Chapter 4. Background Check[1]

When Thomas Sheridan likened Jonathan Swift's lending to a spring "still extending and widening it's course" through a "humble vale," he probably did not foresee the brook tumbling on for two centuries, extending into the mighty deltas of South Asia. But, intermingling with like streams from the Rochdale cooperatives and the German credit groups, it did indeed flow on across the centuries and continents. As we continue to follow those streams' many courses, we arrive at the object of this book, the financial services for the poor that took form starting in the 1970s and early 1980s. Though Muhammad Yunus and the Grameen Bank represent the movement more than anyone and anything else, the field as ever remains diverse. Fingers branch apart and probe new courses, remerge and intermix. This chapter surveys today's landscape and tells the stories of latest generation of thinkers, tinkerers, and promoters who made the microfinance we observe today.

As we approach the present, we come to a puzzle. What happened to the credit cooperatives and savings banks? Born out of grinding poverty of the early English industrial revolution and German famine of the 1840s, both models overspread the globe in a century. In modern times, cooperatives even received a boost from foreign aid. In the mid-1950s, the U.S. government began funding the U.S. Credit Union National Association's World Extension Department, whose director proclaimed in 1959 that "credit unions have proven themselves adaptable to all economic levels anywhere in the world and have become a definite factor in the raising of the standards of living in developing countries." With 4,000 credit unions in Latin America in 1969, 1,200 in Africa, and 26,000 in Asia and Europe, the movement appeared robust and promising.[2] Yet microcredit generates the buzz today. Why?

One answer might be that savings banks and credit cooperatives *are* in the public eye, just as dinosaurs are all around us too—as birds. Indeed, as we will see in this chapter, and to a degree few ap-

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[1] Thanks to Scott Gaul for comments.
[2] Moody and Fite (1971), 317–21, 332–36.

preciate, modern microfinance descends directly from the older models. But I hasten to note that savings banks and cooperatives are far from extinct. At the end of 2007, 25,000 credit unions (credit cooperatives democratically governed by their members) operated in developing countries and claimed 66 million members.[3] The government of China runs 30,000 rural credit cooperatives.[4] Savings banks are even more prevalent, as will we see.

But that evolutionary metaphor does not get to the heart of the matter. Why haven't the Grameen Bank and other groups busily set up savings banks and cooperatives, exploiting models borne of the same mission and honed over a century? The reasons are several. First, credit unions today rely mainly on members' savings to finance loans back to members, not on big loans from outsiders. The same goes for savings banks that also make loans. To obtain capital for loans, they do not need to sell themselves to "investors," using that term as in chapter 1 to embrace all who would support them financially, for charity or profit. So the old-fashioned banks and cooperatives doing business every day in poor countries hardly need impinge on the awareness of people in rich countries. They're there; you just haven't heard of them until now. Second, modern credit unions are messy mixes of democracy and finance. Their governance structures are complexes of rules and committees, accountabilities and audits. "Their ethos gives members a sense of empowerment as they influence their credit union. In places such as Afghanistan, Russia, and Ecuador, it is uplifting to see this at work," says Brian Branch, the Chief Operating Officer of the World Council of Credit Unions. But by the same token, "some complain that credit unions are a political pain."[5] Perhaps today's investors are apt to view poor people as agents of their own *economic* progress, less so their own political progress, and so have favored programs that mass-produce credit with a minimum of democratic spadework.

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[3] WOCCU (2007). Figures exclude South Korea.
[4] Isern and Zou (2007).
[5] Brian Branch, e-mail to author, November 15, 2008.

The old methods appear to have lagged for other reasons. As chapter 3 noted, grafts of western models did not always take. Behind reassuring appearances often lay corruption and institutional breakdown. In another aspect of the same cultural gulf, as Western Europe and North America climbed out of poverty, so did their savings banks and credit unions. Today they typically cater to salaried employees. They are formal legal entities providing individual service. But in poor countries, partly because of mass migration to cities, most people work in the "informal economy," where salaries are rare, the legal system has little relevance, and enterprises come and go like shadows.

This combination of "political pain," historical failures, and up-market drift created an opening by the 1970s for a new movement—an opening whose true dimensions were not appreciated until it began to be filled. The new, microfinance movement examined the old models, borrowed from them, and then moved ahead so rapidly that few in the microfinance world today are aware of the ancestral link. To observe this debt to the past does not deny the originality of the contemporary movement—no more than pointing out the blues roots of rock and roll denies the originality of the Beatles, or that Henry Ford did not invent the car. Like Ford, and like the branches of Sheridan's brook, the various pioneers of microfinance invented, copied, and stumbled upon many operational innovations as they pursued their visions of selling to the masses.

Enter the developmentistas

Against the backdrop of the history of financial services for the masses, modern microfinance stands out for its incorporation of foreign aid. Rich-country donors, public and private, have advised and financed most lines of development in microfinance from early on. It would go too far to say that aid made microfinance possible; but without aid, microfinance today would differ greatly in nature and extent.

