheaded by the main Washington DC institutions – USAID and the World Bank – decisive action was therefore initiated to phase out the original Grameen Bank model of subsidised microfinance. The long-term solution to the 'problem' of subsidies in the microfinance sector was found in the idea to reconstitute microfinance as a privately-owned, profit-driven business model. Key advocates of commercialisation, notably Maria Otero (Otero and Rhyne 1994) and Marguerite Robinson (Robinson 2001) saw this new commercialised model, and the likely increase in the supply of microfinance, as being capable of generating huge benefits for the poor.

By the early 1990s a thoroughly 'neoliberalized' for-profit model of microfinance was being ushered in as the 'best practice**'** replacement for the original subsidized Grameen Bank model. This 'new wave' model (formally known as the 'financial systems' approach – Robinson 2001) quickly became the dominant template for microfinance programs. By the turn of the new millennium, the 'new wave' microfinance model was at the peak of its power and influence. Even the iconic Grameen Bank felt it had no other option but to finally agree to convert over to 'new wave' respectability, which it did in 2002 with the 'Grameen II' project. The UN declared 2005 to be the International Year of Microcredit. Numerous prestigious awards were also forthcoming for those involved in microfinance, famously including the 2006 Nobel Peace Prize jointly awarded to Muhammad Yunus and the Grameen Bank. And thanks to all these activities, the list of 'microfinance-saturated' countries (defined in terms of borrowers per capita) soon began to comprise not just the original pioneer Bangladesh, but also Bolivia, Bosnia, Mongolia, Cambodia, Nicaragua, Sri Lanka, Peru, Colombia, Mexico and India (Bateman 2011b, p. 4, Table 1.1). It seemed obvious to all involved that the world was undergoing an historically unparalleled episode of poverty reduction. But then the carefully constructed edifice of modern microfinance began to crumble.

Beginning in 2007, and in a most rapid, dramatic and unexpected fashion, hubris quickly turned to nemesis. It is widely recognised that the first spark was provided by the 2007 Initial Public offering (IPO) of the Mexican MFI**,** Compartamos. Rather than revealing commendable levels of poverty reduction among poor Mexican individuals – there still remains no evidence for this whatsoever – the IPO process revealed instead the Wall Street-style levels of private enrichment enjoyed by Compartamos's senior managers. These vast rewards were effectively made possible by quietly charging 195% interest rates on the microloans taken out by their poor – mainly female – clients[3]. The Compartamos IPO led to much public outrage against Compartamos and its senior staff, and then a tidal wave of criticism of the commercialised microfinance model in general. Even long-standing supporters of microfinance began to openly express their concerns at the way the microfinance concept was being destroyed in the hands of neoliberals and hard-nosed investors (notably Malcolm Harper – Harper 2011; Klas, 2011; Sinclair, 2012).

[3] See http://blogs.cgdev.org/open_book/2011/01/compartamos-and-the-meaning-of-interest-rates.php

Very soon the narrow criticism of the Compartamos IPO and commercialised microfinance was joined by a much more comprehensive critique of microfinance as an economic development model *per se* (Dichter and Harper 2007; Bateman and Chang 2009; Bateman 2010a, 2011a). Other researchers using new and supposedly more accurate Randomised Control Trial (RCT) methodologies found little to no impact arising from individual microfinance programs (Banerjee et al 2009: Karlan and Zinman 2009). Roodman and Morduch (2009) and Duvendack and Palmer-Jones (2011) mounted a serious challenge to the single most important study routinely cited as the best evidence that individual microfinance programs had a strong poverty reduction impact – a study undertaken in the 1990s by then World Bank economists Mark Pitt and Shahidur Khandker (Pitt and Khandker 1998). Re-examining the original dataset used by Pitt and Khandker, both sets of authors located serious mistakes in the original analysis and, as a result, declared that Pitt and Khandker's work did not confirm a positive impact from the microfinance programs studied[4].

Adding considerable impetus to the growing critique of the microfinance model were a number of hugely destructive sub-prime-style 'microfinance meltdowns' taking place around the globe. The first 'microfinance meltdown' had actually taken place in Bolivia in 1999-2000, but at the time microfinance supporters described it as a 'one-off' aberration caused by factors supposedly unrelated to the core of the microfinance model**,** such as unfair competition from a large MFI coming to Bolivia from Chile (Rhyne 2001). However, starting in 2008, a new round of even more destructive 'microfinance meltdowns' began in Morocco, Nicaragua and Pakistan, marked out by huge client over-indebtedness, rapidly growing client defaults, massive client withdrawal, and the key MFIs plunging into loss or forced to close or merge. These episodes were then followed in 2009 by the dramatic near-collapse of the hugely over-blown microfinance sector in Bosnia (Bateman, Sinković and Škare 2012).

By all accounts, the most devastating 'microfinance meltdown' to date started in late 2010 in the Indian state of Andhra Pradesh (Arunachalam 2011). With the poor increasingly taking out more and more microloans in order to repay earlier microloans that they had all too easily accessed, it was clear that the microfinance model in Andhra Pradesh had degenerated into nothing more than a vast Ponzi-like survival strategy for a very large number of the poor[5]. In late 2010, thanks to a deluge of personal over-indebtedness, defaults and MFI losses, Andhra Pradesh's microfinance industry effectively collapsed[6]. Further over-supply problems are also clearly emerging elsewhere, notably in Mexico, Lebanon, Peru, Azerbaijan and Kyrgyzstan[7].

In 2011 came a further quite devastating blow to the microfinance industry. This was a UK government-funded systematic review of virtually all of the impact evaluation evidence long said to confirm that microfinance has had a positive impact on the well-being of the poor (Duvendack et al 2011). The review found that the previous impact studies were almost all seriously biased, incomplete or else very poorly designed to the point of being quite unusable[8]. The Duvendack review reached an

[4] Notably, as Roodman and Morduch discussed in their revised paper published in 2011, Pitt and Khandker did not examine and rule out reverse causation, meaning that their reporting of a positive association between microcredit and household spending may indicate – as is the case in very many countries – that richer families simply borrow more.

[5] By late 2009 it was found that poor households in Andhra Pradesh were on average in possession of a total of 9.3 microloans, compared to between 2 to 4 microloans per poor household in the next most saturated states in India – Tamil Nadu, Orissa, Karnataka and West Bengal (see Srinivasan 2010)

[6] In mid-2010 the microfinance industry possessed a gross loan portfolio of nearly $3 billion (up from just $230 million in 2006), but it is predicted that it will almost entirely cease to exist by mid 2012. For example, with its once nearly £1 billion microloan portfolio in Andhra Pradesh almost entirely written off by the end of 2011, the largest MFI in the state – SKS - has announced it will move into new areas of operation as of early 2012, including rural insurance, rural payments and small business lending. See http://www.dnaindia.com/money/report_new-sks-head-talks-of-sea-change-in-business-model_1617016

[7] Private communications with MFI analysts: see also CGAP 2010.

[8] Most of these earlier studies were undertaken by, or contracted out by, the microfinance institutions themselves, as well as by the rapidly expanding raft of microfinance advocacy bodies. Genuine analysis of the microfinance model was overwhelmingly shunned in case it produced a negative result, an outcome that would have scuppered the chances of the external funding (from donors, governments, foundations, etc) that most MFIs and microfinance advocacy bodies desperately required. It is thus not too hard to locate the source and rationale for almost all of the massively exaggerated, and often openly false, claims relating to the power of

explosive conclusion, arguing that "[the] current enthusiasm [for microfinance] is built on [...] foundations of sand" (p. 75). Importantly (especially in the context of our comments below), the very final comment (p. 76) points to the case for microcredit having been made not so much on the basis of the *economics* (of poverty reduction and development), but to the *politics*, and the authors conclude that further research is required by political scientists in order to understand "[why] inappropriate optimism towards microfinance became so widespread".

One far-reaching result of all this bad news is that the microfinance industry has begun to drop the important claim to be facilitating poverty reduction, moving very quietly to redefine a new goal for itself in terms of facilitating the far more nebulous concept of 'financial inclusion'. However, in reality this new objective for microfinance appears to have even less substance to it than the failed poverty reduction objective it is designed to replace (Bateman 2012a).

