Debate: Moving Financial Inclusion Beyond Microfinance

Presentation Transcript

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Sponsor
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D Kuts: Good morning, everyone. Thank you for coming today. We will be getting started, so please take your seats. And welcome to our debate.

I would like to thank our Financial Inclusion Forum of D.C. for their support. And they're an organization that is in Washington, nonprofit organization that's organizing events in D.C. Please raise your hands so people can ask you questions about your organization later. Thank you for your help here.

And before we get started, I would like to draw your attention to the polling results. We had six questions that have been submitted by 200 people that came to the website. And according to everyone's votes, the selected question is question number four that will be up for the debate today.

And I would like to introduce Carissa Page from USAID who will make the introduction.

C Page: Hi. My name is Carissa Page from USAID's Microenterprise Development Office, and I would like to welcome you to the special debate, co-hosted by USAID's MD Office and FIFO, the Financial Inclusion Forum of Washington, D.C. I understand that this is the first time our two debaters, David Roodman and Milford Bateman, have debated one another in the United States. So we're really excited to have this – host this event today.

David Roodman, to your right, is a research fellow at the Center for Global Development, focusing on microfinance. His book, and I'm going to hold it up, if I can, *Due Diligence: An Impertinent Inquiry into Microfinance*. Maybe you can hold it for me. Asks some bottom-line questions about the impacts of micro finance and what that implies for how it should be supported. Roodman is ranked in the to ten in REPC's list of top young economists in the world. He holds a BA from Harvard College in theoretical mathematics, and was a Fulbright Scholar in Vietnam.

Milford Bateman on your left is a freelance consultant on local economic development policy and a visiting professor of economics at Juraj Dobrila University in Pula, Croatia. He is the author of numerous articles, including the book that Chuck just held up, the *Why Doesn't Micro Finance Work: The Destructive Rise of Local Neoliberalism*. Bateman holds a Ph.D. of Bradford U.K. on small business and local economic development policy.

And finally, our moderator, next to me, is Chuck Waterfield, with 25 years of experience in the microfinance sector, including practical experience building microfinance institutions, as well as experience leading network development strategy. He developed Microfin, the most popular financial planning software, and teachings courses around the world. He's on the faculty of SIPA, School of International Affairs at Columbia University, and was formerly on the faculty of the Boulder training program in microfinance, as well as the University of Southern New Hampshire's training program in microenterprise development. In 2008, he founded Microfinance Transparency, where he serves as CEO and President. So without further ado, I hand the mic to Chuck.

C Waterfield: Good morning. Thanks for coming. Can you hear me? Is this on? Okay. I think you can hear me okay. Right? Okay.

It's a pleasure to be here and sharing this event with my two friends. And I'm going to describe the format. We're going to – the first hour is the debate. The second hour is a Q&A where you're all to – you have cards, and you're invited to give – to write down some questions and pass them – who is going to take those cards? Yes. Okay. All right. So we'll do that. You can write those down as things go on. You don't have to wait till the end to write those questions. You can do that and funnel them up.

Now, the first hour of the debate is – we've structured it in such a way that we – the parliamentary style, and we will have a Speaker A, who we will decide in just a moment with this coin. Speaker A will give a seven-minute presentation on the question, and then Speaker B gives a seven-minute rebuttal, based on what he's heard, and then back to Speaker A for a five-minute summary. So even minutes, seven minutes, five. And then we flip it around, and Speaker B gives his prepared presentation. Speaker A the rebuttal and the response. Okay.

So the question, as – now it's disappeared from up there. Let me read it. I'm sure you've all seen it, but to really focus on our minds, "If microfinance has not achieved its objective in sustainably reducing poverty, what are the pathways to financial inclusion that will contribute to this objective?"

Okay. We've decided to flip the coin, and we'll – let's say heads is Speaker A, Milford, and we'll – that's a tail, right? That's a tail. So David, you go first. Seven minutes.

D Roodman: Let me use my timer here. Okay. This is, above all, a debate between myself and Milford, so I think I'm going to focus my comments on his writings, but in a way from – that my answer to the question will emerge. Milford, of course, is quite negative on microfinance. He says – he's called it a nemesis, a catastrophe. He says that the model has helped to – I'm sorry, to deindustrialize and infantilize the local economy, and he has associated it with 160,000 farmer suicides in India.

Now, in response to that, I'd like to offer you a list. Keep it punchy, right. These are my top ten reasons that microfinance is not actually the worst thing ever, with apologies for the sarcasm.

