Debate: Moving Financial Inclusion Beyond Microfinance

Q & A Transcript

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Okay. So let's turn it over to you and hear what your questions are. Again, we'll allow them brief responses, so we can go through as many questions as possible. Do you have a good lead question? Alright. Okay.

Okay. Either of you, do you have specific examples where funders of the industry specifically identify poverty reduction as their primary goal? Since that's what we're saying, you didn't reduce poverty, was that an explicit goal? Do you have some examples? Go ahead, David.

D Roodman: What comes to mind is a few years ago when I was drafting the book and doing the chapter on the studies on the impact of microcredit, I went and visited the websites of a lot of American microfinance groups like Accion and Kiva and others, and found quotes saying, "Give money to us, and we will more or less end poverty." That's a bit of an exaggeration, but you get the spirit.

After the randomized studies came out and I had redrafted my chapter, I went back and double-checked that the link still worked, and those quotes were gone, but they have all been archived, and I have bundled them into a Bitly link, which I can tweet or post, which will give you a set of web pages of microfinance organizations three years ago making pretty strong implications that what they were doing would reduce poverty.

M Bateman: I agree. I agree. Poverty reduction was there maybe 10, 15 years ago, but increasingly, now that most microfinance institutions realize that there's no evidence that they're achieving anything in terms of poverty reduction, they're making this goal rotation. They're talking about we're really passionate about financial inclusion, and maybe in ten years time when we find that that really has very limited impact, they'll move on to another – in fact, I've actually seen one MFI or one study that says one of the benefits of microfinance is the number of people actually employed in a microfinance institution, which I find absolutely staggering. That we would focus on the instrument, which in a sense, is a bit like David's argument, but focus on the instrument rather than the outcome, make the instrument the impact, which I think is crazy.

So I think they are moving away from poverty reduction now and focusing on other things.

C Waterfield: Okay. Very good. Another question, the – can we open it up to broader microfinance? We're critiquing strongly credit. David made one mention of insurance. I've heard little about micro savings, but is there – are we writing off all of microfinance, or are some of those areas in which we shouldn't be – that you wouldn't justify abandoning all of microfinance but instead to retarget into some area, some specific area?

M Bateman: I think I said the original idea was microcredit, and then it expanded into becoming this bigger thing, this umbrella called microfinance. I think microcredit doesn't work, but I have no problem with areas like micro savings, micro insurance. I don't know enough about them. I haven't seen very many studies of whether it works, but I think on – I've seen some good stuff by people Oxfam on micro savings. It seems to be a good way forward that you would start to put your assets together. Don't have a problem with that.

But what we shouldn't do is somehow allow microcredit to continue to operate simply because it's part of a package, a bigger package of lots of other services. So somehow it sneaks under the wire. Okay. It's not got any impact, but its friends are bigger, and it's sort of hidden away. So I think we have to be clear what, within microfinance, we support.

D Roodman: I think microcredit is like a prescription drug. It's useful in moderation, and the real challenge is achieving that moderation. It's not what we should emphasize, I think, going forward. I agree with Milford on that. I gave some examples of savings working very well, to the extent that that can be done. It's easier to say than do, but we need to push the margin on micro savings. Putting less money into microcredit will help that because it will create – it will increase the incentives for microfinance institutions to turn to deposit taking as an alternative source of money for lending in a way that banks classically do.

I'm optimistic, but I wouldn't hype, the potential for technology, mobile phone-based systems and so on because they really can bring down costs in radical ways. I don't expect that the new services will be perfect anymore than the old ones are, but they're creating really intriguing new possibilities.

C Waterfield: Okay, great. What do – if – does microcredit work better, in your opinion, if combined carefully with other financial services?

M Bateman: Isn't that the sort of microfinance plus idea? So I don't know. We had a case in Yorkshire recently with a guy who was perfectly a heart pill, and it was actually compressed cardboard. And what he said was if you take this pill it will really lower your cholesterol and it will be much better. But he also gave some instruction sheets. He said, first of all, you have to have a calorie-controlled diet, that's one thing, and then second you have to do at least two hours of exercise each day. But he says if you do, if you follow the instructions for this pill, then this pill will work.

So I tend to think microcredit is a bit like that. If you surround it with all sorts of things that do work, it doesn't mean to say that the actual thing that's at the core actually works. You're just surrounding it with things that work. So I think we've got to be careful that we're not surrounding it with a diet and exercise and somehow pretending that the original call works. I think that would be a bit silly.

D Roodman: I'm not – I also agree, I don't know. And there's a good reason that I don't know, which is that we haven't seen the good randomized studies yet, comparing pure microcredit, say, with microcredit plus other things. And that I think is really important, especially if we're trying to decide whether to subsidize these things. We like to see some really rigorous evidence that they make a difference. I'm definitely open to the idea.

That said, I think the greatest strength in microfinance is in building dynamic, customer-oriented institutions that are providing a variety of financial services to poor people, basically banks for regular people. And you don't expect banks to be branching into these other nonfinancial services. That's not what they're going to be best at.

C Waterfield: Here's a very – I find this very interesting because I lived and worked in Bolivia for three years, and that was a long time ago, more than 20 years ago. Can you elaborate more, Milford, about why you believe it's a disaster when it's so often held up as an example and there's a book about microfinance – about Bolivia being the role model for microfinance?

M Bateman: I think it – I mean, partly it goes back to sort of David's sort of taking his argument out of the general argument that was made in favor of Bolivia, that the institutions themselves are functioning and working well and making a profit; therefore, microfinance must be working in Bolivia. So I think when you saw the studies, it's about these institutions are dynamic. They're doing all sorts of great things. They're churning microfinance out into – microcredit out into the community; therefore, what's to worry about.

When you look at the actual poverty surveys and you look at the work done, there doesn't seem to be any connection. Bolivia has had a really horrendous poverty rate. I don't think there's been any impact upon it. I've not come across any study.

Finally, you also have to believe what the government tells you, and the government is very skeptical about microfinance. They don't think it's had anything to do. They think it's set back their development in many, many serious ways, both on the sort of urban side, the more industrial side, and also on the agricultural side. They are looking for a new model of finance. They're actively looking for it. They want to put microfinance back in a box. So I would trust the government on that when they say that, look, this hasn't really worked. It was imposed upon us in the 1980s, and really we want to look for something that's really going to restructure our economy on sustainable business lines.