We agree with the substance and direction of much of the growing criticism of microfinance. However, our own scepticism on this issue is not just rooted in our analysis of the faulty economic principles upon which the microfinance concept is based, as we will outline in the next section, but also in the important counterfactual that emerges from a careful examination of the economic history of the most successful national, regional and local economies. For if one looks at the advanced economies (US, Japan, Western Europe), as well as of the East Asian 'tiger' economies that burst on to the scene from the 1970s onwards (South Korea, Taiwan, Malaysia, China, Thailand and, most recently, Vietnam), one finds evidence of a successful national economic model that is almost the exact opposite of the market-driven microfinance model. As is now widely accepted (Amsden 2001, 2007; Chang 2002, 2006, 2007, 2011; Reinert 2007; Wade 1990), sustainable progress was forthcoming in all these countries largely thanks to a range of pro-active 'developmental state' interventions. In addition, a pivotal element underpinning the success achieved in many of these 'developmental state' countries also lies in what has been termed the 'local developmental state' (LDS) model – pro-active local development and growth strategies undertaken by local government level institutions (Friedman 1988; Weiss 1988; Oi 1995; Lall 1996; Bateman 2000; Thun 2006). This successful LDS model is very far removed indeed from the contemporary microfinance model**,** even though it may have some superficial similarities to it (for examples, Bateman 2010a, Chapter 7).

3. Why microfinance most often makes things worse, if not much worse

The above section has demonstrated that, after a seemingly auspicious beginning, in recent years the microfinance model has clearly run into a brick wall. In this section we identify the key factors that account for why it is that the microfinance model has had such an adverse impact at both the local community level and national economy level.

(a) The microfinance model ignores the crucial role of scale economies

By definition, *micro*finance produces *micro*enterprises – that is, enterprises and agricultural units that are very small and almost always operate below minimum efficient scale. However, it is widely accepted that for all enterprise sectors there remains an identifiable minimum efficient scale of production, and operating below this level makes it virtually impossible for any enterprise to survive and prosper in a competitive business environment.

In general, we may say that microfinance policymakers largely fail to register the crucial importance of minimum efficient scale. What matters above all, so their argument runs, is to construct a local financial system dominated by MFIs that can establish as many microenterprises as possible in the short term. Going further, microfinance supporters argue that a collection of the tiniest microenterprises

---

microfinance. The parallels with the adverse role that the three main ratings agencies played in creating the global financial breakdown starting in 2008 are obvious.

is actually the ideal foundation for sustainable development. As Dambisa Moyo (2009, p. 129) relates of her native Zambia, "Think of a woman selling tomatoes on a side street. …[T]his group – the real entrepreneurs, *the backbone of Zambia's economic future* – need capital just as much as the mining company" (italics added). The argument here is essentially that scale does not matter, and that many more of such tiny microenterprises will indeed provide the best possible (neoclassical textbook) foundation for sustainable development. It is an argument that has been extensively taken up by the microfinance industry as a whole: it is the *numbers* of microenterprises established that appear to matter the most, rather than their (initial) *size*. But is it an argument that holds water?

First of all, we can say that Moyo's thesis holds no water in Africa. Africa already has more micro-entrepreneurs per capita than anywhere else on earth (African Development Bank and OECD 2005), and the rapidly expanding supply of microfinance is actually increasing this number year by year. For example, the share of the informal economy in GDP in Kenya is now as much as 72%, in Zambia around 58%, while even in more industrialised South Africa informal employment as a proportion of non-agricultural employment is likely to be above 70% (Rolfe et al 2010). However, Africa effectively remains trapped in its poverty *precisely* because the increasingly microfinance-dominant financial structure in Africa is suitable only to evolve an enterprise structure overwhelmingly composed of very tiny units operating way below minimum efficient scale. For a number of reasons, a careful study of economic development history (eg. Chang 2011, pp. 157-167) provides no evidence that might lead us to think that in Africa, or indeed anywhere else, entirely avoiding to reap economies of scale in productive activity will nevertheless still provide a suitable foundation upon which sustainable economic and social development can be achieved (see also below).

The situation in India is not dissimilar. Despite its rapid and well-publicised growth in recent years, India still has many huge development and poverty-related problems. One of the most pressing development problems is the need to fill the so-called 'missing middle' that exists between, on the one hand, the small number of large internationally well-known computing and manufacturing companies and, on the other hand, the hundreds of millions of 'survivalist' informal microenterprises. Put simply, India has so far failed to nurture an innovative and growth-oriented SME sector, one that would be capable not just of providing millions of desperately sought-after formal sector jobs, but also of acting as an efficient subcontracting and supplier base for the large firm sector. Meanwhile, the microfinance sector in India has been growing very rapidly indeed, especially in Andhra Pradesh state, as we noted above. As of 2006 microfinance constituted 15% of all commercial bank lending in the whole of India, while, as Arunachalam (2011) extensively documents, the non-bank microfinance sector has experienced a significant boom this last decade thanks to the entry of private entrepreneurs and other financial institutions and foreign investors. Crucially, the growth of funding for microfinance has arrived thanks to the diversion of funds away from other uses, particularly financial support for SMEs. Indeed, this substitution effect is one of the main features of the Indian banking sector this last decade, and it is at least partly driven forward by the Indian government's firm belief in the virtues of microfinance (commercial banks in India are required by law to allocate a certain percentage of their funds into the microfinance sector, usually via MFIs).

As Karnani (2007) points out, however, the growing focus on microfinance and the subsequent growth of tiny informal microenterprises in India, and the concomitant reduction in funding and support for SMEs, has quite dramatically *undermined* the productivity and overall efficiency of India's economy (Karnani, 2011)[9]. This is because the SME sector has seen what little hope it had of obtaining financial support recede even further into the distance. Providing finance to the SME sector is both risky and low margin work for India's banks, compared to investing in its large Indian and foreign companies, which is a secure and stable investment, and to investing into the country's booming microfinance sector, which (until recently at least) demonstrated very high returns. Moreover, India's Self-Help Group (SHG) movement, a movement that provides very poor women with a way of gradually accumulating a tiny

[9] See also 'Microcredit: why India is failing', *Forbes*, November 10th 2006.

amount of savings, by design does not lend to small or medium projects undertaken by members. Karnani's (2007, p. 39) view is that the millions of tiny survivalist microenterprises that have emerged in India in recent years do not provide anything approaching a solid foundation for India's growth and poverty reduction efforts. His conclusion is that it was wrong for Indian policy-makers to ignore the crucial importance of economies of scale in productive activity, because this has led to a seriously adverse economic structure where, "[t]he average firm size in India is less than one-tenth the size of comparable firms in other emerging economies. The emphasis on microcredit and the creation of microenterprises will only make this problem worse".

In neighboring Bangladesh - the spiritual home of modern microfinance – the situation in this anti-development respect is probably even worse than in India. With a high and growing share of the country's savings and commercial funds being recycled into highly profitable microloans, Bangladesh now has the highest microfinance penetration rate in the world (25% of the population are borrowers from MFIs – Bateman 2011b, p. 4). But the price that is being paid for this microcredit largesse is that Bangladesh's SME sector has effectively been displaced and starved of funding. Some of the international development agencies are now beginning to wake up to the damage being caused in Bangladesh as the far more productive SME sector is increasingly being left to wither on the vine. For example, research by DFID (Department for International Development), the UK government's aid arm, summarized the situation in Bangladesh (DFID 2008, pp. 2-3), as one where,

> "[t]he financial system – including banks, capital markets and the micro-finance sector - is inadequate to support long term investment financing for growth. Smaller firms, responsible for the lion's share of employment, have severely limited access to financial resources. *Rural areas, with the highest potential for lifting low income groups out of poverty, are cut off from most financing mechanisms*." (italics added)

If what the DFID study calls 'smaller firms' (that is, small firms that are not microenterprises) are finding it difficult to access financial support in the rural areas of Bangladesh, areas where the country's famed MFIs are increasingly in a desperate search for new microenterprise clients in order to keep themselves alive, then the 'smaller firm' funding situation is clearly very bad indeed. Informal microenterprises and poor individuals can very easily access – in fact, they are being *pushed* to access – far more funding than they can repay, while 'smaller firms' are increasingly being left without any finance to get established or to grow.

However, there is very little that the Bangladesh government appears capable of doing to stop the hugely unproductive informal sector from absorbing a large and growing part of the scarce funds available in that country (mainly savings and its vast remittance inflow). It certainly does not help that the 'big 4' MFIs in Bangladesh – Grameen Bank, ASA, BRAC and Proshika – are all very powerful political and economic institutions, and they have all tended to resist suggestions by the Bangladesh government and others that their lending programs should venture a little more into much less profitable, but perhaps more developmental, business areas, such as SME lending or housing mortgages[10]. In other words, just like in neighboring India, the massive microfinance industry in Bangladesh has turned out to be a major

[10] In 2011, a documentary by award-winning Danish filmmaker, Tom Heineman, famously exposed the Grameen Bank's reluctance to get involved in housing mortgages, even with donor grant funding explicitly offered for this purpose. Using previously secret documents held in the Norwegian state archives, Heinemann showed that in the mid-1990s Grameen Bank obtained a $100 million Norwegian government grant to be used to develop low-cost housing mortgages in Bangladesh. However, this grant was right away secretly transferred by Muhammad Yunus to a sister company (Grameen Kalyan) only for Yunus to then instantly transfer it right back to Grameen Bank as a loan to be used for far more profitable individual microloans. The exposure of this misappropriation of donor funds only came to the notice of the Norwegian government two years later, which immediately demanded that the $100 million be returned, which most of it was. Not unexpectedly, both parties to the transaction quietly agreed to keep the whole incident under wraps for fear of tarnishing the reputation of Yunus and the Grameen Bank, and that of the Norwegian aid authorities, as well as the reputation of microfinance in general. However, Heinemann's exposure of this misappropriation, as well as the huge publicity that ensued when his documentary went on to win a handful of major international documentary film-making awards, directly led on in 2011 to Muhammad Yunus being removed from his position as head of the Grameen Bank. See Sinclair 2012.

obstacle in terms of supporting the development of the enterprises operating at or above minimum efficient scale that Bangladesh very urgently needs in order to sustainably develop and reduce poverty.