Reason one, failure to live up to impossible expectations is not the kind of failure that matters most. It's like saying I'm a failure if I'm president of the United States. What really matters is what are the concrete impacts, positive and negative? What are the costs and benefits? And what are the practical ways of moving forward?

Two, it is easy to exaggerate the negatives, just as it is easy to exaggerate the positives. There's been a lot of hype around microfinance. Milford has been right to criticize it. But I think as a matter of common sense, we should discount both the most extreme negative things, and the most extreme positive things that are said of it.

Third, I think it's rather speculative, at least I'm not convinced when it's said with such confidence as Milford has argued, that microfinance has diverted foreign aid donors and philanthropists away from other kinds of activities that we know would do a better job of substantially reducing poverty. The fact is we don't actually know much about what works and what doesn't. The general lesson – although we're learning more. The general lesson from history is it's very hard for outsiders to make a positive difference, although not impossible. So the idea that there are these massive opportunity costs, I just don't buy.

In the same vein, this is number four, I think, I'm skeptical of the argument that microfinance has put countries on fundamentally different economic and fundamentally worse economic course. The small loan business, in this country, flourished 100 years ago, but I would be dubious of anybody who claimed that because of that, the United States is on a fundamentally different economic path, and I would say the same for Bangladesh today.

Fifth is the econometric evidence. You've heard about the randomized trials, which have undercut the hype about microcredit. They have – and the reason that I say that the best estimate that we have of the impact of microcredit on the poverty of clients is currently zero. My point is, zero is not a negative number. We're not finding in the studies that microfinance is the financial equivalent of cigarettes. And in fact, the micro savings study that I'm most familiar with found benefits for women who are market vendors in Kenya in terms of income and investment and ability to deal with health emergencies.

Sixth, just a simple point that people need financial services, poor people especially. If you imagine your life without a bank account, without loans to buy a house or an education, without insurance of any kind, you probably could not live the way you do. Turns out poor people actually need financial services more than the rich because their financial problems are that much more difficult. The reality is that none of the services that are going to be available to them are going to be perfect.

Seven, it is absolutely the case that microcredit markets have overheated and may even be more prone to do so than conventional credit markets, but I don't see this as a solid argument for abolition of microcredit. We've had terrible problems in the United States with mortgages. Not just the United States, of course. But I wouldn't, from that, conclude that we should get rid of mortgages or even the for-profit delivery of mortgages. Certainly it's a powerful reminder than the neoliberal idea, to use Milford's – one of Milford's favorite words – that the market knows best and doesn't need regulation. It's a powerful reminder that that doesn't work, that there does need to be regulation and supervision, and that we have to live with this thing and make it work as well as we can, and the same goes for microfinance.

Eight, microfinance is more than microcredit. The Grameen Bank, the emblem of credit, actually does more micro savings today, than microcredit. In Bolivia, they are now – a country that had a microcredit crisis, the first microcredit crisis a dozen years ago, there are now 2 million micro savings accounts in a country of 10 million people. In Mexico, Comportamos, Chuck's favorite MFI, is one of the largest life insurers in the country measured in lives covered. And then there's En Casa, the money transfer system based on mobile phones in Kenya, which began as a way to do microcredit over the phone. So historically it came out of the same movement.

Nine, historically what has most reduced poverty is industrialization, which has led to job creation, not the direct delivery of financial services to poor people. So how is that a defense of microfinance? Well, Milford often cites a report called "The Age of Productivity", put out by the Inter-American Development Bank, which I guess is just over there. Which says that Latin American governments have put too much emphasis on small firms and not enough on big firms.

So what would development look like in their vision? Well, it would have more big companies. And what would they sell? Breakfast cereal, cars. So would we expect them to lift their clients out of poverty through the things that they sell? No. Would we, therefore, declare them failures? No. We would recognize them as part and parcel of a thorough growing process of economic development.

The same goes for microfinance. The average micro loan today comes from a firm or a nonprofit with 9,000 employees. So microfinance fits into this vision of substantial firms growing and developing, that Milford likes to cite.

Finally, and to come back to the question, there are many alternative approaches to financial inclusion that I'm interested in: savings circles, credit cooperatives, postal banks, high-tech methods. I'm particularly interested in high-tech methods because of the way that they can fundamentally change the economics of delivery. And also life insurance, which historically was something that was first sold to relatively poor people in the U.K. and in the United States. And I also like all forms of savings.

But a lot of what I've said about tamping down expectations of microfinance goes to these other forums as well, so it's not like there's something else waiting in the wings that is much better. So it is not, in giving up on microfinance, as a silver bullet against poverty. I think that there's another one waiting to be found.