D Roodman: Okay. First of all, I don't think I heard any evidence there except from an authority that's very political, talking about political now.

M Bateman: That's what I'm saying. There's no evidence.

D Roodman: So how can we call it a failure? We don't have the evidence.

C Waterfield: And coincidentally, the very top card, the philosophical question, is microfinance assumed defective until proven otherwise or vice versa?

D Roodman: That's a nice question. It depends on who you are. If you're going to be putting in $100 million, you should not assume it's effective until proven otherwise. If you're going to play a different role, maybe thinking about whether to provide training or whether to support regulators who want to create a proper environment for it, that's a different matter. I think there is more of a presumption that this is a useful business but needs to be supervised properly.

M Bateman: Microfinance was presumed effective because ideologically it was more or less exactly what the international development community needed. In the 1980s they were really hooked on the idea of self-help and individual entrepreneurship. Microfinance perfectly touched that button, so regardless of the impact, it was going to be supported.

C Waterfield: Okay. Very good. Here's somebody sharing an opinion, which actually a friend of mine, and I share this, so I'm going to pose it out there as a question. Consumption lending is not microcredit. Finally the industry – certain actors in the industry are coming around. I believe the same thing, back 25 years ago, for good or for worse or effectively or ineffectively, we targeted toward business investment. Now when we look at where credit is going, there's a very – Milford, you said 80 percent might be argued to be consumption.

So would that – is that a flaw? If credit were targeted toward specific areas, would it have a more positive impact, do you believe?

M Bateman: Well, I think the very fact that most of it goes towards consumption spending is a clear diversion away from the original model, so that has to somehow be explained and be open about and transparent. My understanding is that most microfinance institutions completely don't want to discuss the idea, and the icons of microfinance are very reluctant to discuss the idea that most of it is going into consumption spending because clearly the economic development, the poverty reduction impact, is not assumed to be as much as if this was about fueling micro enterprises. So there's a real embarrassment about that. But it's microcredit, so, yeah, it goes into the consumption spending, but there's the embarrassment factor.

D Roodman: I'm very reluctant to try to tell people who live very different lives from my own on the other side of the world how they should manage their money or how they should manage their lives. So I generally am not that concerned about the fact that there is an abstract theory about microenterprise, which is not being lived up to. That doesn't mean people always make the best decisions, but I think we should start from a standpoint of humility.

I think we shouldn't have gone this long without citing *Portfolios of the Poor* and work in particular of Stuart Rutherford, who has helped us to understand that one of the biggest financial problems that people face day to day, month to month, is accumulating substantial lump sums to pay for a doctor bill, to put a kid in school or what have you. You can call that consumption lending if you want.

But the problem is partly it's about – it's much about discipline. It's about behavioral economics, if anything else. People need ways to lock themselves in to putting aside the money rather than spending it on – frittering it away on day-to-day things that are less important. And financial services – a lot of what financial services are about is helping people to solve that problem of disciplining themselves. If you want to call that consumption lending, fine, but I don't assume that's a bad thing.

C Waterfield: And this is a nice transition in this next question, which is that many MFIs claim that they're successful because they have many, many clients. They continue to grow. Those clients come back for more. So how are – why are we sitting up here saying that that's flawed, and that there's no impact, and that that's a bad decision of some 150 million people around the world?

M Bateman: I thought we already got over this. I mean, even people at CGAP are saying that the mere fact that people demand a particular item does not automatically confer benefit as a result of consuming that item. I mean, we can talk about things like drugs and all sorts of other things. The mere fact that people come back to it doesn't mean to say it's good.

Another example, in poor communities there's always a serious problem of gambling because you want the idea of winning something, and it lightens your otherwise dreary, degrading day. But that doesn't mean to say at the macro level we can look and say, well, actually, people demand gambling; therefore, we should give them it, and give them more, and not have anything to say about it.

So the mere fact that people actually demand it, it's the socially constructed demand is not representative of opportunity and doing good things, but very often, in fact, most of the time, it's more representative of really very difficult dynamics of in poverty and degradation and in searching just one light in the day. This is not about emancipation so much as really just emiseration.

D Roodman: I use financial services in all sorts of ways in my life that are a lot better than gambling, and I'm going to presume that most people in the world are the same way. I do think that it's reasonable to hold microfinance to a high standard, ask whether it actually reduces poverty, if you're considering whether to subsidize it. I don't mean – subsidy has a bad connotation. If you're considering whether to donate money as an aid agency, or invest in it as a social investor willing to take a low return. It's perfectly appropriate to ask tough questions about is it really changing people's lives, and to decide based on the answers whether it fits your goals. But that's separate from asking whether it's a useful thing for the people who receive it.

C Waterfield: Okay. So what opinions might you have or hypotheses that instead of credit at a price to – if the motive – if the end goal is to have a positive impact, what about conditional cash transfers, money just given to the poor to use for their own – or for some sort of targeted use.

M Bateman: The microfinance industry has recognized for quite some time that it doesn't actually get down to the very poorest in the community, so I don't have a problem if conditional cash transfers or just straightforward cash grants are there. They have some very positive impacts in terms of allowing people to avoid having to go out into the formal sector. There's some evidence that people, when they receive a cash grant, don't go out into the informal sector, which is an indication of how low the returns are in the informal sector. So with $30.00 in your hand, you don't want to sit out selling tomatoes for 16 hours a day. I think that's a good thing.

I think there's also an element of – basic element of wealth redistribution. I think third – I mean, Brazil has seen this as a way forward. They're making a lot of money on the macro level, and some of that has to be reinvested in a form as a social wage or as a sort of grant for the poor. I don't have a problem with that at all.

D Roodman: I don't know much about it, but in principal it sounds very good to me as well. It's – this is a little off topic, but it's funny. There's a group about this set of ideas, which is called *Just Give Money to the Poor* by I think David Hulme and Joseph Hanlon and others. And it casts the idea of giving money to the poor as anti-neoliberal. It's a reaction against the old neoliberal policies. So apparently giving money to the poor is anti-neoliberal, but if you lend it to then, that's neoliberal. It's just a sign that we need to get away from these labels, and just see what actually works based on the evidence.

C Waterfield: Okay. Now, what are your opinions on – okay, we started say some decades ago with more SME financing and then microfinance became the range. Is shifting back to SME a better strategy for alleviating poverty?