The very same adverse dynamics have been identified as a major problem in Latin America too. In Mexico, for example, the manifest shift of resources into the hugely profitable microfinance sector has directly precipitated a booming sector of 'changarros' (informal microenterprises, or simply 'mom and pop stores'), but at the same time undermined the desperately required capitalization and expansion of the country's crucial SME sector. One result, as Levy (2007) argues, is that, "There are more resources to subsidize informal employment than formal employment" and so "Mexico is probably saving less and investing in less efficient projects". Mexico's biggest development problem today has become one of "Over-employment and over-investment in small informal firms that under-exploit advantages of size, [and so] invest little in technology adoption and worker training". Crucially, one of the reasons for this misallocation of capital scenario is the booming microfinance sector that has emerged in Mexico since the mid-1980s, and which has resulted in a growing percentage of the country's scarce capital resources being diverted into informal microenterprises and away from potentially higher value uses, such as formal SMEs[11].

Moreover, the IDB's far-reaching conclusion in a recent high-profile publication (IDB 2010) is that Mexico's adverse capital allocation and subsequent deindustrialisation problems have essentially been the main story throughout *all* of Latin America this last thirty years or so. As the IDB reports, Latin America has for too long remained trapped in poverty and under-development because it has channelled far too much of its scarce financial resources into low-productivity informal microenterprises and self-employment, and far too little into more productive formal small and medium enterprises. In other words, the massive microfinance-induced proliferation of informal microenterprises that has taken place in Latin America since the 1980s has not been its economic and social saviour, as analysts like the Peruvian economist Hernando De Soto have long propounded would be the case (De Soto 1989), but a factor that actually lies at the very *root* of that continent's recent economic and social malaise. As the IDB summed up (2010, p. 6), "the overwhelming presence of small companies and self-employed workers is a sign of *failure* (in Latin America), not of *success*" (our italics). Without perhaps having this objective in mind, the IDB has quite clearly blown out of the water the long-standing belief that the programmed expansion of microfinance in Latin America has been a positive development.

An equally dangerous 'primitivising' aspect of microfinance here is in relation to the agricultural sector, and against a background of food shortages and agricultural commodity prices rises that are (re)introducing food insecurity problems in many developing countries. It is well known that the microfinance sector has proved adept all around the globe at moving into the subsistence farming sector. Yet there is a wealth of evidence to show that tiny subsistence agricultural units are simply *not* the most appropriate agricultural units if a developing country wants to achieve sustainable rural jobs growth and local food security (eg. Sender and Johnston 2004). Inserting microfinance into supporting the expansion of such units is therefore counter-productive into the longer run in terms of rural sector development. Moreover, the proliferation of microfinance in the agricultural sector is likely to have undesirable political consequences in the form of a reduction in female empowerment, as micro-farms cannot survive without an increase in the exploitation of what is euphemistically known as 'non-contractable labour', that is, unpaid female labour (see Manji, 2006, for further discussion). But, at the other extreme, nor are the sort of large-scale plantation-style farms advocated by commentators such as Collier (2008) any better for the poor. In the main, such plantation farms employ few people on decent wages, may destroy the local ecology, and the often large profits go up to a tiny elite, which is often not even resident in the country concerned (and so valuable spending power is lost to the local economy)[12].

---

[11] For example, bank lending to formal enterprises (SMEs) fell in Mexico in the new millennium, going from 60% of total lending to just over 48% in only six years – see Dos Santos 2008, p.2.

[12] Obvious examples here include the commercially successful large-scale vineyards and wineries in parts of South Africa, which are also the location for the highest concentration of poverty in the country (see Du Toit 2004), and Kenya's horticultural export sector,

Instead, it is commercially viable, small (but not 'micro') family farms that are in many circumstances the most valuable in terms of contributing to efficient, sustainable and equitable agricultural sector development[13]. This is because family farms help to maximize the potential to adopt technologies that create rural employment opportunities, are big enough to make good use of irrigation schemes, raise agricultural productivity, re-localize the consumption of food, address food security issues, and all without unduly damaging nature's goods and services (Norberg-Hodge et al 2002; Pretty 2005). Notwithstanding, the microfinance sector today continues to recycle a country's valuable financial resources into the tiniest of subsistence farms, which are the *least* efficient forms of farming, while ignoring the family farming units that are likely to bring about *most long-term* benefits to the local community overall. It is difficult to conceive of a more damaging local financial structure in terms of facilitating the programmed long-term destruction of the agricultural sector.

An obvious illustration of the structural damage to agriculture brought about thanks to microfinance is in the Indian state of Andhra Pradesh – a global pioneer in increasing the supply of microfinance, as noted above. By all accounts, from the 1990s onwards the profit-driven channelling of large quantities of microfinance towards tiny subsistence farming units has precipitated a human and economic disaster. With evidence of a growing over-indebtedness to a new breed of commercial MFI, offering immediate access to a microloan but all too often at a deceptively high rate of interest (for example, thanks to a lot of hidden charges), the Andhra Pradesh rural economy began to implode. In 2003 the state authorities commissioned a major report to look into the problems (see Commission on Farmers Welfare, 2004). The report centrally noted that "Agriculture in Andhra Pradesh is in an advanced stage of crisis[.]… The heavy burden of debt is perhaps the most acute proximate cause of agrarian distress. The decline of the share of institutional credit, and the lack of access to timely and adequate formal credit, in the state have been a big blow to farmers, particularly small and marginal farmers" (*ibid*). Notwithstanding these findings, nothing was done to stop rural over-indebtedness to the new highly commercial MFIs, which rose even *more* dramatically than before[14]. A serious microcredit bubble was created, which in 2006 collapsed in the shape of the 'Krishna Crisis' (named after the Krishna District in which the over-indebtedness problem first became apparent – see Arunachalam, 2011).

The core problem here was that the *least* productive subsistence farms (generally less than two hectares) were all too easily able to access a microloan, when it should have been clear that they could really do almost nothing with it. Any marginal increase in output was simply not enough to cover the high interest rate charges on the microloan that gave rise to it. Of course, many subsistence farmers were desperate, and so it was easy for the local MFIs to persuade those already in deep debt to accept more of virtually *any* form of credit at *any* rate of interest in order to try vainly to resolve their long-standing problems. But the result of the subsistence farming community accessing microfinance in Andhra Pradesh was the gradual entrapment of several hundreds of thousands of its tiniest and least productive subsistence farms in a vicious downward cycle of dependency and growing microdebt (see the illuminating discussion in Taylor 2011). Just under 82% of farmers in Andhra Pradesh were in debt by the mid-2000s, the highest figure in all of India (Patel 2007).

Crucially, precisely because of their very small size and low productivity, very little additional agricultural output was actually secured by accessing so much microcredit: in fact, most subsistence farms in serious debt ground to a virtual halt. One reason for this was that high interest rate payments on

---

which is very successful for its mainly European owners, yet the local workforce receives poverty-level wages (see Pollin, Githinji and Heintz 2008). But see also the discussion in Cramer, Oya and Sender 2008, which shows some plantations operating in a somewhat better light.

[13] The definition of a 'family farm' is not an easy one to provide and it will vary from country to country. However, we may say it lies somewhere in the space above the inefficient subsistence farm variant described by Sender and Johnston, in that there is a significant marketable surplus, but well below the plantation-type farm promoted by Collier, which is almost entirely geared up to producing for often distant markets.

[14] See 'The Makings of a Debt Trap in Andhra Pradesh', *The Hindu Times*, April 20th 2006.

microloans effectively pushed many of the tiniest farms into financial loss-making territory. These farms then chose to slow down, or even stop farming completely, rather than rack up even *more* losses trying to fund the next agricultural cycle (Commission on Farmers Welfare 2004). Tragically, this reduction of output also arose because of the rising number of rural suicides in Andhra Pradesh[15]. At any rate, thanks to so many tiny subsistence farms languishing and failing outright under the burden of microdebt, while more commercially-oriented small family farms were increasingly unable to access capital on affordable terms and maturities, rural incomes fell by 20 per cent in Andhra Pradesh in the decade after 1993 (*ibid*). Even worse in retrospect, it was largely the commercial failures in the rural sector that encouraged Andhra Pradesh's MFIs subsequently to move into its urban areas in search of a completely new raft of poor clients to service, to quite devastating effect, as we saw above.