M Bateman: Okay. So I have seven minutes rebuttal. Wow. That's a lot of stuff. David hasn't quite answered the question, but okay, anyway. Costs and benefits. Microfinance has some benefits, and it also has some costs. What microfinance advocates mainly do is they look to the benefits, however small, and they say, "Well, look, microfinance has a benefit; therefore, we should not start thinking about phasing it out or that there's a problem with it because we can see a very definite benefit." When I do talks like this, somebody always at the end comes up and says, "Well, I think you're wrong, Mr. Bateman, because I met somebody in Malawi, and I looked in her eyes, and she said, 'I took a micro loan, and I've educated my kids and everything, so your thesis is wrong that there is no benefits.'" I'm not saying that at all. I'm saying that the benefits are small, and they might not over – be more than the costs of it, any more – if you want to parallel – if I went to Cesar's Palace in Las Vegas, and I met a couple of jackpot winners, I would not sort of say, "Really, these people have educated their kids. They bought a lot of assets. Maybe gambling is a good thing for poverty reduction. We should bus everybody to Atlantic City and Las Vegas because I saw a couple of good positive case studies."

So you can't extrapolate back, okay. We've got to look at the benefits. We've got to look at the costs. The microfinance industry has looked to the benefits, totally ignored the downsides in all the evaluations for political reasons and other reasons. So I absolutely accept that there might well be some people that do well out of microfinance, but that's not the issue. It's the net impact. And I think if you look at the net impact, you will find it is a negative impact.

This issue about that somehow you've got to look at one side and the other side, and somehow the solution is in the middle, I don't really buy that. Bernie Madoff was attacked by some people that he was going overboard, and he was really doing bad things. Some people said, "No, he's actually not. He's a bit of a speculator, but he's not bad." So maybe the solution was in the middle. He was a bit of a character, but maybe – no, the solution was the guy was a major league crook. So there's no sort of logical idea that somehow when you have arguments, that somehow it might be in the middle. Maybe it might be on one of the extremes. Let the evidence dictate where it is. So there's no logical apriority reason that we should always look somehow in the middle.

What works and what doesn't? I like the comparison of Vietnam and Bangladesh, and I think that's a very useful comparison because Vietnam was making changes at the same time that Bangladesh was making changes. And they had a look at the Grameen model. They went there. They went to Bangladesh. They interviewed ______. They went around. In the end they thanked him and said, "No, we don't think that model will get us out of poverty."

Going back to the first issue, yes, it will likely make some minor benefits to our economy, but we want a model that is about poverty reduction and development, sustainable poverty reduction and development. So, thank you very much, but we are going to focus on another local financial model, and I think that's the key issue there. Looking at whether the overall model is able to take that particular community out of poverty, not whether it can make a few marginal gains around the side.

What else have we got? Yeah, there's the other idea that seems to be sort of emerging now, and I think it comes back to – and even David will accept as move towards my argument. I mean, three years ago I think our debate would have been wholly different than it is now. So I think that the idea that microfinance has very minimal, almost no impact, I think is now accepted. I mean, you've heard it from David. You've certainly heard it from me for quite a few years.

So what's happening now is that the argument is moving on, and the microfinance industry is saying, "Well, hang on a second. We've got to keep going. We've got all this infrastructure. We've got careers. We've got all sorts of investments. We'd better find another reason why we're doing what we're doing." And they've switched around, so they're now saying financial inclusion. So they can put that – sorry, you told me not to do that, didn't you? You can put your hand on your heart, and you can say, "Well, I'm passionate about financial inclusion, and I will not sleep until I get financial inclusion." Well, I'm sorry, that's just a change in the goal to keep the institution going, give some evidence that financial inclusion, which might have some positive gains – I don't have a problem.

But what about the ______ cost? If we start pushing everything into financial inclusion, what are we not financing? Is it health? Is it roads? Is it infrastructure? Whatever. But simply to say we'll start to focus on financial inclusion, I think that's really quite morally bankrupt for institutions to say, "Okay, we can't find any evidence for what we've done. We'll move on to something else." So I don't really – I don't buy that at all.

Overheated markets, well, I mean, I think one of the problems, going back to the '90s, was that the neoliberals – I know David finds that a rather obscure sort of term, but it's actually a very commonplace term in all sorts of economics and politics and sociology. It's not obscure in any way. I think when you have the sort of neoliberalization of microfinance in the 1990s, with the introduction – you know, they have to make it on a financially self-sustaining basis. That basically meant the poor have got to pay for the costs of supposedly getting them out of poverty.