M Bateman: I think it is. I think, again, without laboring a point too much, if you go back to the Inter-American Development Banks report, I mean, they very much say that Latin America should move back to formal, innovative, growth-oriented SMEs. I think many of the development agency people I've been talking to are well aware of the problems with microfinance and are gradually shifting out without offering any mea culpa, because they don't do that. But they're shifting out, and they're moving to address this issue of the missing middle.

So they're looking at the – you have on the one side you have a couple of big state or private enterprises. You have hundreds of millions of survivalist enterprises, and you've got really nothing in the middle. India has that problem. Mexico has that problem. So that's where a development users are starting to provide the finance and the technical support, and I think that makes sense to me.

D Roodman: Again, in principle it sounds good, although – and I don't understand this area as well as I should really. I think historically that microfinance came, in part, in response to failures of programs in the '60s and the '70s to reach the missing middle. And so it's some combination of the difficulties of the cost of procuring collateral or whatever, it just wasn't working as a business model. And so people found this other thing called microfinance that was working as a business model.

But I want to say the IDB report does not say that we need more support for small to medium-size enterprises. It says the unsexy thing, that we need to support big companies, and that that is where the real productivity growth occurs. That's why the word productivity is in the title, *Age of Productivity*. I'm not an economic historian, but as I think on that American history, it does seem like the big story of the last century has revolved around big firms, the car markers and the chemical companies and everybody else really driving economic change.

C Waterfield: Yeah, maybe if we really want to create jobs overseas, we should all support Apple more, right? *[Laughs]* Okay.

Is looking for yet another new model on the horizon a fool's errand? Is there any one model that will work?

D Roodman: No, it's not a fool's errand. We should always be pushing the frontier, we, in this case, being people who are interested in making the world a better place, whether that be social investors or donors. It should be our job to be looking for the things that are not currently being done.

M Bateman: I fully agree. We have models out there that seem to work, and it's very frustrating that we don't look at those models. We have Scandinavian models, Northern Italy models. These are models that work time and time again. The reason we don't look at them is because of the politics because it represents a particular world view that maybe many of the development agencies today are not in agreement with.

We've seen this when the Japanese came, when communism failed, they had a particular model they wanted to offer to the Eastern European economies, and they very firmly said that model is not on the agenda. Politics matters. To say that it's all about just finding the right economic model or the right gadget and that the politics doesn't matter, I'm sorry, I don't buy that.

C Waterfield: Okay. Let's go back to the demand for credit. If some or most or all of those people are making unwise choices, are there interventions that we can do to educate demand now that it's – microfinance is a business, and it isn't going away in my opinion? What can we do so that people make better choices about, particularly, credit?

M Bateman: I think that we can make better choices. We were just working with some institutions in Colombia, which have decided that the straightforward microfinance, microcredit model clearly doesn't work, providing a small microcredit. What they're going to do now is they're going to try to provide a lot more hands-off, hands-on support to their clients that come into these business institutions and offer them a small business loan. So it's tantamount to recognizing that just simply providing $100.00 for somebody to go out and sell ice cream on the streets, really, there's enough people doing that. There's no extra demand for that.

They need to try to identify and support and nurture sustainable businesses, and that means moving out of microcredit and moving more into small business credit.

D Roodman: I'm rather pessimistic on the potential for financial education, teaching people how to think about the cost of credit and so on because I think most of the studies that have been done on that have not found much benefit. And if it costs more than a few dollars to teach poor people how to think about finance, then the costs are going to dwarf the benefits.

Where I do think there's more promise is in Chuck's work, and this is what we do here in many rich countries, is we help people understand the costs or the financial implications of the products that they're looking at before they buy. They usually think about that in terms of understanding, well, what's the APR, what's the effective interest rate, counting all the hidden fees and everything else.

There's great research being done looking at other ways of describing the costs of the loan, like what would the total interest be over five months or what have you, that may actually appeal to the way that people think about money and influence their decision making in the right way more than just listing an interest rate. I think that's a promising channel because that can be translated cost effectively into regulations about pricing disclosure.

C Waterfield: Okay. Well, we went for over an hour without bringing Stuart Rutherford's now, and now we've gone over an hour without bringing up Dr. Eunice's name. So what is your opinion of Dr. Eunice's social entrepreneurship where the businesses do not make the profit but bring the benefit to the poor? Is that a path that can correct some of the errors that you can see?

D Roodman: Hey, nice work if you can get it. It sounds great in principle, but if you ask, as we've already discussed, what has substantially reduced poverty in the history of nations, it isn't these kinds of social businesses. It's economic transformations, financed by capital, attracted by profits. That's not to say there's no role for the government in supporting the market and in overriding it at times. It's not a pure private sector success story. But I don't think there's convincing evidence that there's some alternative model that can reduce poverty on the same scale.

M Bateman: I agree with David that there isn't any evidence that these models work. The evidence so far, if you look at Grameen ______, Grameen Telecom and the others, that this sort of smells a little bit more as though it's about the multinational enterprise, you know, having an easier track into a particular country, not so much about poverty reduction. The poverty reduction thing is another PR aspect to it.

I would like to see a lot more work done on this to evaluate what they're doing and how they're doing it before we come up with it. Otherwise we end up repeating the mistake we made with microcredit.

C Waterfield: Do feel free to send up more questions. We've got plenty of time if this is stimulating, and you'd like to add some more questions, okay.

Alright. Okay. So sort of a comment or feedback that lumping microfinance together as a whole, why – or can we discuss why different kinds of MFIs work – are there some that work versus some that don't work? Is there anything that we can learn from segmenting the market more?

M Bateman: I think we've got to go back to this idea about – what exactly do we mean by work. I think David's of the opinion that a microfinance enterprise works if it actually exists and it's doing its business and it's making money, and it is surviving. I don't think that that isn't my definition of work. Work is if it's surviving and/or if it's subsidized. It doesn't matter. Is it actually setting out? Is it sustainably reducing poverty and promoting bottom-up development?

And I don't think we see that anywhere. I mean, some of the big microfinance institutions work and work and extremely well. If I was the director of Comportamos, I would say it fantastically works. I would be one of the richest people in Mexico if I was a director, same with SKS in India. I mean, these things work in the sense of it seems to be more about the providers of microfinance are doing good rather than the recipient. So that's not my definition of microfinance working.