All told, the most obvious result of focusing upon expanding the numbers of the very tiniest informal microenterprises and farming units is the de facto shift of resources away from the far more productive above-minimum efficient scale enterprises and farms. This has resulted in what one astute critic of the microfinance model has denoted as 'the microcredit paradox': a situation where "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 different (often longer) credit terms" (Dichter 2006, p. 4). More broadly, such a shift has led to the proliferation of 'infantilizing' development trajectories. Almost everywhere where the microfinance model has entered into the enterprise and agricultural sectors we find little real sustainable progress, while major opportunity costs are manifestly evident.

(b) *The microfinance model ignores the 'fallacy of composition'*

As the late Alice Amsden (2010) argued, it has been a major mistake when dealing with poverty in developing countries to assume that there is no local demand constraint, and that every local economy therefore has the elastic ability to productively absorb an unlimited number of the unemployed through the expansion of the local enterprise sector. Amsden noted that this form of Say's Law – "supply creates its own demand" – is a seductive lure for policy-makers seeking to help the unemployed through supply-side measures (such as enterprise development and training) but, as she demonstrated (see also Galbraith 2008; pp. 151-163), it has no basis in reality.

Other things being equal, new and expanded microfinance-induced microenterprises do not raise the *total* volume of business/demand so much as redistribute or subdivide amongst market participants the prevailing volume of business/demand (on this important point, see also Davis 2006). This point is, of course, the 'fallacy of composition' and it has quite serious implications for the presumed efficacy of microfinance. This fallacy is most vividly manifested in the statement by Muhammad Yunus that "[a] Grameen-type credit program opens up the door for limitless self-employment, and it can effectively do it in a pocket of poverty amidst prosperity, or in a massive poverty situation" (Yunus 1989, p. 156).

The reality in virtually all developing countries is that local economies have been saturated with simple informal microenterprises for many years: indeed, an informal microenterprise has long been the default activity for those without any type of formal employment or income – the vast majority in some countries (ILO 1972; Breman 2003). The scale and scope of the local informal sector was and is mainly determined by local demand. With the arrival of microfinance in the 1980s, however, an artificial supply-side MFI-driven increase in the numbers of informal microenterprises was stimulated without any compensating intervention on the demand side. This inevitably created hyper-competition at the local level, which in turn precipitated reduced turnover in existing individual microenterprise units and downward pressure on local prices and incomes in general (thus negatively affecting both new and incumbent microenterprises). As a result, we find, not surprisingly, that from the 1990s onwards,

[15]The cause and actual numbers of rural suicides, including those directly and indirectly caused by over-indebtedness to local microcredit institutions, remains a matter of hot dispute. See 'Death by microcredit', *Times of India*, September 16th 2006.

incomes, wages, profits and work-life conditions for those struggling in the informal microenterprise sector began to deteriorate quite markedly across the globe[16].

Two negative but largely unregistered outcomes are uppermost as a result of microfinance programs in this specific context: first, significant job and income displacement effects across the community and, second, significantly higher levels of exit by incumbent producers.

Consider first the issue of displacement. In Mexico, the typical local economy has for some time been bursting at the seams with informal microenterprises. Few market gaps remain. The result of new entry and expansion thanks to microfinance is that prices on most of the very simple products and services have been falling. In addition, lower turnover in individual microenterprises, as local market demand is shared out among a growing population of microenterprises, has been precipitating lower margins and incomes. In many sectors and in many regions of Mexico, poor individuals are hugely angry at the declining margins and wages, as well as longer working hours, brought about by the unremitting inflow of 'poverty-push' microenterprises supported with microfinance[17].

Noticeably in the wake of NAFTA[18] in 1994, which quickly closed many industries in Mexico, and so stimulated an extensive wave of new informal microenterprises composed mainly of the newly redundant, the end results were quite adverse. Popli (2008) reported that poverty levels in the (newly enlarged) informal microenterprise sector very rapidly increased after NAFTA. Even as some economic growth reappeared in the Mexican economy in the mid-1990s, poverty levels in the informal sector continued to rise. The simple dynamic here involved existing local market demand (and in many areas, *declining* demand, because very many small farmers after NAFTA lost their local market and incomes due to cheaper imported US corn) being shared out within the now enlarged informal microenterprise sector. Very little, if any, *net* employment or additional income was actually generated through the recession-driven surge in new microenterprise entry.

Thus seen, the proliferation of MFI-financed microenterprises simply *redistributes* poverty within the poorest communities, if indeed it does not *exacerbate* it: it certainly does not *resolve* it. More importantly, the poor do not always meekly accept to pay this social cost on behalf of society. Violent reaction against their fellow micro-entrepreneurs and local government officials (who mistakenly think that stimulating new entry is always and everywhere a good thing) has all too often emerged as incumbent wages and working conditions have declined, as was the case a few years ago in Mexico's several million strong community of mobile street vendors[19].

Turning to the related issue of an MFI's clients failing, we find, first of all, that such failure is even more pronounced in relation to informal microenterprises than in formal small enterprises, because the former are generally much more likely to be established on the basis of 'poverty-push' factors rather than 'opportunity/profit pull' factors. Failure rates of informal microenterprises are often very high indeed in developing countries (for an example from India, see George 2006). The core problem with client failure, however, is that this event very often plunges the hapless individual into much deeper, and possibly irreversible, poverty. This is because a failed microenterprise often means the poor lose not just their already minimal income flow, but also any additional assets, savings and land they might have invested into their microenterprise, or else are forced to sell off (often at 'fire-sale prices') in order to repay the microloan. Social networks and reputational capital are also lost.

An all too real illustration of what we mean here is to be found in Bosnia. As elsewhere, Bosnia's microenterprise sector is defined by its high failure rate, with up to 50% of microenterprises failing within just one year of their establishment (Demirgüç-Kunt et al 2007). Behind this dry statistic,

[16] For example, see ILO 2009.

[17] See International Press Service (IPS), Mexico City, September 2nd 2003.

[18] North American Free Trade Agreement.

[19] International Press Service (IPS), Mexico City, September 2nd 2003.

however, lies the fact that a very significant number of Bosnia's poor individuals failing in their microenterprise project have ended up in much deeper poverty, vulnerability and insecurity.

Bateman, Sinković and Škare (2012) find that here are several reasons for this adverse outcome. First, those failing in a microenterprise but who chose (or were effectively forced) to continue to repay their microloan ended up drawing down family assets (especially family savings) and selling off other family assets – family land, housing, private vehicles, machinery, and so on. Second, many in Bosnia were forced to divert other important family income flows into microloan repayment, such as remittance income and pensions. Third, very many individuals in Bosnia got hooked into taking out multiple microloans, using each new microloan to repay existing microloans, but in the process building up a mountain of personal debt that at some point needed to be repaid. As a result, the interest payments required to service these individual debt mountains constituted a growing proportion of household income, thus reducing the amount of income available for other important household items. Fourth, even those quite unconnected to a failing microenterprise, such as the estimated 100,000 individuals who guaranteed a microloan for friends and family, as is the common procedure in Bosnia, ended up severely disadvantaged by being forced to repay a microloan on someone else's behalf.

All told, there is no shortage of evidence from the field that routine displacement and client exit factors have often completely frustrated the poverty reduction goals of microfinance. However, partly because of the familiar neoliberal position that the 'opportunity' and 'freedom' to establish a new enterprise is all that really counts, and not other conditions, such as the capabilities of the entrepreneurs involved or if there is real demand for their simple outputs, these adverse features of the microfinance model have long been completely ignored. Today, the view that displacement and client failure are important factors is coming to be accepted by many individual analysts and institutions, though certainly not by all[20]. One example of this new realism is the ILO's recent response to the global financial crisis and rising unemployment, which was to argue *against* further stimulation of the informal microenterprise sector, since "[a]s was the case in previous crises, this could generate substantial downward pressure on informal-economy wages, which before the current crisis were already declining" (ILO 2009, p. 8).

(c) *The microfinance model helps to de-industrialise and infantilise the local economy*

Entrepreneurship theory and studies in institutional economics show that it is new, creative, technically innovative ideas and institutions that are the key engine in economic development (Schumpeter 1987/1942; North 1990; Baumol et al 2007). To develop in a sustainable fashion, and thus to reduce poverty, developing countries need to master key technologies, better understand 'state of the art' industrial products and processes, develop at least some innovative capabilities in domestic enterprises, and establish a tissue of pro-active development-focused institutions and organizations (UNCTAD 2003; Amsden 2007; Chang 2007).