And I think the people who pushed that misunderstood the nature of markets and maybe of capital – at least of neoliberal capitalism that in this event when you incentivize people, particularly with Wall Street style incentive structures, which were over at the time, the 1990s, that was considered the best practice. I mean, obviously we know different now. But when they introduced that, they had no understanding that these, in history, always lead to booms and busts. They have this naïve sort of neoclassical version that instability is not something part of the system so it would just produce this unrivaled volume of microfinance that cannot be anything bound about it. Well, we now know that that's not the cost.

And as all of these microfinance sectors are all collapsing everywhere, Cambodia is going to be soon, Mexico is coming, Peru is on its way, Nepal, Kirgizstan, they're all coming. It's the same sort of thing.

Okay. My final point, yes, I take the point. Microcredit is one part of the overall umbrella to microfinance. My argument has always been microcredit, the original Grameen Bank idea, simply does not work. Not a piece of evidence that has been able to get communities or countries or regions out of poverty. And certainly when you compare it to the West European model, compare it to the even more contemporary East Asian model, there is not a sliver of evidence that it's been able to sustainably reduce poverty met at the community level.

So I take it that microfinance as a whole has some positive things. I think micro savings is fine, micro leasing, micro insurance. But let's at least agree that the original core idea, microcredit, is something that really didn't work, and let's sort of marginalize that. And then fine, if you want to shift the resources into micro savings or micro – then I don't have a problem with that. Let's do some evaluations of those things.

And just my final comment, yeah, to just wrap up, the *Age of Productivity: Inter-American Development*, a fantastic book, really. I was alerted to this by some friends in Geneva, and they said, "You really have to read this book and put it into my book." Just came out in time. It's a savage indictment of the microfinance concept because it basically says that the reason for 30 years of Latin American poverty is because they intermediated scarcity sources into informal enterprises and self employment and not into innovative formal sector enterprises and – well, larger enterprises. Mainly S&Ps.

So, wow, this is the Inter-American Development Bank. The book is a massive indictment of microfinance, the microfinance model, indirectly. So I think that's certainly well worth having a read of it.

C Waterfield: David, your response, five minutes.

D Roodman: Okay. Just cut me off when I'm out of time. *[Laughter]* This is fun. This is great fun.

I'll start with the last point. Milford mentioned this book, *The Age of Productivity*. He has interpreted it differently than I have. I really see this – the divide in that book is between large firms and everything else, okay. It is not between microenterprises and everything else. And there's almost no mention of microfinance or microenterprise in this. And I was genuinely interested in getting to the bottom of this interpretation, so I actually started an e-mail dialogue with Milford, myself and Eduardo Lora, who is the lead economist on the project, and I think some other economists were CCed.

And so he wrote in this sort of open e-mail forum, to Milford, "You have cited our report, *The Age of Productivity*, as evidence that microfinance has destructive defects. In regard to this claim, we wish to clarify that in no place in the publication is there a reference to microfinance having a negative effect on poverty reduction. We would like to ask for your cooperation and avoiding interpretation that do not comport with the spirit of our publication." That's different from a "savage indictment of the microfinance concept".

M Bateman: It's politics.

D Roodman: It's politics, but it's also the message is clear. All right. I agree that there has been cherry picking of stories, and we have heard too many of the positive stories, and that, therefore, we need to look at the evidence. Milford's book makes no mention of the best evidence that was available on the impacts of microcredit, which is the randomized trials that came out while he was writing the book, and which don't find negative effects on average, nor do they find positive effects on average when it comes to poverty indicators, and cannot be accused of ignoring the negative side because they look at the hours. They wrap everything into their overall estimates. So, that, again, contradicts something that Milford said.

You know, it's right. Sometimes the truth is not in the middle. Madoff was a crook, right? That's clear. But in general, in social policy, things just aren't that simple. And microfinance is not the equivalent of Bernie Madoff. It just doesn't work. And so we have to look at the actual evidence, as Milford says.

This thing about Vietnam versus Bangladesh. You know, it's fine Vietnam went with a different model. They have a huge microfinance model now. I think it's fairly subsidized. It's quite different. Most of the history I've seen on subsidized credit is not very good, but I don't know very much about the Vietnam program.

What I'd be very skeptical of is the suggestion that because of that approach, the Vietnam bank for social policies, that that is why Vietnam has done so well and has joined the Asian Tigers. It's just not credible. There's a lot more in Vietnam's history, and it bears a family resemblance of nations around it. So, again, I don't think it gets to the question of what works and what is impact.