D Roodman: It's a good question, and there are all sorts of ways that one could develop typologies. The first one that comes to mind is ownership structure. Is it for profit, nonprofit, cooperative? And we see the diversity out there. Ramin is cooperatively owned, or government controlled, more or less. And Brak and Asha also in Bangladesh are for nonprofit, and they've got for-profits elsewhere. And they seem more similar than different along those dimensions.

I think that the real flaw in India had to do with the combination of the hype globally, ______ too much money to go into this industry, and a government policy that pushed banks to pour money into it. And so I think one of the keys to success may have more to do with the regulatory environment. If there weren't the shoving money into microcredit and a prohibition of taking money into micro savings, the industry probably would have developed into a much more healthy way there.

C Waterfield: Okay. Digging in a bit more on the credit union, I think, Milford you've used them as a positive example several times in your comments. What makes them different from the other categories, other types of MFIs?

M Bateman: Well, I mean, the borderline is a bit fuzzy, but basically credit unions are community owned and controlled, not-for-profit organizations, or at least financially self-sustaining. Their rationale is to benefit the community through various legal checks and balances. They – it's possible that they can be run for the benefit of the community, and the people actually work for them, become employees of the community.

Contrast that with some of the microfinance institutions, which are not really about benefiting the community. As I say, it's much more about the providers of microfinance becoming the beneficiaries rather than the recipients. So they're not perfect institutions. There are problems, governance problems as with any institution. But if we're really talking about endowing a community within an institution that really will be dedicated to providing finance for the very poor, I don't think we can go wrong with credit unions.

The fact that we haven't promoted them as much as we should have done over the last 30 years is entirely because of the politics. Credit unions are a little bit too collective, a little bit too community based, and they're not entrepreneurial enough. I think that's got to change.

D Roodman: I generally like them. I was struck by the irony. Was it one or two years ago that Mohammed Eunice wrote in the *New York Times* and said one of the things that he often says that if it's making a profit, it's not microcredit, and he was just completely against making a profit in loans to the poor. And so I was arguing against that in my sort of typical, ecumenical way. But I realized as I was doing that, that I also recommend Vanguard to anyone who will listen, which is where I have all my retirement savings, and that's essentially a cooperative institution. I trust it because they're not trying to make a profit off of me, which they then divert to investor owners.

So I see the attraction of collective ownership in financial institutions, and if it can work, I think that's great.

C Waterfield: Okay. Now let's talk a little bit more about the issue of impact about the conclusion about whether microfinance is having a positive impact. For example, Bangladesh, one of the studies in Bangladesh. Bangladesh is 150 million people. That's half the population in the United States and the size of the state of Florida and about as swampy as Florida. So the fact that Bangladesh is still a poor country after decades of microfinance, can we then conclude that microfinance has no impact? What could – what are we measuring when we are looking at impact, and what ways would you recommend that we study in order to determine whether that impact – whether that service of microfinance is having a positive or negative impact?

D Roodman: The national level question is really interesting. It'd really be nice to know if microfinance in Bangladesh, per se, has made Bangladesh better off in terms of poverty indicators. But it's also just really hard to answer because of the difficulties of establishing cause and effect. We see correlations but it's really hard to tell what's causing ______.

I think we should emphasize though that a lot of things have been going well in Bangladesh. I mean politically things are terrible right now. But over the last few decades mortality has – infant mortality has gone down, fertility has gone down, literacy is up. There's been massive growth in the textile industry, which has created lots of jobs. No doubt here are workplace rights – worker rights issues there. We've exported a lot of labor to the Middle East, and those people are sending home a lot of income, substantial share of GDP. A lot of good things are happening.

So I sort of question the premise that we should say, "Well, Bangladesh is still poor. Nothing good has happened; therefore, microcredit has failed."

M Bateman: The key issue is this issue of causation. I mean, some good things have happened in Bangladesh, as David says. I mean, but it's got nothing to do with microfinance. I mean, the FDI into the textile industry has created some additional jobs, and that's recognized, but nothing to do with microfinance. I think it's very difficult. But you could make the comparison – again, I'd go back to the comparison of Vietnam and Bangladesh. I mean, in Vietnam it's very difficult to see that its particular local financial system, which is a very heterodox financial system, more really a small business financial system or small farm as well.

And I think the feeling in Vietnam is clearly it's had a very important impact upon the development of Vietnam. And Vietnam has really scooted ahead, and it's now the poster child for development. We don't see anything similar in Bangladesh. All we get in Bangladesh is some fraudulent studies. I saw one recently about the microcredit summit, which looked at 19 – how many people were members of microcredit from 1990 to 2008, and then said poverty has fallen. Ergo, microfinance must have had something to do with it. Well, I think if you look, you can find that the membership of cricket clubs has gone up in Bangladesh from 1990 to 2008. Maybe membership in cricket clubs has got something to do with poverty.

So when you're presented with statistics like that, by institutions like microcredits, I mean, you realize they're really on very, very weak terrain if they have to come up with something like that. So I think there really – it goes back to the idea that there really is no evidence for impact and maybe we just have to look at the various country levels.

D Roodman: Sorry. This argument cuts both ways. It's absolutely true that you can't attribute economic growth or lack of it to membership in cricket clubs. Same goes in Vietnam, which is really hard to figure out, what the impact of the financial system there, whatever it is, is on economic growth. It's just people may feel that it's had an impact, but that's not credible evidence.

C Waterfield: Okay. Alright. If all subsidies, donor support, disappeared, what would happen in the microfinance industry?

M Bateman: We'd be left with very many large and wanting to get large institutions like Comportamos, like SKS and I think that would be a very, very bad situation for the poor because I think the subsidy element is quite – the lack of subsidies is one thing, but the – the problem was the commercialization to get rid of the subsidies, and that has created an even bigger monster. And if those big monsters are the only ones around in the playing field, then I think it would be much, much worse for the poor.

D Roodman: ______ of impacts. There's a lot of subsidy probably more than we appreciate. When I talk about it being an industry, what I have in mind is if you're receiving 10 percent or 20 percent subsidy at the margin you're still thinking like a business because you're having to still strive to make ends meet. But there is that probably more subsidy than we realize. And so a lot of firms would struggle, and probably some would disappear. Others would survive and probably find themselves more interested in taking savings because of the lack of – because of the shutoff of this other source, and so they would work to do that as a matter – administratively and maybe politically work to get permission to do that, which would be a good thing.

