CODESRIA

CODESRIA

13ème
Assemblée générale
General Assembly
Assembleia Geral
الجمع العام الثالث عشر

L'Afrique et les défis du XXIème siècle
Africa and the Challenges of the Twenty First Century
A África e os desafios do Século XXI
إفريقيا وتحديات القرن الواحد والعشرين

VERSION PROVISOIRE
NE PAS CITER

The Role of Microfinance in 21st Century and the Quest for Research: Practitioner's Voice

MakonenGetu,
Opportunity International, Oxford, UK

5 - 9 / 12 / 2011

Rabat Maroc / Morocco

Introduction

1.1. Purpose

During the last six decades of world development, several measures have been undertaken by both international and national agents to promote development and alleviate poverty in developing countries. Microfinance has been one of the key anti-poverty interventions aimed at developing the long neglected informal sector through the provision of access to financial services to the economically active poor. The award of the Nobel Peace Prize of 2006 to its prime promoters, Professor Muhammad Yunus, Founder of Grameen Bank, is a full international recognition of the positive role microfinance has played as a 'bottom up' global poverty solution. As such microfinance has become an important factor in the establishment of world peace and security.[1]

However, during the last 10 years, and particularly the last five years, the microfinance industry has been hit by widespread criticisms. Although microfinance has been fully embraced by African Governments, regional bodies and civil societies and the poor are participating in their millions, the literature on the subject is short of research done by African scholars. The purpose of this paper is to give a review of the history and role of microfinance in the world and in Africa, respond to some of the criticisms made and urge the community of African scholars in general and CODESRIA in particular to put microfinance on their research agenda.

1.2. Methodology

This is a desk research accompanied by personal engagement and reflection and could be considered as some sort of action research. As a long-time practitioner in the field of development in general and microfinance in particular, I have attempted to use both internal and external knowledge which I have accumulated over the last 25 years. I have used my long internal knowledge and experience of the 10 microfinance institutions in the nine sub-Saharan African countries as the basis for proving my response to the microfinance criticisms. This is a practitioner's voice.

[1]Yunus, Nobel Peace Prize Lecture, December 10, 2006

1.3. Terminologies and definitions

Three types of terminologies have been used to characterize the microfinance industry. These include: microcredit, microenterprise development and microfinance. These terminologies have been utilized sometimes as interchangeable and sometimes as if they were completely distinct. The common thing they share is the provision of financial services to the poor.

The term*microcredit* refers to the practice giving loans to poor entrepreneurs to enable them create or sustain employment opportunities and generate income. The focus is on the provision of working capital.

The term *microenterprise development* is defined as "a development strategy that provides a broad package of financial (savings, credit, insurance) as well as other business development services (business training, marketing assistance, etc.) to entrepreneurs to enable them to operate their own productive economic activities."[2] The focus is on the provision of working capital for business.

The term *microfinance* is defined as "the supply of loans, savings, and other basic financial services to the poor". The latter include insurance, pensions and money transfers as well as financial training. Financial services are given for diverse purposes including consumption.[3]

Of the three terminologies the first and last have been the most commonly used with term *microcredit*dominating the literature of the industry in the 20th century. Although the global movement that started in 1997 still carries the name "**microcredit summit"**, *microfinance* is the main terminology that is being commonly used to characterize the industry in the 21st century.

Other concepts worth mentioning include: *minimalist* approach and *holistic* approach. The former relate to the provision of financial services only. The latter, also known as *credit **plus***, relates to the provision of both financial and non-financial services with the aim to maximize the impact of microfinance on the lives of participating clients.

[2]Bussau and Mask 2003:105
[3] CGAP 2003

1.4. Limitations

This is work in progress. The paper is not based on field research nor does it engage the views of practitioners in the form of interviews. Moreover, it doesn't provide a full review of the criticisms at hand, although this is comprehensively contained in the book that has been the focus of this paper. The response is also based only on the examination of the programs of 10 MFIs. No experience from French speaking countries has been referred to. All these limitations are planned to be addressed in the process of finalizing the paper.

2. Evolution of Microfinance

The global effort to provide access to financial services among the poor has gone through several stages distinctive but overlapping phases.[4]

2.1. The subsidy phase (1960 -1975)

The first phase relates to the provision of subsidized credit. During this phase donor-funded government credit schemes were initiated as an effort to help poor farmers increase their agricultural productivity and thereby achieve food security. The scheme was operated mainly by state-owned rural development banks, in some cases cooperatives that received concessional loan for on-lending to customers at interest rates that were below the market. However, the lending programs failed to achieve the intended objectives because the lenders suffered huge losses partly because interest rates were too low and cost structures were high and partly because they were poorly managed resulting in high default rates. In most cases the loans ended up in the wrong hands includingwell to do farmers, politicians and bureaucrats) and much of the principal was never recovered. This was the period of the Green Revolution and "betting on the strong" was the order of the day and the poor were sidelined as the credit schemes continued to be increasingly politicized and corrupt In most cases the loans were not recovered. The method was generally accepted as a failure, and abandoned in the early the 1970s. Excluded by the formal financial sector, the poor continued borrowing from the local moneylenders at exorbitant interest rates to meet their credit needs.[5] The microcredit initiative

[4] We are not talking of a situation in which one phase is completely done away with and is replaced another one

[5] Mercy Corps, http://www.globalenvision.org/library/4/1051, CGAP 2003, Woller et al 1999

was therefore launched partly to liberate the poor from the exploitation of money-lenders and partly to disprove the general perception that the poor were "unbankable".

2.2. The innovation phase (1975-1995)

The second phase covering the period of 1975-1995 related to the period when many NGOs took the role of giving credit to the poor and developed innovative methodologies tailored to meet their conditions and needs. The purpose of microcredit was defined as giving a loan to economically active microentrepreneurs for use as working capital to expand existing businesses. The geographic focus was urban and the main social targets became women.Iinnovative methodologiesconsisting of individual, group lending and solidarity group and self-help groups were experimented and practiced in various parts of the world. These methodologies meant that the borrowers self-selected members they knew and trusted to co-guarantee each other's loans in order to avoid default in the event a member/s fails to pay his/her loan. Subsidized interest rates were done away with and commercial interest rates and fees were introduced. Other best practice standards were also developed. Mandatory (forced) savings were required for accessing loans and the main targets were women. All the innovations were meant to make access to financial services easier and cheaper to the clients and to enable the MFIs cover their costs in order to become sustainable (self-sufficient). The Grameen Bank of Bangladesh led by Professor Mohammad Yunus was at the forefront of this revolutionary breakthrough. The new tools and standards were received as a revolutionary way of reducing lending costs and ensuring high repayment rate. They were applied by all practitioners and successful microcredit initiatives were implemented mainly in Asia and Latin America with high repayment rates proving that the poor were "bankable". The average cost of lending declined and the rate of interest revenue generated by service providers increased.[6]