Milford says that people in the microfinance business have reluctantly conceded that there isn't this demonstrated impact of microcredit on poverty, and I'm now using the phrase "financial inclusion", and he calls this morally bankrupt. I just want to highlight this as an example of attributing motives to other people. Really, states of mind are extremely hard to observe, right. So anybody who routinely makes hypotheses and conjectures or even confident statements about other people's motives, as he's done to me, is departing from the evidence, right. And I think that this should be an evidence-based discussion, and that you should trust people or distrust them to the degree that they stay and stick with the evidence.

You've heard about in South Asia how there have been a lot of problems with microcredit bubbles lately. Multiple borrowing, ghost borrowers, it's just gotten out of control. In fact, this happened in parts of Pakistan and the Punjab, not just in India. The difference was there, the main lender involved was the Kasha Foundation, a nonprofit, and the main funders were the World Bank and the Asian Development Bank, channeling money through the government of Pakistan.

These are hardly what you would think of as Wall Street institutions or Wall Street like institutions. So I actually do agree that short-term profit motives were part of the problem in India. I also think that they do not deserve all the blame because we have seen similar dynamics in nonprofit settings. And in fact, in India, a lot of the bubble was inflated by government social policy, which pushed banks to lend, to microfinance. So let's not be simplistic about the profit motive.

C Waterfield: Okay, great. Well, when we set the debate, we thought, "Well, we'll limit them on time, but we should have also limited them on words per second coming out of their mouth." *[Laughter]* Hopefully it's coming across clearly to our broader audience. I'm sure it is. We'll have to replay it on half speed to catch – to absorb everything that they shared in that first round.

Now we're going to flip it around and do the same thing with David presenting his --

D Roodman: With Milford.

C Waterfield: With Milford. Yeah, okay, I've got it reversed. Okay. So Milford will present his argument with David responding. Okay. So seven minutes.

M Bateman: Yeah. Okay. Thanks very much. So I very, very quickly adjusted my notes because I was told that we were going to look at the – what the alternatives were. So I have – David's at slightly an advantage to me because I haven't actually managed to get a hold of a copy of his book, but I'm hoping to get a hold of a copy very soon, gratis, because I gave him one thinking he was going to read it and make an independent review, so I'll hopefully get it.

But I have seen his four-page summary of the book, and I have to say, and I've very carefully thought about it because I'm going to do a couple of reviews on it, I have to say I don't really understand the logic of the book because the book – one of the central points is that – David's finally come around to my central argument, which I've had quite a few years, that microfinance basically doesn't have an impact. Now, if – okay. So he's come around to that.

But then he says, "But we've built up an industry that provides microfinance that we shouldn't just do away with." Well, I find that illogical because if you were to look at and perfect and market an anti-cancer drug, and then the trials and the history showed that this anti-cancer job actually has zero effect, you don't say, "Ah, well, we can't actually phase it out because we've built all of this infrastructure of people who provide this anti-cancer drug, so we better let them carry on doing that because even though it doesn't work, we better let them carry on doing it." It doesn't make any sense.

If something is shown not to be working, has very little impact, you have to start to transfer the resources into another area. That happens in all sorts of areas: medicines, in economic policy, in education. If a policy is shown not to be working, the edifice that services that policy, you have to start to shrink and move it into another area. So the idea that microfinance has had a positive impact because it's built in industry is actually opposite the truth. It's built an industry that doesn't work, so it's a waste of scarce resources. So I don't see any issue. I really don't understand the logic behind that.

And then there's another fallback argument, and I mean I've just mentioned that already, the financial inclusion argument. As I say, I mean, it's good, and there's always this referral that we – in the West we like having a checkbook and a mobile phone where we can transfer funds. Absolutely. Absolutely. But when you're talking about developing countries, you have, again, opportunity cost issue. How is this going to be of benefit to people in developing countries more than something else?

If it's just somebody saying, "Well, we're already – we're geared up to providing it, so let's just say it's the best." I don't understand that argument. I really don't understand that argument. I think we have to – rather than repeat the whole mistake we made with microcredit, we have to do evaluations and let's understand whether this is better, not than doing nothing but the alternative use of the funds targeted at pretty much the same people.

And until we do that, we cannot just simply take this huge edifice of microfinance and then say, "Okay. Now we're going to turn all this edifice and start talking about financial inclusion." So I don't think – I think that's really a bit out of bounds.