But there would be probably a loss of a lot of behind-the-scenes support that we don't hear much about, training and working with regulators to create legal scope, that kind of thing, which would be harmful.

C Waterfield: Okay. The next question I'm going to sort of take the next question I had setup and kind of feed it back into this one. The poor – my view is the poor always had access to credit through money lending, and microfinance was born as an alternative, and we subsidized it, and we experimented. And now, Milford, you're saying that we've done a lot of mistakes. But I also think I just heard you say that leaving, stopping what we're doing, would do even more harm. I'm reading a little bit more into that, but to stop subsidizing would to the bigger for-profit aggressive – I don't want to put the words – you used some examples, but I won't use those examples.

But if it becomes pure business then I heard you say that would be more negative than if we continued to support some of the more innovative efforts and some of the noble or more balanced efforts, the less businesslike efforts, the cooperatives and such, right.

M Bateman: If you're including, say, such as financial cooperatives in there, then obviously that's a positive in there. To my mind that would be a positive development. All I was commenting on was if you leave the playing field to the big multinational microfinance institutions, like Comportamos and SKS – SKS might not be around very much longer. But I mean if you leave the playing field to them, then really there's not really going to be very much benefit for the poor. That's not what these institutions exist for, and certainly their track record is, as I say, it's all about providing benefit to the providers of microfinance and not necessarily the recipients.

And so we have a major, major opportunity cost. If we're focusing, we allow those institutions to exist because they displace other institutions in the community that might be better placed to assist the poor. I mean, in a very clear example, when they take – if they mobilize savings, mobilizing savings into something like Comportamos is not as good as, say, mobilizing savings into a community-based organization that can actually provide credit at decent interest rates and with micro – with sort of technical assistance and all the other things as well.

But I mean if you're talking about we need to provide support to other types of financial institutions, I don't have a problem with that. If it's setting up institutions which will ultimately remain under the control as much as possible with the community and gearing up to working with the community, I don't really have a problem with that.

C Waterfield: Oh, sorry. Now I'm drowning in cards, and we have mini speeches written on these cards, so I'm trying to absorb all of these. Sorry. Oh, shoot. Where'd the card – my apologies.

Some of the – originally microfinance, almost every project, initial effort was to target loans exclusively and only for microenterprise financing, business financing. Then there was some argument that even though we think it's going there, it may not always go there, and probably isn't always going there. And then we extrapolate to estimate what percentage is really just consumer – consumption financing. Now, the question is how much of that is the fault of the MFI, the reality – if it is reality – that we're doing a lot of consumption financing? Is that the MFI's fault, or is that the client's fault? What can we – and what can we do about it?

D Roodman: I don't think blame is a very useful concept in this circumstance. I mean, it's the – the reality is that, I mean, based on all the evidence we have, we should not expect this to be listing people out of poverty through microenterprise. If it's an unrealistic expectation to begin with then it's not useful to cast blame.

What I want most for microfinance institutions, in addition to finding ways to assure moderation and credit is to do a good job at what they do, to improve their products over time, to deliver them more efficiently and cheaply, and not hold them responsible for how their services are used in general.

M Bateman: I think blame is not a useful thing, but you should all – but by the same token, you've got to allocate responsibility because then only when you understand who is responsible for a particular thing, then you can come up with some solutions. Let me give you the example of Eastern Europe. I mean, many of the banks and microfinance institutions were doing SME lending and microenterprise lending early on in the transition. And when the idea of consumer microloans came up because they were low risk and high profit, all the financial sector plowed into these consumer microloans. And let's be quite clear, it almost pretty much collapsed the banking system.

So I think you have to understand who is responsible for this because then it will help you to develop safeguards and checks and balances, so that it doesn't happen again.

D Roodman: I can actually agree with what Milford says. In the case of Bosnia, and also it seems Morocco and I think Nicaragua, these are places where there have been microcredit bubbles. I do think that outsiders deserve blame for that, and that has not been – they have not owned up to their responsibility. Most of the money for microfinancing in these countries came from outsiders, and they came from well-meaning outsiders. So they need to recognize the consequences of this over inflation and think about how to prevent it again, and I think that there has been enough confrontation with that.

That certainly was the case in Eastern Europe. And the underlying – part of the underlying story there is the hype. There's this idea, well, microfinance does great things. Let's just dump money into Bosnia, and we see the consequences.

C Waterfield: Okay. We've been looking sort of at an intellectual, macroeconomic level in many ways. Would you – what are your opinions on targeting microfinance if it were to work better in combination with particular situations like a higher economic growth country? Is microfinancing good component of broad-based developed in specific environments rather than, say, in Bangladesh?

D Roodman: Of course, the initial answer has to be we don't know. It's very hard to determine. But my ______ would be is that in general it's going to help more – finance – credit is going to help more when people have more opportunities, and those opportunities might be to start a business where there's a growing market, or it might be an opportunity to move to the city, which might take a loan, and get a job there, or to move to Saudi Arabia and work there.

I mean, I met people in Bangladesh who used their microcredit to send their son to work in the Middle East. So in general I would expect as a prior that microfinance would be more effective when opportunities are increasing.

M Bateman: I think bringing microfinance to countries like the United States, I mean, I don't think the logic is there. The United States is rich because it's moved out of the informal sector, and it's created the formal sector jobs that can absorb a very decent percentage of the population.

So to ask people your survival strategy now in the face of possibly declining welfare is to open up some micro or informal microenterprise in Manhattan or something, I think that's a little bit of ______ of ideas.

C Waterfield: Okay. How about – much of our discussion today has been on the credit, kind of the conventional microfinance. Here's a question from somebody says, well, what about increasing, expanding and giving more funding into the area of self-help groups and voluntary savings and loans that really target savings mobilization among the very, very, very poor?

M Bateman: I mean, I'm all in favor, as we've already mentioned, that the idea of micro savings. These self-help groups are perhaps a good way of mobilizing savings. But they have their limitations in the sense if we start to think that somehow the self-help groups are going to lead onto economic development. They're a form of managing the poverty situation, but they're not really the exit because the sorts of microloans that will be available through the self-help groups are still going to create informal businesses, which are just not going to be the business that a country like India or Bangladesh actually needs, or the African continent needs to actually sustainably move out of poverty. So a little bit of savings is fine, but if that's supposed to be the start of a more transformational process, I don't think there's any evidence whatsoever for that.

