



Micro-Finance and other Development Fads

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Analysis of Selected Developments Ideas (or Fads)




- First rule of development assistance is:
"Do no harm"
- Thus analysis needs to start with criticism of ideas or fads that are "unhelpful help."
- Recurrent patterns or fads of unhelpful help are "anti-poverty traps" for development agencies.

Some fields have cumulative learning; some don't



- In a field like medicine and public health, there seems to be cumulative learning.
- Other fields like "management theory" seem to be on a constant hamster-wheel of fads. The "classics" are only latest best-sellers in airport bookstores.
- Why is development assistance more like a fad-surfing field such as "management" than like an applied science such as medicine and public health?

Responses to organizational failure

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- Organizational failure in business orgs as well as in development aid orgs causes the chase after quick solutions.
 - Many programs are like successful weeds; they are quick to establish themselves on the ground.
 - These quick results are couched in a new rhetoric and are amplified through public relations.
 - These fast-growing "weeds" will choke the ground and crowd-out longer-term growth that would be genuinely beneficial.

Do development orgs learn?



- A type of learning does take place but it is a type of breathless pseudo-learning.
- It is learning to drop one fad and its rhetoric as it does not live up to its hype—and to switch to the "new" and "improved" fad with its new buzz-words.
- The organizational learning is breathless and short-term; the new fads are usually some older recycled fad from beyond the memory-horizon.

Some recent development fads




- Impact evaluations.
- Randomized control tests.
- Results-based or output-based aid.
- Conditional cash transfers.
- Social funds.
- Enterprise zones and Millennium villages.
- Labor migration and remittances.
- And micro-finance.

Example of MicroFinance




- Major current development fad is loan-led (as opposed to savings-based) microfinance projects.
- Off-the-shelf packages with NGOs as intermediaries for quick heart-warming results.
- Even Internet-based MF loans, e.g., www.kiva.org
- Discourse of "helping the poor," "job creation," "entrepreneurship," & "business development".
- Much publicized "success stories".

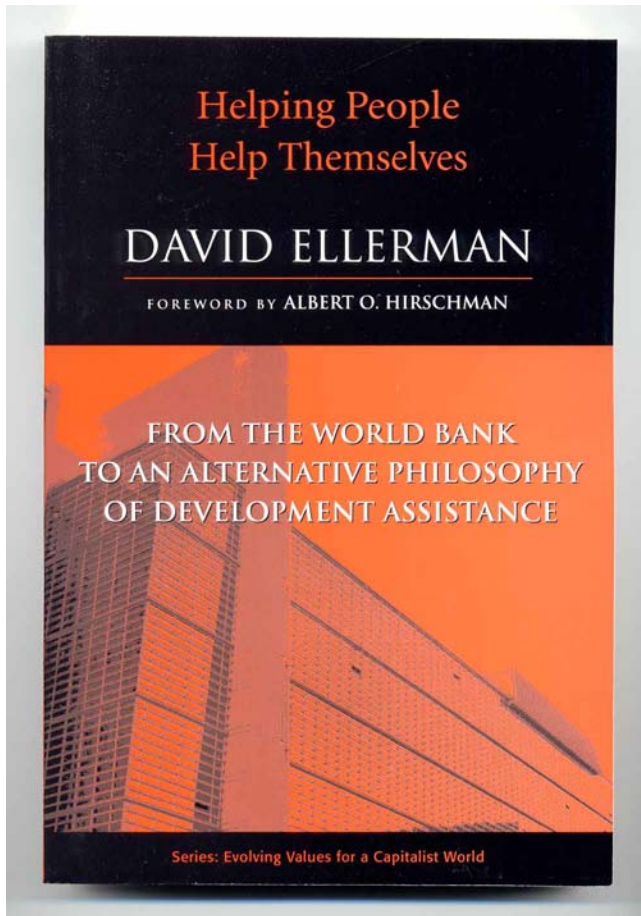
What's Wrong with MicroFinance ?

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- Most microloans consumption-oriented, not businesses.
 - Off-the-shelf loan-led programs can grow like weeds but they crowd out capacity-building of savings-based programs which take longer to develop.
 - Unemployed poor are not "entrepreneurs who need finance" but it is a lovely fantasy.
 - Few "businesses" that start with microcredit are easy-entry & subsistence-level with no growth potential.
 - Much publicized success stories could get ordinary loans—but are happy to get subsidized MF loans.
 - Often has negative crowding-out effects:
 - Shuttle-traders crowd out local producers and merchants.
 - Externally funded micro-credit orgs with subsidized operations crowd out development of local SME banking.

“Anti-Poverty Traps” in Development Agencies

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- In addition to poverty traps in poor countries, there are "anti-poverty traps" in development agencies.
 - An *anti-poverty trap* is a program that is popular in development agencies because it gives quick heart-warming small-scale poverty reduction but is a trap because it retards sustained development of economic capabilities.
 - Remittances from labor migration to North gives a quick poverty reduction to some communities in South but retards their own development of productive capacity. "Resource curse" where resources are remittances.
 - MicroFinance gives quick heart-warming results at local level but may retard local producers/merchants and small business finance.

The End



See

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