Foreign aid is essentially a post-World War II phenomenon. For the U.S. government, providing capital and technology to poor nations in order to improve their lot became one strategic prong in the

grand battle with communism.[6] For Britain and France, aid grew also out of colonial administration, a way to maintain influence in colonies that gained independence.[7] Cross-border private philanthropy is older—much missionary work included charity, and the Rockefeller Foundation fought infectious diseases in poor countries in the 1910s—but international giving reached a new scale with the post-war rise and growth of non-profits such as CARE and Oxfam, and the Ford and Gates Foundations.[8]

In the early days of aid, western officials tended to view the challenge of economic development primarily as one of building the visible signs of modernity: roads, electric power, irrigation, and other infrastructure.[9] That is what Western Europe needed and received under the Marshall Plan, and that is what the western powers had focused on in "developing" their colonies. The premier development institution, the World Bank, prided itself on its engineering and financial rigor in vetting projects it would finance with loans—took pride, in effect, in filtering out countries so destitute as to be uncreditworthy and projects so soft-headed as to favor short-term welfare of the poor over productive investment in industrial capacity. But then the poorest countries and the poorest people began a long rise on the priority lists of aid institutions. The post-war recovery in industrialized countries afforded more room for compassion for those less fortunate; new technologies tied the world together more tightly; and former colonies in Africa and elsewhere gained independence and became a new front in the Cold War. In 1960, following an Eisenhower Administration proposal, the World Bank set up a new branch, the International Development Association, to lend at almost no interest to nations unqualified for its traditional near-commercial-rate loans.[10]

The child of Cold War *realpolitik* and colonial administration, engendered a top-down, government-centered approach among "developmentistas," the rich-country economic development profes-

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[6] E.g., see Harry Truman's 1949 inaugural address.
[7] On the interwar roots of British aid, see Barder (2005), 3–4.
[8] ["Rockefeller Foundation", Wikipedia, viewed September 25, 2008.]
[9] [Caufield]
[10] [Kapur, Lewis, and Webb (1997), 51–55, 313–16, 413–15, 434–35.]

sionals. In the mid-1960s, this mentality dovetailed with the search for a more poverty-oriented aid style and worrying famines on the Indian subcontinent to generate enthusiasm for direct government support for agriculture and rural development—enthusiasm that was turbocharged by the arrival of ambitious and emphatically poverty-focused Robert McNamara in the World Bank presidency in 1968. At the time, scientists were developing varieties of wheat, rice, and other crops that produced radically more food per hectare, but which also required modern inputs such as artificial fertilizer, pesticides, and reliable irrigation. Poor farmers could not invest in these "Green Revolution" technologies without credit, and so credit for poor farmers became a centerpiece of aid for agriculture.[11] Almost always, donors subsidized this credit. Doling out small loans to millions of small farmers was expensive and seemingly risky, which argued in itself for charging high interest rates; but donors did not want to deter farmers from making the uncertain leap to a new way of growing food. Foreign aid would fund subsidies to fill the gap between high costs and low interest. As a result, lending agencies became less concerned about checking farmers for creditworthiness. Credit was *directed* to target groups such as poor but landed farmers regardless of individual reliability.

The donors' push for subsidized and directed credit coincided with the ascendance of state-led economic development programs in countries such as Brazil, India, and Mexico, each of which borrowed more than $2 billion from the World Bank over the years to finance loans to farmers.[12] In 1969, the government of India took over the country's banking system, assuming for itself a central role in directing and funding commercial banks. In 1977, it required any commercial bank seeking to open a branch in a location that already had banks (perhaps a middle-class neighborhood) to open *four* in unbanked areas. In so doing, it elevated concerns about poverty and equity over traditional financial logic: presumably, many of the previously unbanked towns and villages were unprofitable to serve with tradi-

[11] [Kapur, Lewis, and Webb (1997), 51–55, 313–16, 413–15, 434–35.]
[12] OED (1994). Figures are cumulative to the time of the OED report.

tional banking. Over the 13 years the rule stayed in place, 30,000 rural towns and villages gained bank branches for the first time, according to development economists Robin Burgess and Rohini Pande. It was the largest banking expansion in the world, ever.[13]

But even as governments directed credit on this scale, a counterrevolution commenced. Its beginning was, in the words of a history of the World Bank, "smaller than a man's hand": an article published in a specialist academic journal in 1971 by a junior economist at Ohio State University named Dale Adams.[14] Over the course of the 1970s, with backing from the U.S. Agency for International Development (USAID), Adams and a growing coterie of colleagues mounted an ultimately successful attack on subsidizing credit and directing it by government fiat to the poor.[15] Among the problems Adams and others pointed to was the difficulty of top-level program managers in New Delhi or Washington to control who credit actually goes to and what they do with it. All too often, the politically connected and big landholders used influence and bribes to capture the cheap loans. "Many government programs inadvertently foster stratification by channeling resources through village officials," wrote Ann Dunham Soetoro, the mother of Barack Obama, in her doctoral thesis on Indonesia.[16] More than irrigation water and fertilizer, these gifts from above could be put to many uses besides farming, and often were. Worse, because the employees at the government-controlled banks were rewarded more for getting loans out the door than protecting the bottom line, they relaxed about repayment. One review of subsidized credit programs in Africa, Asia, and Latin America found that almost all had default rates between 40 and 95 percent.[17] Often the loans were little more that disguised grants that only a fool would pay back. This laxity corroded the rest of the rural financial system, such as it was, since no unsubsidized lender could compete with "credit" with such easy terms—nor, therefore, pay reasonable interest to depositors.

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[13] Burgess and Pande (2005).
[14] Kapur, Lewis, and Webb (1997), 436; Adams (1971).
[15] E.g., Adams, Graham, and Von Pischke (1984).
[16] Quoted in Dove (2009).
[17] Braverman and Guasch (1986), cited in Armendáriz de Aghion and Morduch (2005), 10.

In sum, the critics said, subsidized and directed credit undermined local financial systems when it ought to be doing the opposite. They called for shifting support to interventions that operated in a more business-like way, charging clients prices much closer to the true cost of delivery, aggressively holding borrowers to account for their debts, and holding banks and other financial entities responsible for their own bottom lines. Devisors of modern microfinance forms found a receptive audience among donors starting in the 1970s.