As anti-poverty intervention, the microfinance industry went from being run by public institutions to being run by NGOs during second phase. Concrete economic evidence proved that the poor were "bankable", and that they were "credit worthy". With high repayment rates and financial discipline, the poor proved that they were better borrowers than those in the formal sectors. The poor were not only willing but also able to pay commercial rates. Given the opportunity, the poor had ability to run profitable businesses. What they needed was not

[6] Camion and White 1999, Moser and Reed 1996

'handouts" but a "hand-up". The provision of credit and related training was shown to be a powerful means of alleviating poverty among the poor. More and more of them were enabled to create and/or sustain employment, increase their incomes and improve their standard of living. The evidence was so robust that bilateral, multilateral and private agencies began to show an increasing interest in microfinance as a development tool and started pouring money. Some studies show that the funding from donor agencies increased from about $10 million in the 1970s to $100 in the 1980s and $400,000 million in the first half of the 1990s.[7]According to a study commissioned by CGAP, microfinance was able to attract about a total of $4 billion foreign investment (debt and equity) by 2008.[8]

Donors quickly saw this as a powerful anti-poverty tool and started pouring funding increasing the estimated grant from $10 million in 1970 to $400 million in the 1980s. Following the donor recognition of the emerging role and popularity of the industry, the Consultative Group to Assist the Poor (CGAP) was created in 1995 by 33 public (donor) and private agencies at a meeting hosted by the World Bank to work together in expanding access to financial services for the poor in developing countries "with a mandate to coordinate international donor policy towards microfinance"[9]

2.3. The Commercialization phase

The third stage in the history of microfinance involved the commercialization phase during which some of the NGO microfinance institutions (MFIs) began transforming themselves into regulated financial institutions. Despite the signs of change towards the end of the 1980s, the overwhelming majority of the MFIs operated as NGOs during the first two and half decades. This meant that their operations were not regulated and/or supervised by Central Banks. Moreover, although they were able to mobilize mandatory savings from their clients as a pre-condition for accessing loans, they were not licensed to mobilize deposits. The mandatory savings were not used for on-lending purposes. Most of the loan capital they usedto run their operations was made up of donor grants.[10] After 1995, and more particularly

[7] Moser and Reed 1996
[8]Reille and Forester 2008
[9] CGAP is based in Washington D.C. as part of the World Bank Group and operates on an annual budget of $10 million advising member donor countries and setting standards and tools used by the industry. Ever since its establishment, CGAP has played a critical role in developing best practice standards, developing manuals and tools, undertaking research and disseminating knowledge, training both practitioners and donor personnel and lobbying. Bateman 2010
[10] The same applies to the MFIs that still operate as NGOs

during the last 10 years, the commercialization phase has become a dominant face of the microfinance industry. A commercialized MFI is licensed and regulated by a Central Bank which means that it has to meet all the necessary requirements which are much higher and more expensive than operating as an NGO MFI. There are different stages: deposit-taking, loan and savings limited and commercial bank. Although the requirements vary for the three stages, they can all mobilize voluntary savings from the public which they can use for on-lending purposes.The other aspect of the commercialization phase relates to the conversion of MFIs into profit-making entities open for private investors sharing dividends.[11]

Still another aspect of the commercialization phase relates to the mass interest and participation of commercial banks. For a long time, the commercial banks stood outside and watched the development course the microfinance industry was taking with peripheral or no involvement. In early 1990s mainstream financial institutions started realizing the potential of microfinance and particularly during this past decadehave become active players. Commercial banks have entered the microfinance market both as wholesale borrowers and/or active direct service providers by initiating their own microfinance programs. This level of interest and participation has come about partly as a result of the work done by MFIs to prove the "bankability" of the poor and partly because of developments in technology and scoring methodologies which enabled risk modeling and mitigation.[12]

The popularity and international recognition of the microfinance industry reached its peak when the UN declared the 2005 as the year of microcredit and the Norwegian based Nobel Committee awarded the Grameen Bank and its Founder, Professor Mohammad Yunus the 2006 Nobel Peace Prize as joint recipients "for theirefforts to create economic and social development from below".[13]

According to the report on the state of microfinance released by the Microcredit Summit in 2011[14], there were over 190 million active clients by the end of December 2009 served by over 3500 MFIs. Of these over 128 million were among the poorest at the start of the microfinance program. This means that about 640 million people were positively impacted In

[11] Two examples include Compartamos, the Mexican MFI whose initial public offering in 2007 earned its owners $467 million. SKS, an Indian MFI had its IPO valued at $1.5 billion in 2010.
[12] Blue Financial Services Ltd, Annual Report 2008, Microfinance in Africa: Past, Present and Future, http://www.blue.co.za/pdf/micro%20finance%20in%africa.pdf

[13] Norwegian Nobel Committee Press Release, http://www.nobelprize.org/nobel_prizes/peace/laureates/2006/press.html
[14] Reed 2011

terms of geographic distribution over 91.4% of the reported poorest clients were in Asia. Of the 190 million clients, about 105 million or about 82% were women.[15]

3. Microfinance in Africa

3.1. History

As in many other countries in the world, the provision of credit to micro-businesses and/or informal activities in Africa is centuries old. The susus of Ghana and the tontines of West Africa are, for example, often referred to as having being been practiced as far back as in the 15th century.[16]

However, modern microfinance as presently known emerged in Africa much later than it did in Latin America and Asia. This happened mainly in the early 1990s followed by the shift made by Kenya Rural Enterprise Programme, initially established as a USAID-funded project in 1984 from supporting NGOs with grants and technical assistance to providing loans in 1989.[17]

By September 2011, the microfinance industry in Africa records 23,000 service providers spread across 45 countries serving 71 million loan clients, 44 million deposit accounts and 18 million mobile banking service users.[18]Big names include Equity Bank (Kenya), Amhara Credit and Savings Institutions (Ethiopia), Opportunity International Bank of Malawi (Malawi), etc.

Similar efforts were made both by the other international MFIs and local groups and quickly a proliferation of MFIs (small and big) emerged on the market. The move to promote microfinance as an anti-poverty measure in Africa was embraced and supported not only by national governments and donors but also by AU, UNECA and AfDB.

A good number of African leaders took part in the first Microcredit of 1997 that brought about 3,000 delegates from different parts of the world. In 1998 the UN General Assembly took decision to declare 2005 an International Year of Microcredit. In response to these major international events the African Government seem to have shown some degree of commitment to the new model of doing microfinance. They have set up structures and

---

[15] The global projection is to reach 175 million of the world's poorest families by 2015 and aims to ensure that at least 100 million families will move about the World Bank's $1.25 per day poverty threshold.
[16]AfDB 2006
[17] KREP, http://www.k-repbank.com/about-us/history.html
[18] Mix, http://www.themix.org/publications/serach/results/taxonomy%3A32

funding to participate both as direct providers and wholesale funders providing funding to MFIs as grants and/or at concessionary rates. Many Governments have developed microfinance policies and standards to be followed by both NGO and regulated MFIs to streamline roles and control systems so as to ensure accountability and transparency. The Central Banks have created structures and related resources to regulate and supervise microfinance operations. The general will is to create an enabling environment for the practitioners in recognition of the positive impact microfinance has on job creation, income generation and poverty alleviation.