David also – I really don't understand this argument about attributing motives to institutions as though it's some nefarious act on my part. We do this all the time. I mean, it's called political science. We – when we look at what President Putin says, we don't just take it face value, "He says he's going to this," we look behind the scenes. Well, there, what he's doing this, but he might mean this, and he has other concerns and everything. We should do the same in microfinance because microfinance is an intervention, I would argue, which is highly political. So to actually challenge the people that support microfinance, you can't just look to the economics.

In fact, there's one report that came out very recently said, by Myron Duvendack and team, the central conclusion – well, there were two central conclusions. One, that there isn't any evidence that microfinance works, and I think David accepts that now. But the secondary conclusion was to understand why microfinance became so powerful, and it became such a juggernaut that nobody could stop, you have to not look at the economics, but you have to look at the politics. And I think basically supports my idea. You have to look at the politics of an intervention before you can understand why it was established, why it was continued, and why, I would argue, it's been – the paradigm is not shifting onto something else because some people find very important things in favor of microfinance.

Okay. So that was just something I thought a bit intervening to say. So two points then in terms of why we're moving away from microfinance. Well, clearly, I think we know, as I said earlier, we know that microfinance in former microenterprises of employment doesn't really work. There's no evidence from anywhere. The IDB report basically argues in favor of putting scarce resources in Latin America into former sector enterprises with some innovation content and with some growth content, some known local markets. Absolutely agree with it. And that's why it's such a powerful indictment of microfinance.

Also, another aspect of microfinance, it's all about the supply side. It's providing finance. The assumption is always there. It's a form of ______ Law that supply will create some demand, that somehow when all of these people produce baskets and mobile phone selling and whatever, there is somehow going to be the demand to absorb these small-scale items and services. There's no evidence for that anywhere.

The European Union is now preparing a big microfinance program for places like Greece and Italy – Greece and ______ Island, while – meanwhile – and as I've talked to them about this – the Greek government is announcing that 30 to 35 percent of micro and small enterprises in Greece are going to fail because there's no demand to buy their services. So they at least accept that there's a demand issue here, and you cannot simply increase the supply and somehow everything becomes hunky-dory.

Now, to get to actually the question, alternatives, absolutely clear. If we're talking about consumption leverage, which most microcredit is, we should be talking about credit unions. They're actually fantastic institutions. They are the sorts of institutions we should engage people in to getting associated with because they're much likely to be less exploitative and less bad for the people in poverty.

Enterprise development, it's the key to economic development, but there's very much evidence that we need to look at the role of local banks, particularly in places like Italy, very successfully ______, financial cooperatives, social capital, development funds, community development, all of that infrastructure of community owned and controlled institutions. Not microfinance. Not microfinance. We need some solid institutions there.

We need to even revisit the idea of state development banks because the

Brazilians have shown how it can be done, the South Koreans. Interesting that developing countries that are approaching or exceeding middle income statements, they know how to run development banks probably better than we do. So we need to look at that.

And then if there's poverty and the hardest to get, we need to think about things like cash grants and ______ transfers. Those are the areas where we can really get to the real problems with poverty. So I think there are lots and lots of alternatives. That we need to accept that microcredit hasn't worked, and start to shift these resources into these new areas where we have – we've now also got the permission to do it after 2008.

C Waterfield: David?

D Roodman: Okay. Milford says that I have finally come around to the view that microfinance doesn't work. In fact, I've long been skeptical of claims that microfinance – microcredit reduces poverty. I've said so in my blog, early on, like almost three years, and have consistently said that. And I've put an absurd amount of energy, more than my boss would like, into taking apart one of the leading studies claiming to show that microcredit reduces poverty.

Where I really think we need to be careful with the use of words is distinguishing between saying microcredit does not reduce the poverty of clients, as far as we know in 18 months, and saying it doesn't have any impact, and it's not a contribution to development.

I do think that we – that these studies mean we need to lower our expectations. We should expect miracles from microfinance. And that, in turn, means that we need to limit how much subsidy we put into it. If the costs are modest – I mean, if the benefits are modest, then so should the subsidies be. So I definitely think we need to ratchet back the support.

But to say it has no impact is much more of a simplistic statement. The heart of my book is looking at different conceptions of success and evaluating microfinance against them. One is success as an escape from poverty. We just talked about that. The other is development has freedom. The idea that development comes when people get more control over their lives. And so I look critically at when microfinance has helped people gain more agency in their lives and when less. And transparency is a key there. Letting people know about the prices of financial services, something that Chuck has done a lot on, really helps with that.