Short histories of small loans

"Microfinance" is surprisingly hard to define. Breaking the word in two and the taking the parts literally would imply that it refers to all "very small" money-management services. But not so: as a practical matter, the word is rarely taken to encompass loans from family or the sorts of informal credit and savings services Stuart Rutherford found in Vijayawada (in Chapter 2). Restricting the concept to services provided by *formal* institutions, ones with legal identities, helps bring it in line with what people usually mean by the word, but does not suffice. Credit cooperatives, government development banks, and postal savings banks are formal too and few people consider them "microfinance." The derivation of "microfinance" and "microcredit" from the earlier "microenterprise credit" suggests that a particular *purpose*—investment in productive activities—might distinguish microfinance.[18] Yet as we saw in Chapter 2, the true reason for a poor person's borrowing or saving is often elusive; and anyway, cooperatives and postal savings can finance investment in microenterprise too. Nor can we find recourse in stipulating the use of groups: some "microfinance" caters to one person at a time, while cooperatives are groups too. And "microfinance" is today delivered by non-profits, for-profits, and government-owned banks, so organization and ownership type do not characterize either. Microfinance sometimes claims to undercut usurious moneylenders; and is sometimes is accused of behaving as unethically as the creditors it aims to

[18] [Bruce Pippet] of Acción International coined "microenterprise" in 197[x, around when the microchip was invented. [(Jeffrey Ashe, Director of Community Finance, Oxfam America, Boston, interview with author, November 25, 2008)]. Seibel (1990) says he introduced "microfinance" in 1990.

supplant. What we talk about when we talk about. Thus, in a 2004 survey, Robert Peck Christen and Richard Rosenberg, two men with decades of experience in the field, defined microfinance in historical terms, no more specifically than “financial services designed for lower-income clients using the new delivery methodologies developed during the last twenty-five years.”[19]

Perhaps all these attempts at definition are too Newtonian. They view “microfinance” as something that exists independent of us, the observers. Quantum physics teaches that the act of observation changes what is observed, making subject and object inseparable. Just so, the answer to the riddle seems to lie in the somewhat peculiar fact that by and large the “new delivery methodologies” that rich-country investors call microfinance are the methodologies they have heard of. Most donors, foundations, and interested individuals have heard of group lending in Bangladesh and individual lending in Bolivia, but not of postal savings banks and credit unions in poor countries. The pattern is not accidental. The methods foreign investors know most about are those that work hardest to be known, the ones that are not self-sufficient like ROSCAs, and thus *need external support—yet fear the control and easy funding of domestic government*. When a financial method needs charitable outside support, it expends resources to make itself known, and perhaps becomes “microfinance.” As a result of this selection process, microfinance is by and large that which connects rich-country investors with poor-country clients in cost-conscious—even businesslike—ways.

The rest of this section surveys the terrain of microfinance so defined by way of a series of short narratives about the creators and creations of those new delivery methodologies that comprise modern microfinance.

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[19] CGAP (2004), 1.

Solidarity group lending

Our tour begins in 1976 in Bangladesh with a young economist at Chittagong University named Muhammad Yunus. Educated at Vanderbilt University on a U.S. government Fulbright grant, Yunus was a brilliant teacher and a charismatic and independent thinker. His students say that he could explain profound mathematical theorems in ways that let the central ideas shine through.[20] "He had long hair, a VW bug, nicely tailored jackets, and colorful ties," says Asif Dowla, who would move from studying under Yunus to serving as the Grameen Bank's [first] accountant.[21] In the mid-1970s, Bangladeshis won a violent revolution for independence from Pakistan, the other predominantly Muslim offshoot of British India. It was a time of great suffering, new possibilities, and a vacuum of government. Yunus became fed up with the incongruence between the Panglossian theories he taught inside the classroom and the starvation he saw outside it. He began working in the nearby village of Jobra with his students to understand and address the villagers' economic problems. In time, he focused on the poorest families, the ones who owned no land to grow rice. In his autobiography, *Banker to the Poor*, he describes the encounter that changed his life:

> …we stopped at a run-down house with crumbling mud walls and a low thatched roof pocked with holes. We made our way through a crowd of scavenging chickens and beds of vegetables to the front of the house. A woman squatted on the dirt floor of the verandah, a half-finished bamboo stool gripped between her knees. Her fingers moved quickly, plaiting the stubborn strands of cane. She was totally absorbed in her work.
>
> …
>
> She was in her early twenties, thin, with dark skin and black eyes. She wore a red sari and had the tired eyes of a woman who labored every day from morning to night.
>
> "What is your name?" I asked.
> "Sufiyah Begum."
> "How old are you?"
> "Twenty-one."
> …
> "Do you own this bamboo?" I asked.
> "Yes."
> "How did you get it?"
> "I buy it."

[20] Zahid Hussain, Senior Economist, World Bank, Dhaka, interview with author, March 2, 2008.
[21] Asif Dowla, Professor, Department of Economics, St. Mary's College of Maryland, St. Mary's City, MD, interview with author September 23, 2008.

> "How much does the bamboo cost you?"
> "Five taka." At the time this was about twenty-two cents.
> "Do you have five taka?"
> "No, I borrow it from the *paikars*."
> "The middlemen? What is your arrangement with them?"
> "I must sell my bamboo stools back to them at the end of the day as repayment for my loan."
> "How much do you sell a stool for?"
> "Five taka and fifty poysha."
> "So you make fifty poysha profit?"
> …
> Sufiyah Begum earned two cents a day. It was this knowledge that shocked me. In my university courses, I theorized about sums in the millions of dollars, but here before my eyes the problems of life and death were posed in terms of pennies….I was angry, angry at myself, angry at my economics department and the thousands of intelligent professors who had not tried to address this problem and solve it.[22]

Sufiyah Begum lived in bondage to the bamboo supplier, who allowed her just enough margin for her family to survive, and well less than she could have made by buying bamboo with cash and selling stools at market price. But she had no cash. Buying bamboo on this "supplier credit" made her prey to what Yunus saw as monopolistic usury. A cheaper loan from an outsider might free her.