However, given the high interest rates and short maturities demanded by most MFIs, it is generally only the most simple and unsophisticated microenterprises that can service a microloan. Typically, these microenterprises are very simple trading, retail and service operations, with perhaps some very small production-based operations that can add value very quickly (such as food preparation). We also know that very few growth-oriented microenterprises or SMEs using more sophisticated technologies can effectively get started or expand with the assistance of microfinance, as their returns are of longer term-nature. Within the 'new wave' microfinance paradigm, moreover, there is an in-built bias against longer term projects which are likely to be of much more value to the local

[20] In 2010 the EU launched the European Progress Microfinance Facility, a major €100 million program designed to support the unemployed in recession-hit Western Europe. It was built on an implicit assumption that there is sufficient local demand to un-problematically underpin a new wave of microenterprises set up by the unemployed. However, the evidence the EU has used to underpin this assumption is derived from evaluations of microenterprise growth and survival undertaken in the early 2000s, which showed that there was no shortage of local demand for microenterprises. That today's local demand situation is so radically different to the pre-global financial crash period appears to have been ignored. See 'Creating Jobs in recession-hit Communities in Europe: Why Microcredit will not help', *Social Europe Journal Blog*, May 15th 2012. Go to: http://www.social-europe.eu/2012/05/creating-jobs-in-recession-hit-communities-in-europe-why-microcredit-will-not-help/

community, but which would struggle to repay high interest rates in their initial period of operations. Nor does it help that many high-profile commercial banks are increasingly 'downscaling' out of traditional SME lending into higher profit microfinance.

Overall, then, to the extent that the financial sector shifts in favour of microfinance – as we are indeed seeing right around the globe – the more an economy's scarce financial resources are effectively directed *towards* the very simplest 'no-tech/no-capital' **–** mainly petty-trade-based – microenterprise projects, and so channelled *away* from more sophisticated and technology/innovation-based projects that offer far more to the economy and society in the medium to longer term. As Baumol (1990) among others have shown, we find many developing countries have, thanks to microfinance, evolved an enterprise structure that is structurally (in addition to the scale economies problem noted earlier) incapable of giving rise to sustainable productivity growth, and so also poverty reduction.

Consider once more the case of Sub-Saharan Africa (see also Chang 2011, pp. 157-167). With the microfinance sector rapidly expanding this last decade, local savings and remittance incomes are increasingly being recycled (and very profitably so) into the very simplest of trade-based operations and inefficient subsistence farms. This is helping to expand Africa's already giant informal microenterprise sector. At the same time, however, this emphasis upon microfinance has effectively reduced the financial backing required for the 'bottom-up' industrial transformation of Africa, particularly through reducing support for innovative and growth-oriented SMEs. In short, with the help of microfinance Sub-Saharan Africa's economic structure is increasingly becoming characterised by the 'missing middle' phenomenon – it is a continent of hundreds of millions of simple traders coexisting uneasily with a handful of large companies (eg. oil companies and copper and diamond mines), but very little else. Even in those countries where a natural resource bounty has made the availability of finance much less of a problem than elsewhere, such as in oil-rich Nigeria, the informal microfinance sector has ignored the obvious oil-sector related opportunities (subcontracting, servicing, etc) and demonstrated the usual overwhelming predilection to work with only the very simplest microenterprises – nearly 80% of microfinance in Nigeria (and the sector is growing rapidly at the expense of more traditional uses (ie. SMEs)), is channelled into simple cross-border petty trade-based microenterprises (Anyanwu 2004).

Africa's escape from poverty and under-development simply will not be facilitated upon the microfinance-induced entry of more of the simplest 'buy cheap, sell dear' trade-based microenterprises. Africa's growth requires instead the gradual construction of a robust light industrial and agro-processing foundation that will enable its entry into at least some mainstream production and manufacturing-based enterprises capable of productivity-growth. This in turn means that Africa urgently requires not even *more* microfinance than at present, but a raft of robust and far-sighted private and public financial institutions willing to socialise risk, carefully build productive capabilities where appropriate, and hold steady to a longer-term development and industrialisation vision. This need is not being addressed, however. In fact, (no) thanks to Dambisa Moyo's internationally well-received book setting out her own solutions to the continued poverty and underdevelopment in her native Africa – especially her belief that very much more microfinance is needed (Moyo 2009, Chapter 8) – we would argue that the real solution to Africa's problems has become more elusive than ever.

In short, microfinance greatly reduces the ability of developing countries to promote their industrial upgrading as one of the keys to eventual economic success and poverty reduction. This is not only because the microfinance sector misdirects scarce resources into the wrong type of enterprise (ie. mainly into simple trade-based microenterprises), but also because it draws scarce development funds away from financial institutions that *are* perhaps up to the required task (eg, Korean/Brazilian-style development banks, SME technology funds). Meanwhile, in the formerly industrially sophisticated and institutionally quite rich countries of Eastern Europe, an obvious and valuable industrial inheritance – an inheritance that most developing countries are desperately wishing to possess – has been largely abandoned despite being the potential starting point for a new generation of relatively technology-intensive enterprises.

(d) Microfinance fails to connect with the rest of the enterprise sector

Another important factor that we now know lies behind successful local economic and enterprise development is 'connectability' between enterprises of all sizes. It is now very well understood that the tissue of horizontal (clustering, networks) and vertical (subcontracting) connections within the local enterprise sector is a crucial determinant of a local economy's ultimate sustainability through industrial development (Pyke 1992). Indeed, as Weiss (1988, p. 210) concludes in reflecting on the successes of both the Italian and Japanese microenterprise and SME sectors since 1945, "the core of modern micro-capitalism is not competitive individualism but collective endeavour".

Wherever the microfinance model has been in the ascendancy, however, such beneficial grassroots dynamics have largely been undermined. While succeeding in terms of producing some new (albeit largely temporary) informal sector microenterprises, the overwhelming majority of these new entrants have no need, wish or ability to meaningfully cooperate in order to begin to forge the required productivity-enhancing horizontal ('proto-industrial districts') and vertical (sub-contracting) connections. The result in many developing and transition countries has been little movement towards a more 'connected' local economy. This gives rise to some significant handicaps. For example, large firms are unable to expand their operations by tapping into a local structure of quality suppliers, but must import instead. A lack of potential sub-contracting partners also typically dissuades investments in large-scale operations, especially 'greenfield' FDI. Important cluster building programmes simply cannot function when there are few, if any, local enterprises that can meet the technology, market and scale requirements to benefit from cooperating with their counterparts.

In short, the microfinance model pays no heed to the important requirement that enterprises be of the right type (size, quality, use of technology, innovative products and processes, etc.) that might both facilitate and benefit from local 'connectability'. The microfinance model therefore operates like a football academy that exists solely in order to turn out players with individual skills, but all of whom have no ability to engage in the vital organisational cooperation – the teamwork – required to actually win the match.

(e) *The microfinance model is pre-programmed to precipitate a sub-prime-style over-supply of microfinance*

Hyman Minsky (1986) predicted that neoliberal policies were likely to be especially destructive when played out through the financial sector, with an inevitable tendency towards Ponzi-style booms and busts in the supply of finance. It has become increasingly apparent through a series of financial crises, culminating in the 2008 global financial crisis, that Minsky was correct. Minsky's predictions also very much pertain to the local financial sector. For example, Black (2005) extensively documents a Minskyian-style adverse trajectory in the shape of the boom and then spectacular bust of the US Savings and Loans (S&Ls) institutions in the 1980s.

As the growing number of 'microfinance meltdowns' indicates, the microfinance sector has proved very receptive to Minskyian dynamics. In fact, the massive sub-prime-style over-supply of microfinance and various Ponzi-style dynamics are now intrinsic features of the microfinance model.

Two important sub-prime-style drivers are important here. First, as in any private business, pushing out a continuously increasing volume of microcredit is the most important way that an MFI can both justify and physically provide the financial space that allow for the generous salaries, bonuses and other perks that are increasingly the norm in the microfinance sector. All that matters is that, somehow, an MFI's clients are able to absorb whatever output of microcredit is forthcoming, even if only to repay microloans already taken out (as very much in Andhra Pradesh state in India). Second, the larger an MFI becomes, the more likely it is that its senior managers will be able to benefit when the time comes for the expected transition to publicly owned company status via the IPO route. The primary mechanism that can provide for this private enrichment is found in the fact that an MFI's senior managers typically accumulate shares in their own MFI, almost always using interest free loans from their own MFI to do so. These shares are then offloaded at the time of the IPO. In the two most notorious microfinance IPOs to date – Compartamos in Mexico, and SKS in India – senior managers were able to garner several tens of millions of dollars of personal gain from the sale of shareholdings they had built up over previous years using the interest free loan route[21].