D Roodman: I think you've ______ village savings and loans, ______ ______, in general they sound great to me. Not great in the sense that I think they'll end poverty. I mean, I agree with Milford, they're not an exit. But I remember Jeffrey Ashe, who was at Oxfam, and who was one of the very early people in the microcredit movement, going back to the early '80s, talking to me about their work, starting savings circles or whatever they call it.

And he said if you're a typical woman in rural Niger and you see a microfinance institution, you say, "That's for rich people." If you're really poor, you can't afford, through interest, to pay for the wages and the computers and rent for microfinance institutions. There's another layer below, and it has – to help people at that level, about the most you can do is catalyze them coming together in ways they've probably already been doing for centuries to save and borrow from each other. So I think that's promising, as far as it goes.

And self-help groups, that term is now owned by the India government. What it means is different in different states in India, and what it means in some of the states now is not such a good thing. Especially ______ ______ self-help groups are starting to get very heavy subsidies, so the interest rates are as low as, I don't know, 3 percent, and history – I mean, one of the few things we can say with some confidence from history is subsidized credit is bad news because it just gets captured by people who need it least. And so I would expect that to happen in India, and so therefore I'm careful about using that term now.

M Bateman: Just to respond to that, I would disagree with David on that. I think if you look at the agricultural sectors, there's been some very good work done by economists like ______ Chang at Cambridge in looking at the – what's the – how do agricultural sectors survive. And the fact is that the most successful agricultural sectors are pretty much all based on some form of government investment, which can also be termed subsidies. So subsidized credit is actually one of the key aspects of developing a sustainable agricultural sector. That's what history shows.

And to try in the 1970s and '80s to somehow take the subsidies out, there's no – the historical evidence was that it was very important. We had a very subsidized system in Europe after the Second World War. It brilliantly achieved its ambition to make Europe food – to achieve food security in Europe, the common agricultural policy. It had some other negative spillover effects, but in terms of achieving its original aim, we achieved food security within 20 to 30 years. So the idea that subsidies is something that came out in the '70s and '80s based on ideological prejudices rather more than the actual empirical evidence.

C Waterfield: Okay. Alright. I'm going to find the – where'd it go? I have a very – okay. All right.

Do you think that organizations like CGAP, USAID, the ______ Network, broad range of the big actors, should they all just shutdown and find something else to do, or should they continue?

M Bateman: Look, institutions that serve an ideological purpose, like, for example, CGAP, they've served their purpose. The world has moved on certainly since 1988. If they can find something in some other area, but radically different but using the same resources in people, they've got very highly skilled people, I don't see a problem with that. I mean, paradigms change. Communism collapsed in Eastern Europe. We didn't say communism should keep going because people have got good jobs at the ministry for central planning. We accepted things would have to change. That's the way that paradigms change.

You can maybe use those institutions and turn them to something else. There is a historical precedence for that happening, and institutions starting out – after the Second World War in Western Europe they started out with a planning purpose, and then they moved and became different institutions. So I think they have to start to move – recognize reality. They've got lots of resources and highly skilled people. And just move into other areas.

But the idea that somehow they're going to dig their feet in and say no, let's stick with this for a bit longer, I think is really going to be self-defeating in the end.

D Roodman: I'm thinking particularly of CGAP. That's one organization that I know the best in that list. But should we have a place where public and private investors and donors interested in financial inclusion can come together and talk about what works and what does and how the industry is developing and finance good research on it and communication on it sounds useful to me. Which is not to say they don't have biases and so on, but I don't see an argument for getting rid of it.

M Bateman: Can I just come back on that? I mean, let's be clear here. I mean, CGAP is an ideological institution. It has an ideological purpose. That was why it was setup. And so the things change, and we'll setup other institutions with a slightly different ideological purpose. But pretend that somehow institutions like that are neutral and only interested in poverty reduction and they will come to whatever policy actually works, I mean, that's being very – politically being extremely naïve. I mean, this is – politics matters.

D Roodman: I didn't say anything about them being perfectly neutral or empirical, and I was just saying is it useful. So here we go, we have this sort of attribution. This is a word that comes out of – I think out of organizational – I'm sorry, there's this term attribution where you make assertions about what other people are thinking and what motivates them. You have to be really careful with those. It's not the equivalent of analyzing Putin's motives in a scientific way. This is just sort of with a sweep of the arm condemning whole groups and classes of people. It's not called for.

M Bateman: That's not the case. I mean, the – you judge an institution by the way it works and what it does over the years, and then you form your opinion on the basis of how it reacts on particular circumstances. It's not a question of beforehand condemning institutions. But institutions do things, and you look at how they react in certain circumstances. You look at what they promote. You look at what they don't promote. And then you make a decision, and you can attribute to institutions.

If we were talking about, let's say, Russia and the various institutions of Russia, we wouldn't have this debate. We would say, okay, that institution says it's doing that, but really it's doing this, or this institution say it's doing that. But really the people are under control of him. We can do that. We can talk about institutions and their ideologies and the way they operate with lots of countries, but somehow when it comes down to institutions that are close to home, we always must assume that they are pure, and they have no ideological – come on. Let's get rule.

D Roodman: That's true in principle, but I just don't think that I can trust your interpretation of the evidence, Milford. In your book you said they cheered to the rooftops the IPO of Comportamos. This is when Comportamos went public. And I provided the counter quote from their analysis of that event, from Rich Rosenberg, which said that there's some real reasons to be concerned about what's happened here. That doesn't sound like cheering to the rooftops.

M Bateman: After the IPO.

D Roodman: It doesn't like an ideologically driven organization.

D Roodman: After the IPO you quoted. It was not before. It was after.

D Roodman: That's beside the point. It's not as simple as you insist.

M Bateman: No, no, no, that was after. That's important. It's important.

C Waterfield: Now they put me to work. Finally. Justify my being here today. Alright. Okay.

Now, the idea – this next question, all – I'm going to elaborate a little bit of my own opinion. We made the mistake of throwing all of microfinance together. Okay. Bolivia, when I worked in Bolivia, we were all giving loans of $300.00. In ______, their average loan size was $300.00. Today, the average loan size going out the door is closer to $10,000.00. Yes. Yes. And it's this – and they're not alone. There's this mass – in Bolivia, there's been this expansion toward giving bigger and bigger loans.