The AU and UNECA too have given similar support and participated in the promotion of microfinance in Africa in various ways. In addition to be part of the UN decision to recognize microfinance as powerful tool for fighting against poverty and achieving the MDGs, the AU commissioned a study in 2008 on the **Elaboration of roadmap for the development of microfinance in Africa** which was validated at the workshop hosted by IDEP in Dakar. Two of the main recommendations made at the validation conference were that the AUshould facilitate the elaboration of an African Microfinance Charter and institutionalize an annual African Microfinance Forum.[19]

Ever since the commissioning of the ***Case Study on Best Practices Aimed at Poularizing Micro-financing*** in 1998, the UNECA has actively participated in the facilitation of a series of studies and discussions on the promotion of microfinance as a tool and the development of best practices.[20]

AfDB too has emerged as one of the active supporters and promoters of the microfinance sector as part of the solution to the poverty problem in Africa. AfDB's policy developed in 2006 states that:

"microfinance plays a critical role in achieving the Millennium Development Goals (MDGS) and enhancing development effectiveness by contributing to poverty reduction, increased political, social and economic development, social empowerment, community participation, school attendance of children and economic prosperity (especially for women)[21]

[19]www.africa-union.org, Report on validation workshop on the elaboration of a roadmap for the development of microfinance in Africa, Dakar, 30-31 July 2008
[20] www.un.org/esa/africa/microfinanceinafrica.pdf
[21]www.afdb.org/.../1000014EN-MICROFINANCE-POLICY-AND-STRATEGY-FOR-THE-BANK-GROUP.PDF

AfDB has its own microfinance initiative known as AMINA (African Development Fund Microfinance Initiative for Africa)through which it participates as a lender, equity investor and grant-giver. In partnership with other governments and multi-lateral organizations, AfDB provides technical and financial support for capacity building and other innovative products and services implemented by MFIs in Africa.[22]

Despite the rapid progress it has made in the last 10-15 years, the microfinance sector in in Africa is still small and faces several challenges.

First, although the Governments have shown the political will to facilitate the promotion of the sector, their limited capacity to attend to the things that matter to smooth and effective operation of MFIs including licensing and regulatory standards and procedures in a timely and constructive manner continues to stifle the performance of the sector. In other words, many African Governments still find creating a fully favorable institutional environment challenging.

Second, governments commonly tend to politicize microfinance particularly around election times thereby creating inconsistencies and uncertainties. On the one hand, they run their own microfinance programs offering services at heavily subsidized interest rate when they need to win votes thereby creating distortions in the market and undermining competitiveness.[23] On the other hand, they tend to campaign against best practices of microfinance claiming that the MFIs are charging high interest rates and so on.[24]

Third, poor physical infrastructure, communication servicesand power supplies as well as the concentration of financial outlets in urban areas, make reaching the poor in rural and marginalized areas expensive and difficult.

Fourth, through their different types of "clean-up operations", they physical destroy market places and client businesses making it difficult for the poor to engage in business with full certainty and meet their socio-economic needs. Imposing interest ceilings is another form of Government intervention.[25]

[22] Two recent examples are the Migration and Development Fund of 2010 and Microfinance Capacity Building Fund of 2011

[23] The Government of Uganda, for example, launched such programs: the 'Entandikwa' of 1996 and 'BonnaBagagwle' –' prosperity for all' of 2006 despite the protest by best practice MFIs in the country.

[24] Again the Government of Uganda attacked MFIs in his country alleging that they were charging high interest rates and put a cap on interest rates. Yet the President was one of the African leaders who took part in the first Microcredit Summit in 1997 and signed the best practice declaration.

[25] The most notorious example is Mugabe's 'Operation Murambatsvina' of 2005 which left and estimated 1.5 million poor people homeless and out of business.
en.wikipedia.org/wiki/Operation_Murambatsvina.

Fifth, diseases like HIV/AIDS, conflicts, political problems, weather related calamities such as drought and floods, fires in densely populated slums, poor sanitation and lack of stands in market places have also presented challenges to both clients and service providers.

Sixth, non-deposit taking MFIs find mobilizing affordable capital difficult. This is compounded by the declining allocation of donor money towards the sector. Even the regulated MFIs find attracting foreign investment challenging. It is estimated that the microfinance sector in Africa attracts only 7% of the global investment in the sector.

Despite the various constraints faced, the general policy environment in Africa has been supportive and accommodative of microfinance innovations and best practices and the industry has made good use of the opportunities, including human capital and indigenousgroup cultures, available at its disposal and continued to be thriving. It is not only the fastest growing microfinance industry globally, but also a leader in savings mobilization.

3.2. What does the microfinance sector in Africa do? Products and services

Although it is not a general rule followed by every MFI, the microfinance industry in Africa, as everywhere in the world, offers both financial and non-finance services with certain variations between countries and service providers. The presentation below provides a brief description of these products and servicesin a more generic manner.

3.2.1. Financial products and services

Deeply rooted in the low level of general development, Africa has the highest number of people who are financially excluded and illiterate. Of the 300 million economically active people in sub-Saharan Africa only about 20 million or less than 10% have access to any kind of formal financial services. The youth aged 18-24 are among those most excluded. According to AfDB the demand for credit is estimated to reach US$10 billion.[26]

In view of the high demand for savings services, the microfinance sector in Africa provides not only credit services but also savings, insurance, money transfers (remittances) and cellphone banking services. Let us go through these one by one.

[26] www.afdb.org/.../1000014EN-MICROFINANCE-POLICY-AND-STRATEGY-FOR-THE-BANK-GROUP.PDF

3.2..1.1. Loans (or credit): This was the single product the microfinance industry was initially established to provide to poor microentrepreneurs and dominated the market for a long time making the microfinance sector solely focused on borrowers. The most common lending methodologies applied by most MFIs include individual, group, solidarity group and self-help groups. The size of loans and terms vary between the methodologies with individual loans constituting the highest. Although loans as small as $30 are given to first time borrowersparticipating in groups, the global average loan size in 2009 was $516.00[27] Loan repayments are collected either on a weekly, bi-weekly or monthly basis. In most cases loans are given for 4 to 36 months with the most common being 4-12 months. The latter apply mainly to loans given to clients through groups, solidarity groups and self-help groups. Clients are charged interest at a global rate of about or 35% per annum.[28]

Although the original focus of microfinance loans has been on financing the expansion of existing businesses mainly consisting of trading, MFIs have started offering and/or piloting a more diversified range of loan products related to consumption (personal loans), agriculture, health, education, youth, housing and SMEs. A shift has also been made from urban concentration to rural expansion. MFIs are also tending to diversify the gender composition of their clients by including more men participants.