I conclude that microfinance can get people in trouble. You can get in loan traps. But fundamentally, financial services are tools that people use voluntarily to get more control over their lives. And then what I think is the strongest argument is exactly the that Milford just offered. Milford says that the Inter-American Development Bank Report, *The Age of Productivity*, argues convincingly that we need to put more resources into formal firms with some capacity for innovation. Well, that's what support for microfinance does. Microfinance are formal firms. They do have capacity for innovation. They are competing and innovating all the time.

They shouldn't be heavily subsidized, as I just said, but they're actually a fairly rare example of outsiders with good intentions coming in and cultivating an industry. And that, in itself, won't in poverty, but it's actually an impressive contribution, I think, to poverty, in the sense of the Inter-American Development Bank report.

Of course, there's room for political inquiry there too. We've seen bubbles and that kind of thing, and that's a real problem that needs to be prevented, primarily by reducing the amount of money going into microcredit.

I think that Milford has a point when he says we need to think about the political context of microfinance. And it's not something that I do a lot of in the book. It is absolutely the case that one of the reasons that microfinance has been popular is it appeals to the political right, especially into this country, because it's about self help and it's about preserving the rules of the market system, and helping people win under those rules. And it doesn't make people with real wealth or strong stakes in the status quo uncomfortable.

But it also – one of the reasons it caught on is it also appealed to the political left with the idea of empowering women, liberating women. And I think both of these ideas, as they played out with microfinance, deserved a lot of critique. It's not so clear that group microcredit has really empowered women on average, just as it's not clear that it has – that microfinance has led to economic transformation in the neoliberal vision.

So I just – it's more complicated than just the neoliberal critique. I think it's interesting that Milford, on the one hand, says that microfinance doesn't work because its purpose is to stimulate informal enterprise, which we know is not a viable path to true economic development. And at the same time, says that most microcredit is for consumption. I mean, if it is for things other than informal enterprises, and presumably to evaluate it we need a larger frame, not just looking at the question of whether microenterprise is the key to economic development.

And that's why I think at the end of the day you have to be empirical. The political theory is only going to get you so far. You need to look at the studies and what they say about the average, overall impacts. And they do actually find that there is some stimulus to macro enterprise, but they're not finding massive harm overall or massive benefit, and I think that needs to anchor our thinking about microfinance.

And so on balance, the reason I say we shouldn't just junk microfinance is that there has been some impressive successes in Bolivia and in Peru and many other countries in building substantial, competing, innovating firms that are mass producing, useful financial services for poor people, reaching millions, and I hope someday billions. I'll stop there.

M Bateman: Okay. That's great. Yeah. Okay. Now, I find it very strange that – I mean, I'm not the only one that's said this, but David has now come out basically saying, and if you look on his blog three years ago, and I've had some communication on his blog, the idea that microfinance was not really working – or, should we say, microcredit wasn't really working, didn't really come through. David was always supporting those people who had some sort of dodgy research they wanted to highlight, and he always saw the good sides in it, and so he was a real – almost like a double agent. So he's really supporting the microfinance advocacy case, but he has to throw a few things, you know, the Grameen, the Ponzi scheme, the ______ of deception, throw a few of those bits of intel out to sort of give the idea that he's somehow in the middle.

But the actual fact – and maybe he can't be anything else working for the Center for Global Development, with a boss who is on the board of ______. So, I mean, there are clearly institutional linkages here that are important, and that maybe we should have a bit of a case of full disclosure here.

But I think what's interesting is that – and I'm not the only one to say this – that David comes out – his own research actually disputes the idea that there's any positive impact, but yet he's always so bullish about. And some people have said it comes down to a question of belief. His personal belief is that microfinance, it simply must work. Okay. I don't have any evidence, but it's almost – we can believe as much as we want, but Santa Claus doesn't actually exist, no matter how hard we believe. So I think we've got to be a little bit careful about that, I think.

Going back to the IDB report, no, he's slightly – well, he's mischaracterized that. IDB says that the informal sector is the problem in Latin America, and unjustifiably, the financial institutions have directed money in that direction. And to say that somehow microfinance is formal, I don't get that. Microfinance institutions might be formal, but microfinancing institutions overwhelmingly support informal microenterprises, okay. They are associated with the informal sector and informal forms of self employment.

So I'm not quite understanding why we want to bring this microfinance institution in. That's a bit of a red herring. The key thing is that microfinance institutions everywhere in Latin America are turning and churning out millions and millions of informal microenterprises in self employment, which the IDB says is the core problem behind the lack of productivity and the high poverty rates in Latin America.