In a very real sense, then, the microfinance model contains the seeds of its own destruction as a development intervention. Microfinance today is about making large sums of money for the *providers* of microfinance, and not about resolving the poverty situation of the poor *recipients* of microfinance (Klas 2011; Sinclair 2012). MFIs become super-charged into selling as much microfinance as they can, and, unlike in other product markets (furniture, food, clothes, etc), it is not difficult to convince the poor that there is no upper limit to how much microcredit they can 'consume'. Both providers and recipients within microfinance are thus automatically stimulated into excessive supply and demand respectively, thereby providing the fuel for the inevitable 'microfinance bubble'.

(f) *The microfinance model ignores the crucial importance of solidarity and local community ownership and control*

It has long been recognised that community solidarity, trust, volunteerism, equality, cooperation and goodwill are intimately and positively linked to the wider issue of 'community liveability' (eg. Zamagni and Zamagni 2010). But as many have argued (eg. Leys 2001), whenever community development and poverty reduction activities are constituted as commercial operations, this quite dramatically increases the likelihood that such important outcomes for society are undermined.

In many ways the microfinance model undermines these important 'community liveability-building' processes. Perhaps most important of all, the local hyper-competition that follows in the wake of microfinance is a patently unsuitable foundation upon which to build 'community liveability'. As Davis (2006) reports, it is *precisely* the unrelenting growth of informal microenterprises that accounts for the destruction of the sense of local community and solidarity in many developing countries. As Davis argues,

> "[t]hose engaged in informal sector competition under conditions of infinite labour supply usually stop short of a total war of all against all: conflict, instead, is usually transmuted into ethnoreligious or racial violence… the informal sector, in the absence of enforced labour rights, is a semi-feudal realm of kickbacks, bribes, tribal loyalties, and ethnic exclusion… the rise of the unprotected informal sector has too frequently gone hand in hand with exacerbated ethnoreligious differentiation and sectarian violence" (p. 185**)**.

Put very simply, the informal microenterprise sector simply does not possess the sort of 'transformational power' and solidarity-building capability widely claimed for it by the microfinance industry and its ideological supporters. On the contrary, the inevitable local hyper-competition and the resulting brutalization of poor individuals and intensification of their day-to-day workload and suffering are an unlikely precursor to 'community liveability', or for any other desirable economic and social development outcomes. Local solidarity is inevitably destroyed as the distorted business ethics and morals that inevitably emerge under such Hobbesian conditions gradually percolate into other enterprise structures (ie. SMEs), other institutions (ie. government) and across all levels of society.

---

[21] For example, see 'SKS and Compartamos – Catalysts for Catastrophe', *India Microfinance*, October 19th 2011. Available from: http://indiamicrofinance.com/sks-compartamos-milford-bateman.html

3. Microfinance is used as a vehicle for neoliberalism

One of the major assumptions about microfinance is that it is ideology-free and simply about 'helping the poor'. However, microfinance in its commercialised form is actually almost perfectly in tune with the core doctrines of neoliberalism, the reigning ideology of our time: that is, the need to vector all economic activity through private individual initiative; the need to avoid any aspect of planning or conscious guidance of the market mechanism; the need for all MFIs to attempt to 'earn their keep on the market'; and, the need to ensure that all economic organizations are also as much as possible owned and controlled by the private sector (Harvey 2006). So might one of the reasons for the almost unlimited well of support for microfinance be related to the political economy of neoliberalism? After all, at least since the time of Marx, and more recently re-emphasised by the conservative institutional theorist Douglass North (North 1990), 'bad' organisations are allowed to survive, and may even be encouraged to flourish, simply because it is in the interests of the powerful for this to happen. In this section, we briefly adumbrate the intimate association that clearly exists between microfinance and neoliberalism.

(a) Microfinance provides a model for poverty alleviation that is politically acceptable to the neoliberal establishment

A pervasive and continuing fear among neoliberals is that the poor will opt to use the democratic process or popular pressure to demand the establishment or strengthening of state and collective institutions capable of remedying their plight. As Bromley (1978) pointed out, neoliberals were very quick to see the informal sector in general, and, we would argue here, the microfinance sector in particular, as a way to pre-empt more radical alternatives that might upset the prevailing economic system and distribution of power and wealth.

Microfinance offers to neoliberals the hope that informal sector activities backed up by microfinance will become universally embedded as the only legitimate exit route out of poverty for both the individual and the community, thereby also removing from the political and policy agenda a wide range of progressive policies. These include demands for constructive state intervention, robust social welfare programmes, quality public services accessible to all, income and wealth redistribution (including land reform), and all forms of state, collective and cooperative ownership. The microfinance narrative helps to legitimise not only the entrepreneurial process as the core foundation of any society, but also the vastly unequal rewards (wealth and power) that inevitably arise in the process. After all, an opportunity to be successful in entrepreneurship in Dhaka, Abuja or Quito (thanks to obtaining a microcredit), or else as an entrepreneur in London, New York or Paris, essentially requires all parties to adhere to the same rules, regulations and processes: only the final rewards are different. And because such rewards (supposedly) depend on the amount of individual talent and effort put into the venture, there should also be no complaint as to any unequal outcome.

In this context, microfinance can thus be deployed to delegitimize and dismantle all possible 'bottom-up' attempts to propose alternative development policies which might primarily and directly benefit the majority but which would circumscribe the power and freedom of established elites. Put simply, microfinance offers to neoliberals a highly visible way of being seen to be addressing the issue of poverty, but in a way that offers no real challenge to the existing structures of wealth and power. Those who fail to put in sufficient effort to establish a successful microenterprise, or, worse, do not even attempt to establish a microenterprise, can very effectively now be blamed for their own poverty situation.

(b) *Microfinance can be used to undermine the concept of basic state service provision and to support privatisation and private sector provision*

In a very real sense, microfinance has been consciously positioned as the substitute for social welfare spending (and international donor support). Once the poor can be made to accept that they are now in control of their individual and family destiny by using microfinance, it becomes much easier for the government to fully absolve itself of continued responsibility towards them. Governments can also, if they so wish, even begin to dismantle social welfare systems constructed after years of social mobilization and collective struggle.

For example, microfinance has been deployed as part of the goal to promote private local service provision, rather than collective service provision through the state or local community. This has been a long-time goal of neoliberal policymakers everywhere. A major aspect of neoliberal Structural Adjustment Programs (SAPs) has involved the dismantling of important public services and utilities serving the common good, and their gradual replacement with private provision based upon user fees. However, not surprisingly, almost all of these programs meet determined resistance from the poor, and this is where microfinance comes in. Because it can spread the cost of access to private provision over a longer period of time, microfinance can dampen down the initial anger inevitably felt when important services are privatised and put on a ‘full cost recovery’ basis. Shiva (2002) reports that microfinance programmes have been successfully used to ensure a less precipitous, and thus less politically damaging, decline in water demand after privatisation.

Once the negative effects of the introduction of user fees are softened by the provision of microfinance, it is hoped that the poor will begin to accept that they must permanently pay for service provision, and so begin to see microfinance as the only way to find the larger sums of cash required to gain regular access to private provision. Even though collective provision of social services by the local state is usually the most efficient, including when directly compared to microfinance (eg. Mader 2011), in this way it might still be possible to encourage the poor to begin to rely upon much less efficient private sector provision. In some cases, unconcerned government officials and politicians hope that the poor can be fobbed off with microfinance rather than state activity. In India, for example, Harper (2007, p. 258) reports that government officials are increasingly deflecting community demands to support better basic education and health services on the grounds that poor people ‘now have microfinance’ and should individually seek to purchase such services (albeit at high prices) from the private sector rather than through taxpayer-funded public provision.

(c) *Microfinance underpins the drive towards financial sector liberalisation and commercialisation*

Microfinance has played an important role in the promotion of global financial liberalisation and commercialisation. As Weber (2002) shows, MFIs that have achieved financial self-sufficiency provide working examples to developing country governments of ‘efficient’, subsidy-free, financial institutions. It is thus expected that all other financial institutions will have to follow suit. If a financial institution serving the poorest people can be profitable, the reasoning goes, all other financial institutions with a better clientele profile should aim for profitability as well.

Most recently, commercial funding of microfinance programmes, including the outright purchase of established MFIs by the commercial banking industry, has increasingly separated the microfinance industry from its roots in the NGO sector. As increasingly a part of the global financial complex, microfinance can be portrayed as a good example of how Wall Street and the global financial sector in general ‘cares’ and how it directly addresses core societal problems. At least until the global financial crash of 2008, it was hoped by many in the international development community that this ‘public service function’ provided by MFIs, and very publicly supported by many of the largest banks on Wall Street (eg. CitiGroup), would contribute to obtaining continued government and public support for the ongoing liberalisation of the financial sector in general.