Yunus had a female student survey Jobra for others in the same bind (it was easier for a woman to approach female villagers). She came back with a list of 42 people who could use a total of $27 in capital. Yunus took the money out of his pocket, handed it to her on the spot, and told her to lend it without interest, and without any fixed repayment schedule. Fired by the experience, he next asked a local bank to lend to the villagers—to which it only agreed after Yunus personally guaranteed all the loans, in effect making him the borrower of record. Next, he persuaded a powerful friend at the national Bangladesh Agricultural Bank to let him open his own branch near Jobra, to run as he saw fit. He called the new project "Grameen," meaning "of the village" or "rural." Yunus writes that he never intended to become a professional lender and knew nothing about banking. Undeterred, he proceeded with vision, passion, flexibility, conviction that the established banking system was wrong-headed, readiness to call on his personal connections in government, and tremendous energy as an advocate and salesman.

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[22] Yunus (2004), 46–48.

With his students, Yunus constructed the Grameen lending model. After much trial and error—including individual loans that were not paid back—they settled on a kind of group lending, in which sets of borrowers choose each other, approach the lender together, and take responsibility for each other's debts.[23] Though Yunus does not mention it, some of his closest aides in those years make clear that the old, group-lending Bangladeshi credit cooperatives were one source of ideas—as both inspiration and foil. The cooperatives contained the interesting idea of joint liability, but seemed ungainly, with a typical 25 members, and liable to take-over by a village's richest residents. Yunus and his students settled on five as the right size for a Grameen group—the number of fingers on the hand, and the number of times a Muslim should pray each day.[24] And they rejected for membership anyone whose landed wealth exceeded a modest half-acre. Loans were repaid in weekly installments over the course of a year. Within a group, the two neediest members would take loans first; then, while they were repaying, two more would start; the leader of the five would borrow last.[25] After one loan was repaid, a larger one could be taken, so that the cycle repeated and ascended.

In 1979, having developed the model and demonstrated the high repayment rate it achieved, Yunus won the backing of Bangladesh's central bank to test it on a large scale in the Tangail district near the capital city Dhaka. This the Grameen Project did, again learning and adapting as it went. Then Grameen went national and grew rapidly, thanks in part to funding from the Ford Foundation, the U.N. International Fund for Agricultural Development (IFAD), and the governments of Bangladesh, the Netherlands, Norway, and Sweden.[26] In late 1983, Yunus obtained a unique banking charter from the military

[23] Hulme (2008), 4.
[24] Dowla, op. cit. note 21.
[25] Dowla and Barua (2006), 17–19.
[26] Armendáriz de Aghion and Morduch (2005), 12.

dictator of Bangladesh, and the Grameen Bank was born. By 1991 the Bank had a million members and by 2007, 7.8 million, the latest doubling taking less barely four years.[27]

Along the way, Grameen inspired its own competition. [In the 1980s,] the Bangladeshi group BRAC, now the largest non-profit in the developing world, integrated microcredit into its older education, health, and grassroots development programs. Where Yunus expresses great faith in the ability of the poor to find their own way, once financed, BRAC's founder, Fazle Abed believes that microcredit is more effective, especially in helping the "ultrapoor," if it is combined with larger programs for economic development. It is often futile, in the BRAC view, to give an illiterate widower with no land and a lifetime of wounds a small loan and expect her to blossom into an entrepreneur. Budding microentrepreneurs need not just capital, but advice, supplies, and markets as well. BRAC's Targeting the Ultrapoor program, for example, integrates women into a vast poultry undertaking. I met one participant, Momena, in Rangpur Province in 2008. One of her grown sons has severe allergies that make it hard for him to work. She invested a lot in the education of another son—he earned a Masters degree—but a bus hit and killed him when he was riding his bicycle. Much of her savings were buried with him. Through IGVGD, BRAC gave her a series of loans; sold her chicks, feed, and vaccine; and bought her eggs.[28] Behind the scenes, BRAC set up at least half a dozen poultry farms nationwide, which produced more than a million chicks a year as of 2004. Its Maize Seed Production Program produces 400 tons of hybrid seeds annually, which in turn grow into 100,000 tons of feed corn.[29] In a village not far from Momena's, I also watched a monthly meeting of adolescent girls, part of another BRAC program, which encourages the young women to borrow on behalf of their parents and even husbands. The BRAC representative typically talks about AIDS, violence against women, and vegetable and livestock raising. [(See [Figure 1.)]

[27] [Grameen Bank, "Historical Data Series in USD," grameen-info.org/index.php?option=com_content&task=view&id=177&Itemid=503, viewed May 14, 2009].
[28] [Interview with author, March 4, 2008.]
[29] Matin (2004), 90.

For BRAC, the credit draws the girls into attendance, teaches thrift, and partly funds the work through interest receipts.[30] Through programs such as these, BRAC's microcredit operations reached 6.4 million borrowers by 2007[update], almost as many as Grameen's.[31]

[Figure 1. Meeting of a BRAC Adolescent Development Program group, Rangpur Province, Bangladesh, March 2008]

Filling out the big three of Bangladeshi microfinance is the Association for Social Advancement (ASA), an organization founded in the 1970s by Shafiqual Haque Choudhury. Choudhury and his associates began ASA in order to carry out a five-year plan for an armed national uprising against landlords and the government. That didn't work. In 1991, ASA took up microcredit and soon morphed into one of

[30] Profit from BRAC (2008), 76–77. In 2006, charges on loans totaled 6,170,051,384 taka, against 4,610,787,854 in expenses for microfinance, the surplus sufficing to cover 14 percent of non-microfinance expenditures. In 2007, the figures were 7,913,031,873 and 7,664,833,109 taka, yielding a surplus worth only 2 percent of non-microfinance expenditures.