3.2.1.2. Savings: These include both mandatory (forced) and voluntary savings mobilized by MFIs. Mandatory savings are made in the order for clients to qualify for credit. Before they are considered eligible for accessing credit, clients are expected to save a certain amount in order to demonstrate their commitment. Mandatory savings also motivate clients to repay and ensure good repayment performance as they can be taken by the service provider in the case of default. Such savings can be taken at different stages. In some cases clients are required to save before getting their first loan. In other cases, service providers require clients to save following their first loan in order to access subsequent loans. Maximum loan sizes are tied to the amounts saved by the client. However, service providers are not usually allowed to treat these savings as part of their loan capital base or use them for on-lending purposes.[29]

---

[27] MIX Market Report 2011, http://www.mixmarket.org
[28]http://microfinance.cgap.org/2008/06/20/why-do-microcredit-interest-rates-vary-so-dramatically-around-the-world/
[29]Hanning and Wisniwski 1998, Rutherford 2000

Voluntary savings make the other component of the savings product. These are deposits made by clients for safekeeping and interest earnings. The global and African experiences during the last decade have proved that the poor have more need for savings services than credit. In certain cases, they even take loans in order to save. [30]The poor do not only have needs for savings services. They are also willing and able to save. Very often they save for weddings, funerals, emergencies and opportunities (e.g. for buying land, property, livestock, investment, paying debt, etc.) in small amounts on a weekly or monthly basis. They wish to open bank accounts and move their money from "under the mattress" and keep it in a safe and convenient place with interest earnings.[31]However, the savings product is not offered by all types of MFIs. Only regulated MFIs licensed and supervised by Central Banks are allowed to provide savings services and the opening of savings accounts by the poor started being available following the transformation of NGO MFIs into formal, regulated financial institutions during the last 5-10 years.

In addition to the protection and security they offer to the poor, savings improve clients' liquidity and flexibility. Savings also enable clients to cope with the consequences of disasters, invest in business expansion, smooth consumption, pay school fees and meet social obligations such as weddings and funerals.[32]

Voluntary savings services have also boosted the industry as the service providers have been able to use the public deposits under their care for on-lending purposes thereby strengthening their loan capital base. This has been particularly important as donor-funding has tended to increasingly decline both as a result of conscious policy shift away from giving grants to the sector and partly because of the economic crisis and slowdown facing traditional donors.

3.2.1.3. Microinsurance products

Wikipedia gives the following definition:

"Microinsurance is a term increasingly used to refer to insurance characterized by low premium and low caps or low coverage limits, sold as part of atypical risk-pooling and

[30] Collis et al
[31] Collins et al
[32] Rutherford 2000 and Rogaly 1997

marketing arrangements, and designed to service low-income people and businesses not served by typical social or commercial insurance schemes."[33]

Insurance is often seen as a thing of the rich and educated. In the west it has become a way of life while in the developing world it is a service accessed mainly by the elite. The poor are the most vulnerable to calamities and yet the least insured. Insurance is often unheard of and is beyond the reach and dream of the poor. It is complex, unaffordable and unavailable. Formal insurance companies do not have the poor on their agenda of service.

In the absence of insurance, when calamities (weather, disasters, conflicts, pandemics) hit, the poor often lose everything at their disposal and become worse off as they fall back into poverty. Poorly built properties in high-density urban slums are prone to fires and floods. Properties are destroyed by state-run development or "clean-up" operations, livestock perish because of drought and diseases, social and economic lives are disrupted by illnesses and deaths. In the words of Collins et al, "poor communities live with risk as a matter of course".[34]

Africa is home to all these man-made and natural disasters. In times of such shocks, affected people either rely on relative, friends or humanitarian assistance. Adhering to its commitment to bring as varied financial services as possible to the poor, the microfinance industry in Africahas begun offering insurance products during the last 10-15 years.Some of the insurance products offered include: life, credit, funeral, health, property, livestock, and crops insurance.[35]

Unlike the conventional microinsurance products, microinsurance is designed to protect the poor and low-income people against calamities and shocks in exchange for small premium payments which are administered on the basis of the clients' needs and their willingness and ability to pay premiums.Again, just as in the case of savings, this has proved to be of huge interest and need among the poor.Taking microinsurance policies helps them to protect themselves and their families against shocks.

Burial insurance is most popular with the greatest participation among clients in countries where HIV/AIDS incidence is high. People are enabled to have access to funds that will help them cover their funeral and medical expenses which are often very expensive. Credit life insurance, which is often taken as a compulsory part of the loan, plays a significant

[33] Wikipedia, http://en.wikipedia.org/wiki/Microinsurance
[34] Collins et al, p.67
[35] Reed 2010

role in ensuring loans are repaid at the time of death which protects survivors from any loss of asset where repossession is likely to happen.

3.2.1.4. Remittances (money transfers)

These are the other financial products and services the microfinance industry has started offering to the poor.According to World Bank estimates, of the estimated total remittances of US$414 billion in 2009, US$316 billion went to the developing world. For some countries remittances can constitute as high as a third of their GDP. It estimated that 30 million Africans living abroad send an estimated total amount of about $30-$40 billion per annum to their respective countries of origin.[36]

More importantly, a large part of the remittances to Africa go to low-income people and 30-40% are destined to rural areas making them a critical source of livelihoods and well-being amon the poor.[37]Rural people are also dependent on domestic remittances sent by relatives living in urban areas. Traditionally the transfer of money from the diaspora has been channeled through formal banks and/or long established global agents such as Western Union and Money Gram. However, due to the limited or lack of access to formal financial services within easy proximity, the poor in Africa find traditional transfer practices unaffordable, slow and unsafe.

In response to this unfavorable environment, the microfinance industry (regulated and non-regulated alike) has created cheaper, faster and safer means of transferring both domestic and external remittances. Some of the instruments applied include rural-based financial infrastructures, mobile banking, Point of Sale, ATMs, smart cards, and telephone banking. In the case of regulated institutions with wider network offinancial infrastructure, the poor have been enabled to open bank accounts and save part of the money with interest earnings instead of taking the whole amount and spending it quickly immediate consumption goods.

3.2.2 Non-financial products

These services include: business training and financial literacy, trades/vocational training, marketing skills, health education, family planning, life skills and leadership skills training.

[36] World Bank: migration and development brief 16, http://econ.worldbank.org/website/external/exit
[37] Africa Remittances update, http://www.africafocus.org/docs/0/rem1003.php

Business training and financial literacy: This relates to the provision of training in basic business skills including accounting, profit-loss calculation, record keeping, business planning, as well as orientation regarding new e-banking technologies. The latter is necessary partly because people are suspicious of new technologies and partly because they are ignorant of how to operate them.

Trades/vocational skills training: most poor entrepreneurs run businesses with basic skills in their trades. Often their skills are learned from parents or friends. Very few have skills acquired through formal training. On average microfinance clients in Africa manifest poor trade skills. As a result, most of the clients produce poor quality goods rendering marketing difficult. MFIs give opportunities for trades/vocational skills training to help them upgrade their skills, increase their productivity and improve their quality of their products and services. Farmers are trained in different marketing and production techniques. Where possible the youth are trained in such skills as carpentry, tailoring, mechanics, shoemaking, bricklaying, masonry, hospitality and catering, etc. prior to taking business loans. MFIs do this through collaboration with other youth service organizations and vocational skills training institutes.