(d) *Microfinance acts as an important 'safety valve' within the globalisation project*

Perhaps the most important factor of all, however, is the 'containment' role that microfinance has been allocated within the neoliberal globalisation project. It is widely argued by neoliberals that globalisation has the potential to provide a major reduction in poverty. Yet it is hardly a coincidence that globalisation has been determinedly driven by a handful of the wealthiest of the developed countries – by the US most of all (Gowan 1999) – which (or rather whose elites) are expected to be, and have by far been, its major beneficiaries (Stiglitz 2002; Chang 2007). But as globalisation increasingly concentrates wealth and power into the hands of a small number of countries, regions and corporate elites, the flipside, as Faux and Mishel (2000) explain, is a growing worldwide population of the unemployed, powerless, marginalised, hyper-exploited and insecure. And the rub here is that these 'losers' are beginning to reject both the outcome assigned to them and, most dangerous of all for neoliberals, the globalisation process itself. Symptomatic of this rejection is the rising social unrest, increased social and gang violence, explosion in substance abuse, increasing crime and illegal business activity, huge rise in pseudo-religions and cults, collapsing levels of social capital in the community, and associated violent conflict (Davis 2006).

In the potentially explosive situation emerging in many developing and transition countries today, dramatically made worse by the Wall Street-precipitated global financial crisis, and particularly acute in the growing number of 'mega-cities', microfinance provides a crucial 'safety valve'. The logic is well known. Universal social welfare systems are being dismantled under the guidance of the main international financial institutions, secure public employment opportunities are rapidly disappearing, and formal sector employment are an increasing rarity too. Nevertheless, the hope (not always a realistic one[22]) is that the microenterprise sector can engage the most articulate and vocal of the poor, who might otherwise be thinking about resisting, or proposing realistic alternatives to, neoliberalism and the globalisation project.

4. Conclusion

This article has raised issues of serious concern relating to the contemporary microfinance model. While accepting that there are some minor and largely temporary short-run benefits for a small minority of 'winners', just as in any casino a few lucky punters will end up on a winning streak, we argue that the microfinance model has very serious limitations as development policy. In many respects, in fact, microfinance constitutes a very powerful 'poverty trap'. We outlined the main flaws in the microfinance model. We then provided at least part of the answer as to why the international development community continues to lavishly support the microfinance model in spite of these fatal, and now increasingly well-publicised and accepted, flaws. The microfinance concept is linked to neoliberalism and the globalisation project. It is therefore supported so strongly and uncritically because it is in agreement with the international development community's preferred economic and societal model based on self-help and individual entrepreneurship.

Finally, a word on what might be better local and national alternatives. We very much believe that there are better financial institution alternatives, such as financial cooperatives, credit unions, building societies and local and national development banks. Fully adumbrating the advantages of these generally community-owned and controlled alternatives would, of course, require another article (however, see Bateman 2010b, 2012b: Chang 2007).

[22] The young and well qualified people who led the recent Arab Spring uprisings were not just risking their lives to bring down dictators, but also very centrally arguing against being stuck in petty retail and service jobs (ie, in informal microenterprises).

References

African Development Bank and OECD (2005), *African Economic Outlook 2005*. Paris: OECD

Amsden, A (2001), *The Rise of 'The Rest': Challenges to the West from Late-Industrializing Economies*, Oxford: Oxford University Press.

Amsden, A (2007), *Escape from Empire: The Developing World's journey through heaven and hell*. Cambridge, Massachusetts: MIT Press

Amsden, A (2010), 'Say's Law, poverty persistence, and employment neglect', *Journal of Human Development and Capabilities*, Vol 1 (1) pp. 57-66.

Anyanwu, C M (2004), '*Microfinance institutions in Nigeria: policy, practice and potentials*', paper presented at the G24 Workshop on 'Constraints to Growth in Sub Saharan Africa,' Pretoria, South Africa, November 29-30.

Arunachalam, R (2011), *The Journey of Indian Micro-Finance: Lessons for the Future*. Chennai: Aapti Publications.

Balkenhol, B (2007), Policy implications. In: B Balkenhol (ed.) *Microfinance and Public Policy: Outreach, Performance and Efficiency*. London: Palgrave Macmillan, p. 213

Banerjee, A, E Duflo, R Glennerster and C Kinnan (2009), '*The miracle of microfinance? Evidence from a randomised evaluation*.' Available at: http://econ-www.mit.edu/files/4162.

Bateman, M (2000), 'Neo-liberalism, SME development and the role of Business Support Centres in the transition economies of Central and Eastern Europe', *Small Business Economics*, 14 (4), pp. 275-298.

Bateman, M (2003), ''New Wave' micro-finance institutions in South-East Europe: towards a more realistic assessment of impact', *Small Enterprise Development*, 14 (3), pp. 56-65.

Bateman, M (2006), '*The informalisation of the BiH economy and the role of the microfinance model*', paper presented at the Economic Policy Research Unit (EPRU) Seminar 'Balkan economies: Studies on Non-Standard Phenomena', September 26th 2006, Sarajevo, Bosnia.

Bateman, M (2010a), *Why Doesn't Microfinance Work? The Destructive Rise of Local Neoliberalism*. London: Zed Books.

Bateman, M (2010b), 'The power of the community', *Making It*, Vol 4 (10), pp. 22-3. Geneva: UNIDO.

Bateman, M (2011a) (ed.), *Confronting Microfinance: Undermining Sustainable Development*. Sterling, Virginia, US: Kumarian Press.

Bateman, M (2011b), Introduction: looking beyond the hype and entrenched myths. In: Bateman, M (2011b) (*op cit*).

Bateman, M (2012a), 'Let's not kid ourselves that financial inclusion will help the poor', Guardian PovertyMatters Blog, May 8th 2012. Available from: http://www.guardian.co.uk/global-development/poverty-matters/2012/may/08/financial-inclusion-poor-microfinance

Bateman, M (2012b), 'A New Local Financial System for Sustainable Communities' in: E Campiglio and F Campagna (2012 eds) *What Are We Fighting For? A Radical Collective Manifesto*. London: Pluto Press.

Bateman, M and H-J Chang (2009), *The Microfinance Illusion*, Working Paper. University of Juraj Dobrila Pula, Croatia, and University of Cambridge, UK.

Bateman, M, J P Duran Ortĩz and D Sinković, (2011) 'Microfinance in Latin America: the case of Medellín in Colombia'. In: Bateman (2011), (*op cit*).

Bateman, M, D Sinković and M Škare (2012). 'Bosnia's microfinance meltdown', paper presented at the American Economics Association annual conference, Chicago, January 7th.

Baumol, W (1990), 'Entrepreneurship: productive, unproductive, and destructive', *Journal of Political Economy*, 98 (5): pp. 893–921.

Baumol, W, R Litan and K Schramm (2007), *Good Capitalism, Bad Capitalism, and the Economics of Growth and Prosperity.* New Haven, Connecticut: Yale University Press.

Birchall, J (1997), *The International Co-operative Movement*. Manchester: Manchester University Press.

Black, William K (2005), *The Best Way to Rob a Bank is to Own One: How Corporate Executives and Politicians looted the S&L Industry*. Austin, Texas: University of Texas Press.

Breman, J (2003), *The Labouring Poor: Patterns of Exploitation, Subordination and Exclusion.* Oxford: Oxford University Press.

Bromley, R (1978), 'Introduction – the urban informal sector: why is it worth discussing?' *World Development***,** Vol. 6 (9/10), pp. 1033-1039.

CGAP *(*Consultative Group to Assist the Poor*)* (2010), *Growth and Vulnerabilities in Microfinance***,** *Focus Note no 61*, February.

Chang, H-J (2002), *Kicking Away the Ladder – Development Strategy in Historical Perspective.* London: Anthem Press.

Chang, H-J (2006), *The East Asian Development Experience: The Miracle, the Crisis and the Future*. London: Zed Books and Third World Network.

Chang, H-J (2007), *Bad Samaritans: Rich Nations, Poor Policies and the Threat to the Developing World.* London: Random House.

Chang, H-J (2011), *23 Things they don't tell you about Capitalism.* London: Allen Lane.

Collier, P (2008), 'The politics of hunger: how illusion and greed fan the food crisis, *Foreign Affairs*, November/December.

Commission on Farmers' Welfare (2004), *Report of the Commission on Farmers' Welfare, Government of Andhra Prades*h. Hyderabad: Government of Andhra Pradesh.

Cramer, C, C Oya and J Sender (2008), 'Rural Labour Markets in Sub-Saharan Africa: A New View of Poverty, Power and Policy', *Policy Brief*, No 1, November. London: Centre for Development Policy and Research, SOAS.

Davis, M (2006), *Planet of Slums*, London: Verso.

Demirgüç-Kunt, A, L Klapper and G Panos (2007), *The Origins of Self-Employment,* Development Research Group (February). Washington DC: World Bank.

DFID (Department for International Development) (2008), *The Road to Prosperity through Growth, Jobs and Skills*, (Discussion Paper). Dhaka, Bangladesh: DFID Bangladesh:.

De Soto, H (1989), *The Other Path: The Invisible Revolution in the Third World*. London: I B Taurus.