[31] [www.mixmarket.org, viewed September 24, 2008.]

the leanest microcredit operations in the world.[32] In 2007, the non-profit with Marxist ancestry topped the *Forbes* 50 list of microfinance institutions.[33] Today, ASA offers its 5.4 million [update]borrowers the purest microcredit. Where BRAC bundles, ASA streamlines.[34]

All of the Bangladeshi big three are still led by and bear the strong imprint of founders who came into their prime in the 1970s as their young nation suffered and sought to define itself. Despite the common history, each organization has its character. Only Grameen is a true bank, meaning that it can take deposits well in excess of its outstanding loans; and these are now its main source of capital for lending. BRAC depends much more on outside donors, who help finance the non-credit parts of its programs. ASA largely finances itself by retaining profits from its efficient credit machine.[35] For all, the group-based system devised by Yunus and his students is still the core of the finance model, though all three have molded the original model to suit their own strategies and respond to competitive pressures.

Solidarity group lending was apparently an invention whose time had come in the late 1970s, for like cubism and non-Euclidean geometry it was independently invented, or at least brought to prominence, more than once in the space of a few years. Two American institutions dating to the Kennedy Administration developed it in the western hemisphere: Acción International, which began as a sort of privately funded counterpart of the U.S. Peace Corps; and USAID, which Kennedy forged from disparate government aid programs. In the 1960s and 1970s, USAID had tried various combinations of credit, technical advice, and equipment provision to support small business. Frustrated with the perpetually poor results, the agency hired Acción in 1979 to scour the world for good models. For the job, Acción in turn picked the young Jeffrey Ashe, a man who had worked with credit cooperatives in Ecuador as a Peace Corps volunteer and who was and is capable of wondrous enthusiasm for financial service me-

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[32] Rutherford (2009), 97.
[33] Swibel (2007).
[34] [www.mixmarket.org, viewed September 24, 2008.]
[35] Stuart Rutherford, Dhaka, interview with author, March 2, 2008.

thods that work. Most of the examples his team found were "just awful—ill-conceived, expensive, paternalistic, top down. We'd see sewing machines covered in cobwebs," he said. But they also found gems. In Manila, a bank called the Money Shop made small loans out of stalls set up at each of the city's markets. In the main market in San Salvador, a credit cooperative called Fedecrédito lent to "solidarity groups" (*grupos solidarios*) of jointly liable clients. Just as in Dhaka, the groups had five members. Ashe proposed a lending program synthesized from these examples. Overcoming some institutional reluctance, Acción tried solidarity group lending in Santo Domingo, capital of the Dominican Republic, among the *tricicleros*, men who were named for the vehicles that they both pedaled and peddled from. It "took off like a shot," says Ashe. In that moment, Acción found its true calling as a midwife for microfinance in the Americas and beyond. USAID too began a long involvement in the field.[36]

Acción's approach was indeed group-based: Just as in the German cooperatives from which Fedecrédito descended, joint liability and individual self-interest combined to put members in the service of the lender, filtering unreliable borrowers and pressuring each other to repay. But Elisabeth Rhyne, for many years a senior vice president at Acción, emphasizes that the organization's evolving philosophy was about more than joint liability:

> It included the idea of operating close to the ground, using local knowledge to select good clients. The product was a simple loan delivered quickly and easily, appealing broadly to people in the market, free from the weight of training requirements and restrictions on usage. The model also emphasized keeping costs low with a lean staff, plain offices, and efficiency. Finally, it included the idea that staff would have incentives to enforce on-time collections. In short, it was both a loan product and a delivery method.[37]

Returning to the roots: Village banking and self-help groups

Village banking

The microcredit movement swelled in the 1980s out of the early work in Bangladesh and Latin America, and in the organic way one might expect. Ideas spread by word of mouth; foundations and aid agencies

[36] Jeffrey Ashe, Director of Community Finance, Oxfam America, Boston, MA, interview with author, November 26, 2008 [or op. cit.]; Rhyne (2001), 60–62.
[37] Rhyne (2001), 62.

financed replications. As more people joined the movement they brought their own ideas, and so the field diversified. Among the most important innovators was John Hatch, an American who spent two years as an early Peace Corps volunteer, in the mid-1960s in Colombia, then two and a half more employed by the Corps in Peru. There, he directed 55 volunteers working in credit cooperatives for farmers. In 1970 and 1971 he, like Yunus, took a Fulbright grant, his to work as a hired agricultural laborer in Peru. He writes that the experience taught him "deep respect for the subsistence skills of the poor." But like Dale Adams, he was much less impressed with the foreign aid–financed credit programs he saw up close in Latin America, which often seemed to hurt the poor more than they helped.[38]

In 1983, USAID asked Hatch to design a rapid-response program to bring relief to families in Bolivia beset at once by drought and hyperinflation. On the plane there, Hatch hit upon a different form of microcredit. The cooperatives he had worked with two decades before exercised a strong influence upon him; indeed, more than Hatch knew his idea returned to the credit cooperative movement. His name for his model—"village banks"— unwittingly recycled a nineteenth-century English term for Raiffeisen cooperatives. For Hatch, solidarity groups were too laborious to assemble and too slow to disburse. Credit cycles staggered in the usual way, with two people borrowing first, forced the three people to wait months for money. The Bolivians he was supposed to help could not wait that long. In Hatch's plan, as in Raiffeisen's, cooperatives of 50 villagers, not five, would form in order to take block loans from an outsider benefactor, in this case USAID. (The group size would later fall to 25.) Members, not an outside banker, would allocate the credit to individuals and keep the books. All could borrow immediately. Like the cooperatives of old, the banks would take savings while making loans, in an informal and tightly knit setting in which members' own eyes, rather than those of a regulator, would maintain

[38] John Hatch, Santa Fe, NM, interview with author, October 6, 2008.

oversight of the keeper of the funds.[39] Hatch's village banking departed from the cooperatives he had watched earlier in his life in targeting poorer people and flying below the legal radar.