The average loan balance is two to three times the average GNI per capital. It's very interesting data. Now, all of that is to say some institutions, like in Bolivia, some are still giving those really small loans and not being recognized for working with a different segment of the market. A $300.00 loan in Bolivia is not the same as a $3,000.00, not the same as a $10,000.00 loan in Bolivia. So the broad-based conclusions we have about microfinance, are there – what can we – if we're to target, if we're to look at particular segments, like the poorest of the poor, are there different conclusions we can draw? Are there different strategies and techniques that we could or should be applying? Yeah?

D Roodman: I think those numbers are very interesting, and mostly my reaction is bully for them. That's great. It's possible that those $10,000.00 loans are going to middle class people to buy houses, but I would guess that a large percentage of them are going to the missing middle, to real firms, the ones that Milford wants to support. That's a guess. I don't know for sure.

Certainly to the extent that that's where their money is going, they shouldn't be receiving much subsidy, and they aren't, as far as I know. But I think it's a perfect illustration that the strength of microfinance is in building these dynamic, creative, exploratory institutions that will move into new areas over time.

M Bateman: I think if that's the case – I mean, I've seen this in many countries, that the microfinance institutions recognize that they're not sponsoring economic development, and they are moving towards dealing with the missing middle. I think that's a very positive trajectory. If the conditions are – I mean, I think a $300.00 loan at excessive interest rates is interesting. If the $10,000.00 loan is at the same sort of interest rates and terms and conditions and stuff, that might be a big problematic.

But still, the movement out of microloans and more into the more missing middle type loans, and especially if they back it up with technical assistance, that's the way that I see it – and that's the way who people who are informing me who are working in microfinance institutions, that's how they say they're going to evolve their microfinance institution partly as a result of their critiques, and I think that sounds like a good thing.

D Roodman: I just want to add one thing to prevent a misunderstanding of what I said. We don't know from the figures you cited, Chuck, whether the number of small loans has gone down. It's possible that it's still going up, even as the average loan size is going up. So I don't want to be seen as making a quick endorsement and moving away from poor people. If they're also serving richer people or less poor people, that's great.

C Waterfield: Right. And again, it's an interesting, fascinating way to look at the data to break it down into – instead of calling all microfinance the same, right, to look at what distinguishes not only in loan size but urban rural – another one of the questions in here is about the bundling of other services, not just insurance but the training or to work toward empowerment and confidence building or gender orientation. That's the wrong ______ thing. Can you rewind? Okay. *[Laughs]*

Are there – do you see interesting areas where we could target and have a positive impact through those sort of fine tuning?

M Bateman: Well, as I say, I think if microfinance institutions – and there are many that recognize the limitations and they are moving to setup funds for small business development. They are training their staff in more small business development techniques. That's working with proper business plans, bringing in some idea about what some technology requirements are in businesses.

I'll go back to the example in Colombia that I've got some knowledge of. They recognize that they must stop supporting microenterprises in the informal sector, but they are trying to build capacity to support small enterprises. It's not always easy, and it's not a service offer that you can make commercially. It will require investment or subsides, if you want to call it that, from the public authorities. But they recognize that. They recognize they cannot carry on supporting microenterprises because that's been, in a sense, part of the problem in developing places like Colombia, and they need to start supporting – identifying and supporting the small businesses with some growth potential.

C Waterfield: Okay. Profit seeking seems controversial in the industry. Not saying whether you have opinions on those. But in the industry, how can anyone in the industry be opposed to the very thing that we encourage clients to seek for themselves?

M Bateman: I think there is a real difference between a private business where I've no problem if they're operating on profit-driven lines, no problem at all, and institutions which are fundamentally development institutions. One of the big drawbacks to the whole chain – the whole neoliberal consensus that emerged in the 1970s and '80s was this idea that all institutions, not just private businesses, but government departments, NGOs, football clubs, everything had to operate on full-cost recovery lines. That was one of the most destructive concepts that came along.

So I don't agree that institutions should be run on – that provide a service like finance to the community inevitably be based on for-profit. The experiences that nonprofit or community-based is going to work a lot more. The institutions that they support, small businesses, fine, they should operate on for-profit. But that doesn't mean to say that the institutions that provide support should also be governed by the same rules.

D Roodman: A funny turnabout here. It's a interesting question. Why shouldn't microfinance institutions earn a profit if we expect the clients to? But that's a simple moral level thing. We should be pragmatic about this. Do for-profit institutions make the world a better place or a worse place and under what circumstances, and then go from there. And clearly for-profit institutions have had some troubles. But so have nonprofits, and you can get into a complex discussion of the strengths and weaknesses.

But this is a funny thing here. I don't understand the idea that the full-cost recovery is so damaging. I mean, again, we expect that of the clients. Milford, you have a vision of economic development that I think involves creating lots of new, formal firms, whom we would expect to recover their costs. So why – so flip the question around, why is it bad for microfinance institutions to recover their costs, whether or not they're making a profit?

M Bateman: Because they're not business institutions. They – at least they are conceived of institutions which will help other businesses. So they don't come under the same rules that they have to inevitably be profit seeking. If it's better to operate them on cost benefit lines, see what it is they do with their reducing poverty, but it has a subsidy. I don't see a problem with that. If they are producing a benefit to the community – this is – I mean, if you go back to books like ______ ______ in 1996, I mean, they have no problem in the institutions they evaluated, they said they would prefer to go onto ideas that if these institutions are producing a benefit to the community, they really didn't have a problem if it meant that there has to be a subsidy. Only that you had to judge them on how much was that subsidy, and what was the benefit being generated.

So I just don't see why institutions that provide a benefit to other businesses also have to run by the same rules. I don't think history works like that. It's a very ideological or dogmatic stance to say that all institutions, football clubs, microfinance institutions, government departments, health programs, have to be run on for-profit lines. I mean, come on, we got away from that. The huge disasters that we had in 1999 with restructuring health and education in Africa on user fees. The World Bank was leading the way on that. It was a disaster. It was a complete disaster.

And now – it's funny, isn't it? Because now they're moving on to – they're providing budgetary support to these governments, which are providing health and education services, which are free at the point of use, and the kids are coming back into schools. The hospitals are getting lots of people. And so they're claiming this is somehow a benefit, without actually taking any responsibility for what they were improving.