Marketing services: This includes the facilitation of business links, promotion and export of goods locally made by clients. In the early days of the industry, service producers paid little or no attention to the marketing of clients' products. The focus was on the increase of production. With the growth of the industry and saturation of the commodity and service market, marketing has become increasingly critical to the success of client businesses. As the number of suppliers constantly increases, competition in the local market for both inputs and outputs is getting stiffer. Clients are in need of market information, business link facilitation, and access to regional and international markets, so that they can buy inputs at affordable prices, sell their goods at fair prices and thus increase profits.

Unfortunately fluctuations of local currencies have prompted clients to seek access to foreign currency, which they can earn only through exporting their products. Effective access to the international market brings badly needed foreign currency to clients and boosts local production and employment, leading to increased income. Some MFIs do provide mentoring, technical advice, information and training on production and packaging skills so as to enable clients to supply quality goods that meet international standards. Connecting clients with Fair Trade Groups is also another method of supporting clients in marketing their products.

Clients are also provided health education including HIV/AIDS, basic hygiene and sanitation, nutrition, cooking, environment. Leadership and life skills training are also provided by various MFIs.

4. The Criticism

For over three decades of its life, the microfinance industry has enjoyed an era of celebration and applause by donors, governments, NGOs, and the media as a miracle-working medicine of world poverty. There have been little or no substantive criticisms directed at the industry. This seems to have changed in the 21st century and more particularly after the industry received the ultimate recognition through the Nobel Peace Award to Professor Yunus and his Grameen Bank who were at the forefront of the industry.

In this section, an attempt is made to respond to some of the main criticisms that have been directed at the microfinance industry. Of the many and varied criticisms, Wilford Bateman's *Why Doesn't Microfinance Work,* has been the most comprehensive, well researched and 'condemning. As his work contains and makes use of the other criticisms, it will be the main point of discussion for the purpose of this paper.

My response is made with reference to the microfinance programs implemented by 10 MFIs in 9 countries in sub-Saharan Africa.[38] These MFIs (hereafter Opportunity Partners) were established in partnership with Opportunity International (Opportunity) between 1994 and 2008.[39]Seven of these are deposit-taking institutions of which three operate as fullfledged. Together, these MFIs served a total of 315,333active loan clients and 830,221 voluntary depositors by the end of June 2011. Moreover, its insurance subsidiary, MicroEnsure, provided insurance services to about 625,000 policy holders covering about 1 million lives.

"MFIs charge high interest rates"

[38] The countries involved include: DRC, Ghana, Kenya, Malawi, Mozambique, Rwanda, South Africa, Tanzania and Uganda. I have chosen to do because I know the work of the Opportunity Partners best.
[39] Established as a faith-based MFI in 1971, Opportunity International currently operates in partnership with local partners in 28 countries across the world. Currently the Opportunity International Network partners serve about 1.5 million loan clients and 900,000 voluntary depositors. Moreover,

The microfinance industry emerged with the aim to liberate poor microentrepreneurs from the exploitation of money lenders who charged them exorbitant interest rates because the poor had no other better options to access the credit they needed to do business. Although it cannot be said about every single case, MFIs are not generally in the industry with the aim to charge high interest rate as much as possible and make profit. All the MFIs started operating as "not-for-profit" service providers and negated the culture of usurious interest rates practiced by loan sharks. MFIs are aware that interest is the cost borne by clients and that it affects the profit accruing to their clients. As such, the aim of MFIs is to lower and not to increase interest rates. Throughout the industry's life, MFIs have generallyendeavored and will endeavor to keep the cost of lendingas low and as affordable as possible both individually and collectively.

Although the interest rates charged by MFIs vary between countries, products and service providers, the global average seems to be around 35% per annum.[40]Why do MFIs charge interest rates at the level they do?

First, the "high interest rate" criticism seems to be based on two "artificial" comparisons: interest rates charged by commercial banks in both developed and developing countries which are relatively lower than average charged by the microfinance industry.[41]No comparison is made between interest rates charged by loan sharks and MFIs. In actual fact, it is wrong to do a comparison with service providers (commercial banks) that never served the poor and not with those (money sharks/money lenders) who did. The latter is the most appropriate comparison to make and in this case MFIs have proved that their interest rates are much lower and relatively more affordable and less exploitative than the loans provided by the loan sharks.

Second, MFIs do not determine their interest rates on the basis of profit-making decision mechanisms. They rather do it on cost-recovery principle. They charge interest rates and fees that will enable them to cover the costs of delivering the services they provide to their clients. Some of the major costs include: Operational expenses, loan loss rate, cost of funds and capitalization (capital put aside to increase lending capacity). Of these costs, operational expenses constitute the major single component of delivery costs. Unlike the commercial

[40] CGAP
[41] It must be mentioned that the interest rates charged by commercial banks in developed and developing countries vary – lower in the former and higher in the latter because of infrastructural and technological differences.

banks, MFIs incur high costs because they deal with small loans and savings, reach out to people in neglected and remote places, deal with people with little or no numerical and literacy skills, rely on personal relationships, and provide non-financial services. It is more expensive to administer smaller loans with minimalist approach than larger amounts with minimalist approach. As stated by CGAP, "administrative costs are inevitably higher for tiny microlending than for normal bank lending. For instance, lending $100,000 in 1000 loans of $100 each will obviously require a lot more in staff salaries than making a single loan of $100,000."[42]

In the case of Opportunity Partners this makes about 45% of the costs. Moreover, because of the whole-person (transformational) development approach they espouse, the Opportunity partners undertake various types of non-financial services: They run HIV/AIDS education, financial literacy, life skills training, family planning, leadership skills training, gender training, etc. While these are done in groups, workshops and conferences, the Opportunity Partners also provide one-on-one mentoring services through their loan officers. This requires spending a lot of quality time with clients. Given the geographic distances between communities, all these non-financial services which are essential for successful client businesses and holistic development, the Opportunity Partners incur heavy expenses. At the same time the Opportunity Partners recognize that high interest rates affect the profitability of client businesses and incomes. The interest rates they charge are therefore carefully and responsibly crafted to cover operational expenses in such a way that the clients are not overburdened. They are also constantly investing in technology and professional excellence so as to improve efficiency and thereby reduce the cost of delivery so as to bring down interest rates.

As faith-based organizations, the Opportunity Partners are value-driven. Although they seek to achieve operational and financial sustainability, profit-making is not their primary motive of being in the microfinance business. Their ethical principle rooted in their faith restricts them from charging profit-driven interest rates that are usurious and destructive to the businesses and well-being of the clients they serve. They put the interest of their clients first. The primary driver for the Opportunity partners is not institutional wellbeing but client wellbeing.

[42] CGAP

Third, although the demand still surpasses the supply, the increasingly growing number of service providers has brought competition into play thereby increasing clients' choices and ability to shop around for lower rates. Over the years competition has pushed interest rates down and continues to do so in the future.