There followed in Bolivia what Acción's Rhyne calls "the closest program on record to the proverbial dropping money from the plane." Shriveling crops and the evaporating value of cash threw aid workers into a manic race against time as they went from village to village starting banks and unloading sacks of pesos.[40] The next year, Hatch started the U.S. non-profit Foundation for International Community Assistance (FINCA), which along with many other organizations around the world, and with government and private funding, has made village banking another common form of microfinance. In 2008, the Mexican bank Compartamos (a transformed Acción affiliate) reached the million-customer milestone via village banking.[41]

Self-help groups

A cousin of village banking, the self-help group (SHG), has dominated microfinance in India. Hans Dieter Siebel of Gesellschaft für Technische Zusammenarbeit (GTZ), a German aid agency that specializes in technical advice and training, appears to have struck the spark in 1986 in a presentation he made at a conference in China. In India and other Asian nations, he saw banking systems that, despite their thousands of new branches, still failed to serve the poor. He proposed that governments encourage informal non-profit groups to bridge the divide between banks and the poor as Raiffesen cooperatives once did in his home country.[42] The Indian government in particular took to the idea. In the SHG system it built, local NGOs form groups of 10–20 people, predominantly women. The NGOs train members in saving, lending, and accounting, then open a bank account where the group deposits accumulating savings. Once the group has saved enough, the bank grants it a loan, typically four times as large as the savings

[39] Ibid.
[40] Rhyne (2001), 58–60.
[41] [Compartamos Banco, "Compartamos Banco Reaches One Million Client Target," press release, August 28, 2008, Mexico City, tinyurl.com/6rrljn, viewed September 25, 2008.]
[42] Seibel (2005), 10.

balance, for which members are jointly and severally liable.[43] As in village banks, members apportion the credit among themselves. SHGs took off in the 1990s when the Indian government decided to provides subsidized refinancing to banks for their lending to SHGs, via the state-owned National Bank for Agricultural Development (NABARD).

The contrast between Indian government's approach and that of the big Bangladesh NGOs reflects differences in history and perhaps an Indian pride in doing things differently from its young and predominantly Muslim neighbor. India inherited a strong government from its colonial rulers at independence; Bangladesh started with hardly any. Thus in Bangladeshi microfinance, government inhabits the deep background. Linking banks to SHGs fuses top-down governance with the Gandhian spirit of self-help. NABARD considered Grameen-style microcredit but concluded that "the SHG linkage model appears more sustainable and appropriate in the Indian conditions where [India has] in place a vast network of rural bank branches…[and] SHGs which are functioning on their own and waiting to be linked to the banking system."[44] The Indian model is far superior, explained the minister for SHGs of the Indian state of West Bengal in 2006, because "the government does not support Yunus."[45] Yet the Bangladeshi style may yet win out. Independent, for-profit solidarity group lenders are growing explosively. They reached 6.1 million clients by the end of 2007[update], up from [XXX] in 200[3].[46] Partly because several steps separate clients from NABARD, government statistics on how many Indians participate in SHGs are not as good. In fiscal year 2005–06, 965,000 SHGs received bank loans, 620,000 for the first time, bringing the cumulative number of SHGs receiving loans to 2.239 million.[47] At a typical 14 wom-

[43] Ibid., 8–12.
[44] Quoted in Seibel (2005), 12.
[45] "West Bengal Govt. Claims Better Microcredit Implementation," India Microcredit (blog), October 21, 2006, indiamicrocredit.blogspot.com/2006/10/west-bengal-govt-claims-better-micro.html, quoting expressindia.com.
[46] MixMarket.org heat map, mixmarket.org/en/scriptlets/heat_map.asp, viewed November 26, 2008.
[47] National Bank for Agriculture and Rural Development, "SHG-Bank Linkage Programme-Regional Spread of Physical and Financial Progress as on 31 March 2006," nabard.org/pdf/stmt2.pdf, viewed November 26, 2008.

en per group, that suggests that some 31 million women have joined SHGs.[48] However, many of the SHGs may have gone defunct, and their members joined new groups, so this figure could be high by a factor of two or three.

Village Savings and Loan Associations

At the border between informal financial arrangements and those usually thought of as microfinance are Village Savings and Loan Associations (VSLAs). These too return to the cooperative roots, but unlike village banking firmly eschew outside credit. They are self-sufficient, member-run and therefore appropriate for the poorest of the poor who could not. In 1991, the U.S. charity CARE funded a small project in Niger to help women doing handicrafts for income. A Norwegian woman named Moira Eknes ran the project. But she discovered that the women knew more about handicrafts than she did. What they lacked was capital. So Eknes learned about the various indigenous, informal forms of community finance in the region and arrived at the idea of a group that would accumulate savings in a box with three locks (the keys held by different people to prevent theft) and lend out money to the same members. VSLAs have spread to most big private, international charities: CARE, Oxfam, Pact, Plan International, Catholic Relief Services, World Vision. According to data gathered by Hugh Allen, a leading VSLA proponent, the model is reaching more than 1.6 million people in 27 countries.[49]