Now, I can understand that they have problems in actually saying this because the book is very sparse. There's only one reference to microcredit. But you read the book, and it's clear. Now, it might have been done – I've heard from some informal, internal source, that it was done by people who didn't really – they institutionally could not critique the microfinance model, so it's a form of indirect critique, because, of course, these are political institutions, and you can't do a 100 percent, in-your-face critique of microfinance. So it's a roundabout. Read the book, and then tell me afterwards.

So what else have we got? Now, I don't see there's any contradiction of it all in saying that 80 percent of microcredit goes into consumption spending. To me, that's another aspect of the myth of microcredit, that it's all about fueling enterprise development. Well, we actually look at it, 80 percent of it to 90 percent goes into consumption lending, and that has its own problems in terms of engaging and linking poor people up to expensive forms of credit compared to credit unions. So I think – I don't have a problem with that, so only 20 percent is for fueling microenterprises, but it still doesn't work. So I don't think there's really any sort of a credit.

And finally we come onto this idea that somehow Bolivia is a success story, which I have been looking at it, and I might be doing some work there. It isn't. It's pretty much a disaster. But the way that David characterizes it as a success is not by referring to the poverty statistics, but referring to the success of the microfinance institutions themselves. How on earth is that a success? The institutions are doing fantastic. They're making tons of money. I don't rate that as a success.

Microcredit was about poverty reduction. It wasn't about building institutions that are doing fantastic if they don't reduce poverty. Now, you can go back as far as Carl Marx, but you can also go to Douglas North that said sometimes institutions, even if they're not very good institutions, are supported by our political and business elite because they are – they provide certain advantages. And in the case of Bolivia, I think that's quite clear. They are fantastic for the people owning and operating MFIs, but have no impact on poverty. So I'm absolutely at a loss to see how you can describe Bolivia, or any other country for that matter because I think it extends the argument in his book to other countries. How you can say that a sector is successful because there are microfinance institutions, I mean, I just think it beggars belief.

I'll leave it to that.

C Waterfield: Thank you. What I've been asked to do before we transition into the question and answer – and if you have those cards filled out – have we been collecting them? Please pass them over – pass them to the aisles, and we'll come around and get those. So we'll move to that in just a moment. I've been asked in this transition to do my best to give a very brief summary. Okay. And yeah. And this is where I'm also empowered to share some of my own opinions. There's a lot of opinions here. Thanks.

The – some of the reactions I have, this is very stimulating information. If we all disappeared, if we donors, investors, networks, disappeared, would microfinance disappear? No. We've created something that has a life of its own now. We're innovating and experimenting and subsidizing and promoting and pushing through various motives, whatever they might be, but if we now said, "Well, we were wrong," or, "We don't want to do that anymore," or, "All of you MFIs out there do something different," they – most of the don't need to listen to us anymore. We don't control. We don't control. So it's out there.

Now the question is it going in the right direction? If not, how can we encourage or incentivate – how can we broaden microcredit into consumer microcredit into broader-based financial inclusion. Those are the questions that we're starting to migrate into.

The – one of the issues in the debate is is it good or bad. To me, in 26 years, I see this as very much shades of grey. We're not talking about is Bernie Madoff good or bad, or is one – is Grameen good or bad. We're talking about some 5,000 institutions working in 70 or more countries with 150 million clients and trying to draw global conclusions. That's difficult. Most of those institutions, those 10,000 or so, are not squeaky clean or dastardly evil. They're somewhere in that shade of grey.

Part of that is we've started – we're learning from what we're doing. We're a very, very young industry, and now what I try to think about is what do we learn from that, and how can we either fine tune or do radical changes. How – what directions would we like it to go in? If – one of my questions to them may be as we start to pose questions is if you were to backup 20 years, knowing what we know now, backing up 20 years, what would you do differently? Would you just kill the industry? Would you do it differently? Was there a better way to do things, right?

I think – and it's not too late to do many of those things. So there's a lot of efforts underway in microfinance. Microfinance Transparency. My organization is one of several, one of my many, looking at midcourse corrections, right, to look for how we can improve to go from maybe sort of neutral, if it is neutral impact – and I don't trust the number of scarce number of impact studies that we have – to better that. The fact of the matter is even if there's no impact, microfinance is not disappearing because it's a business, and as long as there's profit, it will continue. If the profit disappears, microfinance will disappear. But there's plenty of profit in microfinance right now, and my personal position is there's a little too much profit in microfinance right now.