Dichter, T (2006), *Hype and Hope: The Worrisome State of the Microcredit Movement.* Available from http://www.microfinancegateway.org/p/site/m//template.rc/1.26.9051

Dichter, T and M Harper (2007) (eds.), *What's wrong with Microfinance?* London: Practical Action Publishers.

Dos Santos, P (2008), *The World Bank, the IFC and the Antecedents of the Financial Crisis*, Bretton Woods Project Update, November 27th.

Du Toit, A (2004), ''Social exclusion' discourse and chronic poverty: a South African case study', *Development and Change*, 35 (5).

Duvendack, M and R Palmer-Jones (2011), '*High noon for microfinance impact evaluations: re-investigating the evidence from Bangladesh*.' (Working Paper 27, DEV Working Paper Series). East Anglia, UK: The School of International Development, University of East Anglia.

Duvendack, M, R Palmer-Jones, J G Copestake, L Hooper, Y Loke and N Rao (2011), '*What is the evidence of the impact of microfinance on the well-being of poor people?'.* London: EPPI-Centre, Social Science Research Unit, Institute of Education, University of London.

Faux, J and L Mishel (2000), 'Inequality and the Global Economy'. In Hutton, W and A Giddens (eds.), *On the Edge: Living with Global Capitalism.* London: Jonathan Cape.

Friedman, D (1988), *The Misunderstood Miracle: Industrial Development and Political Change in Japan*. Ithaca, NY: Cornell University Press.

Galbraith, J (2008), *The Predator State: How Conservatives Abandoned the Free Market and Why Liberals Should Too.* New York: Free Press.

George, A (2006), Response to 'Death by microcredit', September 25th. Available from http://mifin.wordpress.com/

Gowan, P (1999), *The Global Gamble: Washington's Faustian bid for World Dominance.* London: Verso.

Harper, M (2007), 'Some final thoughts'. In: Dichter, T and M Harper (eds.) (*op cit*).

Harper, M (2011), 'The commercialisation of microfinance: resolution or extension of poverty?'. In: Bateman, M (2011), (*op cit*).

Harvey, D (2006), *A Brief History of Neoliberalism*. Oxford: Oxford University Press.

IADB (Inter-American Development Bank) (2010), *The Age of Productivity: Transforming Economies from the Bottom Up.* Washington DC: IADB.

ILO (International Labour Organisation) (1972), *Employment, Incomes and Equality: A Strategy for Increasing Productive Employment in Kenya*. Geneva: ILO.

ILO (International Labour Organisation) (2009), *The Financial and Economic Crisis: A Decent Work Response.* Geneva: ILO.

Karlan, D and J Zinman (2009), *Expanding Microenterprise Credit Access: Using Randomized Supply Decisions to Estimate the Impacts in Manila* (mimeo).

Karnani, A (2007), 'Microfinance misses its mark'. *Stanford Social Innovation Review* (Summer).

Karnani, A (2011), *Fighting Poverty Together: Rethinking Strategies for Business, Governments, and Civil Society to Reduce Poverty*. New York: Palgrave MacMillan.

Klas, G (2011), *Die Mikrofinanz-Industrie: Die große Illusion oder das Geschäft mit der Armut* (The Microfinance Industry: The Great Illusion or the Business of Poverty), Hamburg: Association A.

Lall, S (1996), *Learning from the Asian Tigers: Studies in Technology and Industrial policy.* London: MacMillan Press.

Levy, S (2007), '*Informality, productivity and growth in Mexico*' presentation at the World Bank ABCDE Conference 'Private Sector and Development' Bled, Slovenia, May 17-18th.

Leys, C (2001), *Market-driven politics: Neo-liberal democracy and the public interest*. London: Verso.

Mader, P (2011), '*Attempting the production of public goods through microfinance: the case of water and sanitation'*. Paper presented at the University of Pula 5th International Scientific Conference 'Entrepreneurship and Macroeconomic Management: Reflections on the World in Turmoil', Croatia, March 2011.

Manji, A (2006), *The Politics of Land Reform in Africa: From Communal Tenure to Free Markets*. London: Zed Books.

Minsky, H (1986), *Stabilising an Unstable Economy*. New York: McGraw Hill Professional.

Moyo, D (2009), *Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa*. New York: Farrar, Straus and Giroux.

Norberg-Hodge, H, T Merrifield, and S Gorelick (2002), *Bringing the Food Economy Home: Local Alternatives to Global Agribusiness*. London: Zed Press.

North, D (1990), *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.

Oi, J (1995), 'The role of the local state in China's transitional economy', *The China Quarterly*, No 144.

Otero, M, and E Rhyne (1994), *The New World of Microenterprise Finance: Building Healthy Institutions for the Poor*. London: Intermediate Technology Publications.

Pitt, M and S Khandker (1998), 'The impact of group-based credit programs on poor households in Bangladesh: does the gender of participants matter?', *Journal of Political Economy* 106 (5), pp. 958-996.

Pollin, R, M W Githinji and J Heintz (2008), *An Employment targeted Economic Programme for Kenya.* Cheltenham: Edward Elgar.

Popli, G (2008), *Trade liberalization and the self-employed in Mexico*. UNU-WIDER Research Paper No. 2008/05.

Pretty, J (2005) (ed.), *The Earthscan Reader in Sustainable Agriculture.* London: Earthscan Publications.

Pyke, F (1992), *Industrial Development through Small-firm Cooperation*. Geneva: ILO.

Reinert, E (2007), *How Rich Countries Became Rich, and Why Poor Countries Stay Poor*. London: Constable.

Rhyne, E (2001), *Mainstreaming Microfinance: How lending to the poor began, grew, and came of age in Bolivia.* West Hartford, Connecticut: Kumarian Press.

Robinson, M (2001), *The Microfinance Revolution: Sustainable Finance for the Poor.* Washington DC: World Bank.

Rolfe, R, D Woodward, A Ligthelm and P Guimaraes (2010), 'The viability of micro-enterprise in South Africa.' Paper presented at the Conference on 'Entrepreneurship in Africa', Whitman School of Management, Syracuse University, Syracuse, New York, April 1-3.

Roodman, D and J Morduch (2009), 'The impact of microcredit on the poor in Bangladesh: revisiting the evidence.' *Working Paper Number 174* (June). Washington DC: Center for Global Development (Revised version 2011).

Schumpeter, J (1987) (1942), *Capitalism, Socialism, and Democracy*, 6th edition. London: Unwin.

Sender, J and D Johnston (2004), 'Searching for a weapon of mass production in rural Africa: unconvincing arguments for land reform.' *Journal of Agrarian Change,* Vol. 4 Nos. 1 and 2, January and April, pp. 142–164.

Shiva, V (2002), *Water Wars; Privatization, Pollution, and Profit*. Cambridge, Massachusetts: South End Press.

Sinclair, H (2012), *Confessions of a Microfinance Heretic: How Microlending Lost Its Way and Betrayed the Poor*. San Francisco: Berrett-Koehler

Srinivasan, N (2010), *Microfinance India: State of the Sector Report 2010.* London: Sage Publications.

Sriram, M S (2010), *Commercialisation of microfinance in India: a discussion on the emperor's apparel*. (Working paper, March). Ahmedabad: Indian Institute of Management.

Stiglitz, J (2002), *Globalisation and its Discontents*. London: Allen Lane.

Taylor, M (2011), 'Freedom from poverty is not for free': rural development and the microfinance crisis in Andhra Pradesh, India.' *Journal of Agrarian Change*, Vol 11 (4), October, pp. 484-504.

Thompson, E P (1963), *The Making of the English Working Class*. London: Victor Gollancz.

Thun, E (2006), *Changing lanes in China: Foreign direct investment, local government, and auto sector development*. Cambridge: Cambridge University Press.

UNCTAD (2003), *Trade and Development Report 2003*. Geneva: UNCTAD

Wade, R (1990), *Governing the Market*. Princeton, New Jersey: Princeton University Press.

Weber, H (2002), The imposition of a global development architecture: the case of microcredit, *Review of International Studies,* Vol. 28, No.3, pp. 537–55.

Weiss, L (1988), *Creating Capitalism: The state and small business since 1945*. Oxford: Blackwell.

Yunus, M (1989), 'Grameen Bank: organization and operation'. In: Levitsky J (ed.) *Microenterprises in Developing Countries*. London: Intermediate Technology Publications.

Yunus, M (1997), Remarks from Dr Muhammad Yunus's acceptance speech given on the occasion of his receiving the Help for Self-help Prize of the Stromme Foundation, September 26, 1997 in Olso, Norway. See Vol 1 (2), November/December, *Newsletter of the Microcredit Summit Campaign*.

Zamagni, S, and V Zamagni (2010), *Cooperative Enterprise: Facing the Challenge of Globalization*, Cheltenham: Edward Elgar.