The groups, he says, do not work much above 30 people. Beyond that, the meetings become too long and the transactions become too numerous to remember, so they become opaque. With opacity comes the opportunity for theft, distrust, or error. Most VSLAs are rural, but they have also worked extremely well in urban areas, such as in the Kibera slum outside Nairobi. But the biggest difference from conventional microfinance is that the supporting organization has no permanent presence. Training and guidance is provided for perhaps a year to get groups going. The poorest cannot afford to pay, through

[48] Average of 14 from D.S.K.Rao, Regional Organiser for Asia-Pacific, Microcredit Summit Campaign, Hyderabad, India, e-mail to author, December 3, 2008.
[49] Hugh Allen, VSL Associates, conversation with author, September 9, 2009.

interest, for the wages, computers, and buildings of microcreditors. If people are poor enough, they don't mind walking a mile and sitting under a tree for an hour to save $1, says Allen.[50] Jeffrey Ashe, who today leads Oxfam America's VSLA work, once described conventional microcredit to me from the point of view of poor woman in rural Niger: "that is for rich people."[51]

Individual banking

Microfinance, and microcredit in particular, is nearly equated in the public imagination with groups, be they solidarity groups or village banks or SHGs. In fact, some microfinance deals with clients one-on-one. The Irish loan funds, Scottish cash credit, and the Morris Plan are perhaps the closest historical precedents, though all still leveraged the bonds of community through sureties.

In the current era, the strongest claim for originating individual microfinance is perhaps that of an Indonesian couple on the island of Bali. Around 1955, not long after Sri Adnyani Oka married I Gusti Made Oka, she took their small savings out of a bank account and the two began moneylending business. They took gold as collateral. Ms. Oka lent and her husband kept the books. To increase their capital, Mr. Oka borrowed $222 in 1956 from a private bank whose cooperative ownership structure traced back to Germany a century earlier via the Dutch colonizers of Indonesia. So to borrow, Mr. Oka had to become an owner. His first shareholders' meeting changed his life. "My wife and I already knew that when a person we trusted needed to borrow money, we could go to someone who had money and arrange the transaction. At the bank shareholders' meeting, I was surprised to learn that is exactly what banks do. I knew then that we [the Okas] could run a bank, that it could be profitable, and that it would help many people who were afraid of banks. From that time on, I was determined to obtain a bank license." The Okas realized their dream of graduating to formal banking a dozen years later. They opened a small "secondary market bank" in 1968, and then the full-status Bank Dagang Bali (BDB) in 1970,

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[50] Ibid.

[51] Jeffrey Ashe, Director of Community Finance, Oxfam America, conversation with author, May 14, 2008.

Indonesia's second private bank. BDB succeeded by knowing and going to its clients. Bank employees would make regular rounds to clients' homes and market stalls by foot, bicycle, and motorcycle in order to collect savings and loan payments. BDB grew to 15,645 loans outstanding and 363,859 savings accounts by 1996. While 92 percent of the loan balances that year exceeded $420, indicating a well-off clientele by Indonesian standard, 94 percent of the passbook savings accounts were smaller than that amount, pointing to a poorer clientele for the savings service, though one perhaps a step above Grameen's target population. Many of the savers were entrepreneurs who made or sold goods such as food and garments; they earned $2–6 a day, of which they might save $1–2 on a daily basis, according to American anthropologist Marguerite Robinson.[52]

In a stunning development, the Indonesian government shut down BDB in 2004. The Oki's daughter had married the son of another bank owner, and through that relationship flowed some inappropriate loans that eventually brought down both banks.[53] Yet Robinson argues that it was the ill-fated BDB that started the modern microfinance revolution, in 1970, by demonstrating that ordinary citizens of poor but increasingly monetized nations harbored huge demand for formal financial services, especially savings—and that that demand could be met profitably, without subsidy.

Ironically, the very year that BDB was born, the Indonesian government's own "people's bank," Bank Rakyat Indonesia (BRI), launched a massive credit program on principles quite opposite to those of BDB—and those of the Dutch colonialists who founded BRI in 1895 in order to inject Raiffeisen cooperatives into the country. BRI's new BIMAS program was a classic example of the directed credit approach then ascendant, and was part of a larger effort to make Indonesia self-sufficient in rice by helping farmers. BRI set up 3,600 branches throughout the country, called *unit desas*, in order to dispense subsidized credit to farmers to buy chemical fertilizer, pesticides, and seeds for new varieties of rice. The

[52] Robinson (2002), 147–61.
[53] "Bank Dagang Bali Closed by Government," Bali Discovery Tours, April 12, 2004, balidiscovery.com/messages/message.asp?Id=1860.

program developed typical ills: the richest farmers captured the loans, whose rates were often negative after inflation, and often hardly bothered to pay back. A military-style campaign to force repayment succeeded mainly in discouraging farmers from borrowing any more. By 1983, the program's loan portfolio was shrinking even as it drained the government treasury.[54]

Hoping to break the downward spiral, the government sought advice from a Harvard-based team led by Robinson and partly funded by the World Bank and USAID. They studied Indonesia's 90 years of experience with cooperatives and the recent success of BDB. They recommended that BRI's unit desas be recast in the image of BDB. The government took the advice, and with much work and remarkable speed created a giant of microfinance.[55] Today BRI services 3.5 million loan accounts and an extraordinary 21 million savings accounts—about as many small accounts as in all of Bangladeshi microfinance.[56]