Fourth, during the last 2-3 years, MFIs themselves have initiated two global movements to make the industry to manage its operations in a manner clients are put first. These include: the microfinance transparency and the smart campaign. Established in 2008 and in recognition of the fact that different loan products have different cost structures and different MFIs have different ways of costing their products, the microfinance transparency aims to ensure fair and transparent pricing in the industry by providing extensive and accurate product pricing data publicly.[43] The latter was established in 2010 "… to ensure that providers of financial services [MFIs] to low income populations take concrete steps to protect their clients from potentially harmful financial products and ensure that they are treated fairly."[44] These two movements will no doubt contribute to the continuous decline of the costs borne by clients in general and interest rates in particular and should be taken as MFIs' conscious efforts to reduce the cost of lending.

MFIs that do not strive to reduce the rate of interest they charge and keep on charging exorbitant rates are not and should not be classified as MFIs with the mission of enriching the poor. They are the "new loan sharks" which are using the reputation of the industry to enrich selfish individuals and should be exposed vigorously to protect the poor. Genuine MFIs stand against any such moves as exemplified by the widespread global condemnation of the ultra-high interest rates charged by Compartamos.[45]

"Microfinance excludes the rural poor"

As mentioned above this was the case in the past since for a long time most MFIs focused on urban areas at the cost of the rural poor and on non-agricultural products. With the increasing growing utilization of e-banking covering hitherto unreachable places, many MFIs, particularly regulated ones, have started reaching out to rural communities.

---

[43]www.mftransparency.org: microfinance interest rating data: promoting transparent pricing

[44] CGAP: http://www.cgap.org/p/site/c/template.rc/1.26.4943. The principles originally agreed in 2010 were revised in 2011 consist of appropriate product design and delivery, prevention of over-indebtedness, transparency, responsible pricing, fair and respectful treatment of clients, privacy of client data and mechanisms for complaint resolution. The Smart Campaign: http://cneterforfinancialinclusion.wordprocess,com/2011/07/22/the-smart-campaign-adds

[45] Bateman, pp.144-145

Six of the 10 Opportunity Partners have started providing rural loans to boost crop production to ensure household food security and cash crops such as tea, cacao and coffee in Ghana, Malawi, Mozambique, Rwanda and Uganda. At the moment over 50,000 farmers are benefiting from these interventions. This is in addition to the other rural-based businesses such as processing cooking oil, livestock, piggery, poultry, groceries, etc.[46]Moreover, the Opportunity Partners are also providing remittances services of which the majority beneficiaries are rural people as they receive money transfers from relatives living abroad and in urban areas.[47]In other words, although the outreach is still small, the direction has been taken by all those MFIs that are able to provide such services in sub-Saharan Africa. The Opportunity Partners have also engaged ….. ATMs ….. mobile banks, …. POS. check. This suggests that the criticism about the exclusion of rural people is not current with the current phase the industry is in.

"Microfinance does not empower women"

Bateman gives accounts of how women have disadvantaged by the microfinance industry using studies in Bangladesh, Bolivia and Bosnia and concludes:

"In practice, microenterprise activity undertaken by women most often reflects the proliferation of hyper self-exploitative and patriarchal hegemony-strengthening outcomes – in a word, disempowerment. In fact, microfinance is essentially used instead to discipline and 'soften up' women, in order that they become more 'market-friendly'…*it is markets which are being empowered here, not women"*.[48]

Some of the accounts made by Bateman include: In Bangladesh "… women most often lost control to their male partner of any microloan obtained, but they nevertheless retained the responsibility of repaying the microloan through an increasing workload of odd jobs"; "… women were good clients because of their sociocultural vulnerability, which was expressed, among other things, by their willingness to agree to an onerous schedule of weekly meetings"; "Grameen Bank and other MFIs have essentially been constructed upon the routine use and abuse of Bangladesh women's honor and shame"; Admission to "using pressure on

[46] These programs were fully initiated during the last three year with funding from Gates, MasterCard and Omidyar Foundations.

[47] While all the 10 partners are providing remittances services in one or anther form, the partners in Malawi and Ghana started building their remittances capacity more strategically in partnership with IFAD to serve about 500,000 rural clients by 2014.

[48]Batemen, p. 49

borrowers' husbands and male relatives to enforce high repayment levels on microloans taken out by women", etc. In Bolivia, "… masculine hegemony has been *strengthened* by the restructuring of local society through (among other things) microcredit"; "in no uncertain terms, with the help of microfinance Bolivia's women in poverty were disadvantaged and effectively disempowered". In Bosnia, microfinance represents a "major setback in terms of the empowerment of women" and is"… quietly widely resented by Bosnian women"; "Many qualified and highly skilled Bosnian women [were] forced into the most primitive of microenterprise activities simply in order to survive"; "Contemporary microfinance-driven outcomes is Bosnia are increasingly viewed as a fundamentally backward step in terms of … gender empowerment"[49]

If true, these accounts represent very disturbing scenarios indeed and leave dark marks on the industry. This is not what microfinance is meant to do. Like every other development intervention microfinance, faces cultural challenges that work against women. In an effort to mitigate these problems, the Opportunity Partners conduct gender training involving both women and men; ensure that both husbands and wives are involved in the loans given so as to facilitate whole household transparency and responsibility.Women clients are enabled to open independent and/or joint bank accounts, which allow them to control and decide on the utilization of household income. They are also trained in leadership skills and lead groups and manage meetings which they have never done so before, they represent their groups in discussions/negotiations with MFIs, they are trained in financial literacy and provided with general local and national socioeconomic information that affect their communities. Despite the cultural and legal problems they face in owning/inheriting assets such as land, women clients in Africa seem to experience a sense of gender empowermentas a result of their participation in microfinancne.Several of them have begun to question the way they are treated and stand up for their rights both at household and community levels.

"Microfinance does not empower the poor"

By drawing comparison with the UK and US governments' labor market policy thrust in the 1980s and 1990s the central aim of which was to promote self-employment as a way of disempowering organized labor in particular, and the lower classes in general, thereby to (re-

[49] Ibid, pp. 42-49

)empower the narrow business class, Bateman states that it is "quite wrong to suggest that microfinance is associated with either genuine *intention* to empower the poor or any meaningful *outcome* having been achieved in this direction." [50] Bateman then implies that microfinance is a global tool used by the West to "disempower" and "control" the poor in developing countries as part of using development agencies including the World Bank and IMF.

Although Bateman does not offer any definition of empowerment, the implication seems to refer to taking-over of political power by the "powerless" which is beyond the task of MFIs. However, the experience of the Opportunity Partners has proved that the poor feel empowered in many different ways as a result of their participation in microfinance programs.

First, they are not given the ever downgrading 'handouts'. They are given a 'hand-up', a loan which they repay with interest. The first step of empowerment is that they are recognized as a reliable equal partner to sign a business loan contract. The mutual signing of a loan agreement in a scenario where the poor are often downtrodden, generates a sense of empowerment and recognition. This is further strengthened when they fully repay their loans and then take further loans. Still more important is when their businesses flourish and they earn increased income thereby improving the standard of living for themselves and their families. They become more recognized in their communities as their businesses grow and create employment and business opportunities for others in the form of backward and forward linkages.