C Waterfield: Great. Okay. So this – we're – I'm going to announce a sort of closure path here. I'm going to ask one question, my own, for the last question, and then I'd like to have each of them give something of a brief closing statement, okay.

So my question, I already alluded to it earlier, if you were to – if I were able to put you in a time machine and send you back 20 years ago, okay, 1992, microcredit – the word "microfinance" still hasn't even been invented. Nobody's making – nobody's even covering the cost, let alone making profit. It's a different world. But you have this – you have this information in your head. What would you share with the various stakeholders, the MFIs, the funders, the regulators? What would you say to keep – to make things more – resulting to be more effective?

Okay. So that – you can add – whether you think it's ______ ______, wherever you think microfinance is now, you could help make it better. What would you say?

M Bateman: So you have some knowledge of the future?

C Waterfield: Yeah.

M Bateman: Okay. Yeah, I see.

C Waterfield: The potential to change the future, okay. What would you say?

M Bateman: I would go back and say, look, guys, if you're going to restructure the provision of finance on the for-profit lines, there are two things you need to know. First, you need to go to places like Northern Italy, the ______ country, and lots of historical examples where it wasn't based on for-profit, and it works very well. And it's a crime not to look at those models and try to adapt them and adopt them and learn the lessons of that.

And the second thing I would say is, guys, in 2008, Wall Street, we had a big crash called subprime created by for-profit institutions, which allowed their managers to capture the institution. Don't go down that way. Don't allow the managers of your institutions to be able to turn – to become employees of that institution, to turn that institution towards pursuing their own private goals. We need to avoid that more than anything.

D Roodman: Interesting. The funny thing is I think they actually did the first thing you told them, Milford, was that the microfinance models descend directly from the credit cooperatives. They were right back to Germany, so they saw themselves as adapting those old ideas.

I'll sound like a broken record, but I think the main thing I'd want to tell people is that it's a Faustian bargain to exaggerate the impacts of microfinance through storytelling because it has built the movement, and you have to respect that they did build the movement, and it has done some good. But it's also a very dangerous thing to create too much excitement in a credit business, and I think probably I don't need to elaborate on that because that has come back to bite the movement now.

C Waterfield: Okay, thanks. All right. We're going to do this thing again. Heads will be Milford. Oh, it's me. All right. A two-minute closing statement, first Milford and then David.

M Bateman: I would just say that the microfinance – the microcredit movement started out with good intentions, but it was a fundamentally flawed idea. There are many reasons for it. Some of it I've said now. Some of them I've elaborated elsewhere. It turned out to be a fundamentally flawed model. It was then transformed by the commercialization revolution and the very limited benefits were then – were more or less completely trashed.

And it was only – the wheels were kept on the vehicle only because of the political serviceability of the microfinance model. I think we're realizing that now. Most people understand that that's the case. I think the important thing now is particularly in the light of 2008 and particularly in the light, that most people, including, are now coming around to the idea that, yeah, it doesn't actually work, guys.

We have to now look at the idea where do we go forward. We have to look at what do we want from financial support structures, and where do we look for the good models of working? Do we go to Bangladesh? I would say no. We should go to Vietnam. We should go to China. We'd go to Northern Italy. Look at the development banks in Brazil. We've got lots of exciting models now, and what's really exciting now – although there's a lot of pain attached to it, but what's exciting now is we couldn't have even had this discussion five years ago.

I was telling – I've done some lectures around – we were talking about state development banks and financial cooperatives. Five years ago we couldn't have had that discussion because they would have said that's off message. At least one silver lining to the financial crisis, and it's going to be even worse now, is that all the options are on the table. So we would be stupid if we don't look around and see what works and see what doesn't and start to sort of understand that advice.

The U.N. is now very good at the moment because it doesn't send people from low-income countries to high-income countries. They send them to middle income countries. So it's a new movement, even in the U.N. that people in Colombia, let's say, should go to learn from the Vietnamese financial institutions. People from Brazil should go to China or vice versa. I think that's a really good – a good structure and one of the good things that came out of the financial crisis, and I think we should use that to look at the financial models that work, and then try to – and come home and support and assist and try to do something better than we've done before.

D Roodman: In my book, I got immersed in the history of providing financial services for the masses, and it turns out it goes back centuries. Well-meaning people wanting to help poor people have, for at least 500 years, sought ways to do this, and often in a businesslike way. And there's been quite a variety of innovations and experiments, organizational structures that have been created to meet this ambient demand among people for financial tools to help them discipline themselves into putting aside money when they need it or invest or anything else that they might need to do with their money.

And so I would never want to make a religion of a particular approach. I think microfinance represents an approach that's minimally dependent on good governance. It's kind of like something that outsiders can come in cooperation with interested nationals build without requiring too much in the way of government support. But there are lots of other approaches that are worth exploring and supporting, and none of that requires us to believe that they'll transform, that'll lift people out of poverty.

The ideas in microfinance are not actually new, but there is a sense in which something – there was a kind of technological revolution in the late 1970s, and the people figured out new ways of making more useful stuff out of the same amount of labor, which was to say mass producing particular microcredit and increasingly other services on a large scale in a way that hadn't been done in the years leading up to that point. And that is from an economist's point of view, a technological revolution.

We're now at a place where we can have a genuine technological revolution in financial services for the masses using phones and card readers and this kind of thing, and so that is where I put my greatest hopes going forward for fundamentally changing – solving some of the information problems that joint liability was designed to solve, but in ways that impose less burden on clients by allowing them to work one on one with computerized, efficient, low-cost financial service provider.

So that is my attempt to answer the original question more directly.

C Waterfield: Okay. Well, yeah, good job. *[Applause]* And I also want to mention – I mean, the QED staff have done an amazing job over many months that they've been in conversation with the three of us to set this up, and so I also want to point out that we should thank them for this event as well. *[Applause]* Okay.

D Kuts: Thank you so much for coming today. Next month we have a presenter from ______ ______ who will discuss rural and agricultural finance, and it's on February 16 here. And we will have this event also in the morning. So if you have any further questions, please feel free to ask. The questions from the webinar, we had a lot of questions that we didn't get to ask, they will be available on the events pager under "Comments". So I would like to thank our webinar audience. We had about 170 people joining today. And thank you for coming. Thanks.

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