Second, through the non-financial training, the clients of the Opportunity Partners are exposed to information about socio-economic issues including their rights and obligations in society as a result of which some take part in local elections and participate in decision-making processes. With increased overall awareness, they have been able to exert pressure on local and national governments to undertake measures that meet community needs.

"Microfinance does not support income-generating activities"

Having made reference to various studies showing various ratios of loan utilization operated by MFIs different countries, Bateman claims that "for a long time the bulk of microfinance has not actually been accessed in order to establish or expand an income-

[50] ibid, p.34

generating activity, but has been used instead simply to facilitate consumption spending." Some of the estimates he provides include about 70% for Grameen Bank and 90% of for FINCA.[51]

It is true that MFIs came into being with the mission of providing working capital among the poor for strengthening and expanding businesses not finance consumption. If the percentages Bateman is sharing are true, the digression is alarming and the claim is painfully deceitful. Although neither is acceptable and have to be dealt with, two distinctions need to be made here though: conscious consumption lending by the MFIs and diversion of business loans to consumption spending by the clients. The latter is more difficult to control than the former.

Money is fungible and loans can be used by clients for different purposes than initially intended for. The Opportunity Partners are aware of this and do take mitigating measures that help clients to use their loans for enhancing their businesses. One of these measures is close monitoring of business activities through site visits. In many instances, clients tend to use part of their loans for meeting educational needs of their children. Some of the Partners have therefore created products related to education loans so they don't need to use part of the business loans for paying school fees.At the same time those operating as deposit-taking institutions and banks, have started providing personal (consumption) loans. But even then very the ratios are insignificant. The highest quoted is 17% in Malawi.

The question is, as long as the low income entrepreneurs or ordinary people have needs such as home improvement and can repay their loans, why shouldn't they be given the opportunity to do so just like people have those options in developed countries? Why should they be denied the opportunity because they belong to the low income social groups? I do not think, what is wrong is giving consumption loans to the poor. What is wrong is when this is constitutes the main or large proportion of the MFI's loan portfolio.

"Commercialized MFIs have drifted from their social mission"

Bateman claims that commercialization is increasingly forcing MFIs "to pressure and hoodwink their clients in order to obtain new business", which is "a very serious case of 'mission drift'" and concludes that "the 'new wave' commercialization model has added

[51] Ibid, pp.29-30

enormous impetus to the ongoing abandonment of the social mission [poverty reduction] aspect to microfinance."[52]Commercialized microfinance diverts "a nation's valuable savings flows into simple 'no-development' uses, and concomitantly out of all *other*uses that we know are likely to be of much high development value to society – principally SME lending."[53]Commercialization has also led to the "rise of a group of 'microfinance millionaires'" consisting of Western social investors as well as key MFI employees/owner which in itself has become "a major 'feedback' driver behind the increasing commercialization of microfinance."[54]He concludes, "the light at the end of the 'commercialized microfinance-as-poverty-reduction' tunnel is actually an oncoming train."[55] Much of Bateman's direct criticism is based on post-2008 developments of Compartamos which was followed by the SKS in India in 2010.

Bateman does a good job in exposing profit-driven commercialized MFIs, directors and employees of the like of Compartamos w profit-making agendas who are out to exploit by taking advantage of the vulnerability of the poor for their own gain. I agree that "profiting so egregiously from the suffering of poor individuals is morally and ethically wrong."[56]

Bateman is also right in arguing about the potential mission drift commercialization brings with it. Commercialization has all the elements and potential to cause MFIs drift from their poverty reduction mission. However, it is also true that, commercialization in itself does not and should not necessarily and automatically lead to mission drift. This is likely to occur only if and when profit maximization and related measures (outreach, technology and professionalism) becomes the prime driver/motive of the post-commercialization operations.

On the other hand, it is possible to creatively manage the various 'risks' that come with commercialization and abort the potential to mission drift thereby making it possible for commercialization to be a boon and not a bane to the preservation and realization of the original social mission of microfinance. This is likely to happen provided that: (i) the owners are social investors not driven by profit-maximization for personal gain but ready to fund non-dividend and non-loss making social businesses, (ii) when there is a clearly defined social mission with deliberate commitment and strategy for realizing it, (iii) seasoned and ethically-

[52] Ibid, p.55
[53] Ibid, p136
[54] Ibid, pp.123-125; 207
[55] Ibid, p.153
[56] Ibid, p.123

minded professionals are recruited and regularly trained/equipped to facilitate value-driven microfinance, and (iv) there is a participatory monitoring and evaluation and/or action-reflection practices in which clients, staff, management and board of directors would be able to assess progress in the context of the organization's social mission.

The Opportunity Partners are aware of the risk involved in commercialization as regards mission drift. To ensure that they stay true to their original mission, they have clearly defined their core business to be facilitating the transformation of their clients. Transformation (whole-person development) is their core business and microfinance is the means they use to realize that. This policy focus is what drives board, management and staff and transformational departments which develop tools and indicators and train both loan officers and clients to ensure that mission drift doesnot creep in. These divisions and staff are closely working with financial and operational personnel to ensure that they operate within the established mission and value frameworks.

Moreover, the Opportunity Partners do not pay out dividends to shareholders. Whatever profit is made is re-invested and not taken out by individuals. There are no "microfinance multimillionaires" within the Opportunity Partners.

"Microfinance is a very powerful poverty trap"

Contrary to the long-held and foundational claim that microfinance is a powerful poverty reduction and development tool, Bateman holds that it is neither. "Microfinance constitutes a very powerful 'poverty trap'" is what he argues.[57]

On the basis of historical references and case studies conducted by various researchers examining different microfinance programs in different countries, Bateman continues to make such conclusive statements as:

"In truth, microfinance represents an *anti-development* policy – a development policy that largely works *against* the establishment of sustainable economic and social development trajectories and also against sustainable poverty reduction. For the majority of people in developing and transition countries … microfinance has actually undermined previous and ongoing efforts to reduce poverty, unemployment, inequality and underdevelopment"[58]

[57]Ibid, p.111. Bateman dismisses all hitherto microfinance impact assessments as "flawed" and "seriously incomplete" claiming that they ignored two important factors: displacement and client exit

[58] Ibid, p.202, see also Bateman and Chang, *"The Microfinance Illusion"*

Some of the claims Bateman has used for writing off microfinance as a poverty reduction tool include the following: (i) Microfinance ignores the crucial role of scale economies as it starves the SME sector of the capital needed and undermines agriculture.(ii) Microfinance 'informalizes' the economy as it is "intentionally or otherwise … intimately associated with the legitimization and support for the informal sector everywhere across the globe which is seen as responsible for a great many anti-social developments", on the one hand, and "crowds out" the SMEs, on the other. (iii) Microfinance "facilitates the deindustrialization of the local economy" and can be "described as "a modern-day version of the Morgenthau Plan". In the case of Africa, he claims that "the continent is fast becoming a vast reservoirs of self-employed traders, and not much else" (iv) Microfinance encourages and promotes "irreversible import dependency" which is a "long-term financial drain on any economy" constituting "a strong deterrent to the eventual (re-)establishment of local production operations". (v) "Social capital and solidarity aremore often *destroyed* by microfinance than encouraged" as the levels of local solidarity, interpersonal communication, volunteerism, trust-based interaction and good will are seriously reduced. (vi) Another set of factors consist of high level of indebtedness because of multiple borrowing, loss of assets as a result of repossessions, loss of lives because of shame, etc.[59]

Many of the weaknesses and concerns described by Bateman are true and most genuinely pro-poor MFIs are aware of them and trying to counteract them to keep their original social mission on course.

It is true as Bateman says that most MFIs neglected the agricultural sector for a long time. They focused on the urban sector where most people took loans to run petty-trading and service activities that needed small working capital and took short term to recycle. Very few went into production related business activities and/or SMEs and very few MFIs were equipped to do otherwise. In fact, providing SME loans has, for a long time, been seen (and still is in some circles) as a "mission drift" and MFIs tried to make sure that their average loans were as small as possible.

The Opportunity Partners do not only give small loans, they also give SME loans to agricultural producers dealing with the production of not only food crops for domestic

[59] Ibid, pp.60-111

consumption but also cash crops for export.[60] They also provide loans of up to $40,000 to low income private school proprietors operating in slum and rural areas providing educational opportunities to poor children who have no easy access to public schools. Some of the partners (Ghana, Malawi, and Uganda) also invest in youth development by creating opportunities for formal vocational skills training of up to three years. These two components constitute important investments in developing future human capital needed for long term development.

It is also true that the focus onpetty-trading and particularly the import-dependency is a serious concern. Petty-trading can be a very important tool for distributing what is produced in the economy and bring supplies of goods and services where they are needed but it does not directly contribute to wealth generation and long-term development. However, it must also be recognized that petty trading of local goods boosts production indirectly as they buy and sell farm and other farm products. The danger is, as Bateman points out, the mass importation and flooding of African markets by imported (mainly Chinese) and relatively cheaper goods which unfavorably compete with locally produced ones.

Although MFIs have no right to tell clients what they should do, the Opportunity Partners are in the process of developing mechanisms for managing their loans with a bias towards production.They are also investing the strengthening of the sense of solidarity and group spirit to keep social cohesion strong among clients. Holding group meetings, group trainings/workshops and annual meetings with clients are some of the practices being applied.

5. Conclusions

Bateman has done much good in identifying the various weaknesses surrounding microfinance in our time using past and recent dynamics. However, his total dismissal of microfinance as a 'dead' poverty reduction tool and as 'a very powerful poverty trap' as well as the little or no confidence he has displayed in the potential of poor entrepreneurs to do business and participate in sustainable development is very disappointing. Bateman seems to be saying:The poor deserve only charity and not business capital. 'Bet on the strong' – the SMEs. The poor are not innovative and development-oriented. They are short-sighted. They

[60] Opportunity is currently piloting in Nicaragua an agro-processing plan whereby farmers are given loans and technical assistance/training to produce cash crops and process them and sell them as finished product in order to get better value.

only think of subsistence and surviving through the day.His message sounds like the Green Revolution's mantra of 'betting on the strong' that led to the taking away of capital from the poor in favor of the rich.It is no different from singing the same old song which the industry successfully disproved: 'the poor are unbankable'. This is paternalistic and an insult to the poor. And what makes this less 'neo-liberalist' than microfinance which he dupes as a 'local neo-liberalism' plotted by the West? In fact, Bateman is accusing the poor of starving the "missing middle" of the capital they deserve as a result of their participation in microfinance programs. He also seems to be blaming the formation of slums, rural-urban migration and the anti-social developments in urban areas, the increased stagnation of agriculture, unemployment and the problem of achieving sustainable economic development and poverty reduction on their participation in microfinance programs by claiming that they are the wrong people to invest in. "From a sustainable-development point of view, the wrong clients [subsistence farmers] were getting the support."For Bateman the right clients are family farms with potential to commercialize and SMEs.[61]The best model is not choosing the one at the cost of the other but addressing both in more strategic and complementary manner.

Microfinance emerged as a measure in response to poverty and unemployment and the exclusion of poor by the formal financial sector. And now Bateman argues that the financial inclusion of the poor is not only aggravating their poverty but also causing whole nations to become poorer. Is it the fault of the poor that microfinance emerged?

It is not clear why Bateman puts so much development and national responsibility on microfinance.As he rightly states, "sustainable economic development is a complex process involving the interplay of institutions, governments and market processes."[62]It is right to critically examine microfinance and point out how it can be improved to be a more effective development tool. Why single out microfinance and blame all socio-economic ailments it and throw it with the bathwater when development is the outcome of multi-faceted factors? Why not the education, health, agriculture, trade, environment, and gender policies and practices? Have HIV/AIDS programs solved the problems for all infected people – some survived while others perished. Should they be written off as an 'illusion', as a myth, as Bateman does to microfinance because it didn't take out all those who participated out of poverty?

[61] Ibid, p.84
[62] Ibid, p.78

Bateman has used several historical references to support his condemnation of microfinance. Let me do the same: Has there been any single socio-economic intervention that has singularly brought about sustainable development and poverty solution anywhere in the world? After 300 years, has capitalism solved poverty for all the people, regions and towns? Did socialism do that after 70 years of its existence? Has the post-socialist system done that? The answer is NO, NO, NO. If that is the case and microfinance is working in the world system which has failed to solve the problems facing it and if as Bateman holds "development is a complex process involving the interplay of institutions, governments and market processes", why is microfinance expected to function perfectly for all or be written off as a danger to world development and well-being?

Why then treat and criticize microfinance as it should do what no other intervention has done before or will do after it? Others before and after Bateman have criticized microfinance (and it is right any intervention has to be re-evaluated in terms of efficiency and relevance with changing times) but none has written it off the map of development as Bateman has done.

6. The quest for research

I have studied, taught and managed development.I have been a development practitioner working in the field and headquarters in different countries since 1984. I have been involved in microfinance programs the last 15 years of my career. I have seen African academics giving conference papers or doing consultancy assignments but not engaging in longitudinal academic research focusing on microfinance.

Yet the industry is affecting countries and people across the continent. Central Banks, Governments, Regional entities such as AU, UECA, NEPAD, etc. are developing policies and programs aimed at implementing microfinance as a development intervention. Practitioners are constantly seeking ways of delivering cheaper, faster and effective services with lasting impact on the lives of the poor. The poor are expecting life-changing, easy and affordable services.

The quest now is for the CODESRIA research community to enter the world of microfinance and put it on the research agenda in order to participate in the guiding of the sector that is increasingly growing in size and relevance in the continent. The research is so far dominated by non-African scholars and it is time that researchers in Africa shake off their indifference and actively produce and disseminate knowledge in this field. It is not right for the African researchers, including the CODESRIA community, to be in the passenger's seat. The time to be in the driver's seat is now.It is no use to come in when the work has been done by non-African researchers as it has been the case in the past. The past has to go, so start now.