If BDB and BRI demonstrated the potential of individual savings and lending for poor people, much credit for spreading it globally goes to a German company led by Claus-Peter Zeitinger, a hard-charging, chain-smoking bear of a man. Zeitinger is not a polished ambassador like Yunus, but he too has set a powerful example. His commitment to good works—and some key working friendships—were forged when he was a young man, in the quasi-revolutionary year of 1968. After working for GTZ and other organizations in the 1970s, Zeitinger co-founded a consulting firm called Interdizciplinare Projekt Consult (IPC) in 1981. Two years later, GTZ exposed IPC to financial services by hiring it to applying the German *sparkassen* (savings bank) model in Peru, setting up what were known locally as *Cajas Municipals de Ahorro y Crédito* (CMACs). Like the old *sparkassen*, the CMACs benefited from guarantees from local governments to reassure depositors about the safety of their savings. In exchange, government representatives held positions on CMAC governing boards. In IPC's experience, CMACs worked

[54] Ibid., 166–94.
[55] Ibid., 364–407.
[56] [MixMarket mixmarket.org/en/demand/demand.show.profile.asp?token=&ett=93, viewed September 30, 2008.]

when they were small and relatively self-sufficient. But when they grew larger or received too much outside funding, the temptation to collusion and corruption among local players grew too strong and the ability of innocent members to detect it too weak. Such experiences fostered a philosophy at IPC that an financial institution had to create the right incentives for all involved to be effective. At an outside agent setting up the institution should buy shares in it to give that agent a literal stake in the institution's success. Subsidies should be minimized so to expose shareholders to the consequences of poor performance. Borrowers should be held individually accountable for their debts. And loan officers should be paid in part based on the performance of the loan portfolios they built and managed.[57]

In 1992, IPC entered Bolivia, already Latin America's first microfinance hotbed because of Prodem (mentioned above**[not!]**). Its Bolivian bank, Procredito, rebelled against local convention in lending to the poor individually rather than through groups. Zeitinger argued that people prefer to borrow on their own account and don't like being on the hook for others' loans. And they would much rather borrow an amount tailored to her needs than be shackled to the rigid cycle of an annual group loan schedule. But Procredito had to compensate for the loss of the group guarantee's two principal functions: filtering and enforcement. To filter out uncreditworthy borrowers, Procredito loan officers had to "know their clients"—to understand their businesses and cash flows, to sleuth out their local reputations. To enforce repayment, Procredito took collateral, but not the collateral conventional banks demand, recorded in government property registries. Procredito accepted looms, washing machines—things that were a hassle to collect but meant a great deal to the borrower.[58]

Procredito succeeded in Bolivia, and in 1995 followed in the footsteps of Prodem in transforming into a for-profit company. Today, ProCredit Holding owns banks in 22 countries as varied as Bosnia,

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[57] J.D. von Pischke, Chairman, Frontier Finance International, Washington, DC, interview with author, October 15, 2008.
[58] Rhyne (2001), 91–94.

Sierra Leone, and Colombia.[59] It closed 2007 with a combined €2.8 billion in outstanding loans and €2.5 billion in savings deposits[update].[60] The group's motto, "Banks for 'Ordinary People'," embodies Zeitinger's humility about the value of credit for the *poorest* people. And while pursuing a commercial approach, Zeitinger is quick to point out that patient investment and training subsidies from official donors such as the World Bank's International Finance Corporation and Germany's Kreditanstalt für Wiederaufbau (KfW), as well as from private investors such as the U.S. retirement fund TIAA-CREF, have been essentially in bankrolling entry into risky countries such as the Democratic Republic of Congo.[61] IPC thus satisfies the definition of microfinance stated above: it impinges on the awareness of rich-world investors because it needs them.

From the standpoint of group lending, individual lending looks conventional. Indeed, there no sharp line divides individual microlending from mainstream small business lending. As in conventional lending, loan officers assess current and potential earnings of clients' operations rather than leaving such judgments purely to the borrower's group peers. They often take collateral or draw information from credit bureaus. BRI, for example, requires pledges of title to land, motorcycles, or other property.[62] Still, individual microfinance differs in spirit from its upscale cousin. Loans are generally collateralized less to give the lender another way to get its money back, the hassle of collecting small assets being so great, than to encourage borrowers to repay, lest they lose something of great value to them or be subject to the shame of having their household items seized in front of neighbors. Gabriel Solorzano, president of the Nicaraguan microfinance group FINDESA, explained in 2006 that his finance company "doesn't want a used, rusty refrigerator. We lose two-thirds of the value when we seize collateral."[63] Individual micro-

[59] ProCredit Group, Frankfurt, procredit-holding.com/front_content.php?idcat=3, viewed January 22, 2010.
[60] ProCredit Holding (2008), 4.
[61] Claus-Peter Zeitinger, Chairman, ProCredit Holding, presentation at Pangea Artisan Market & Café, International Finance Corporation, Washington, DC, June 19, 2006.
[62] Maurer (2004), 96.
[63] Solorzano, op. cit. note 64.

credit banks also tend to rely more on informal assessments of character and business operations based on interviews with friends, neighbors, and business associates. Solorazano says FINDESA extended not "asset-based credit" but "integrity-based credit."[64] Zeitinger echoes Solorzano, calling his loans "information-based credit."[65]

Microinsurance

Chapter 2 argued that insurance is the most valuable service for many people since it is designed to blunt the worst blows in life. The argument seemingly goes double for the poor. Illness or death can cause a family's expenses to spike and its income to plunge; the only way out of the pincer may be to sell the assets on which family members' livelihood depends— their tools, their land, even their children. This insight has inspired many attempts to bring insurance to the poor in developing countries.

But selling insurance to the poor turns out to be hard. One form of insurance that governments of countries including Brazil, India, and Mexico have sold to farmers is "multiple-risk crop insurance," which indemnifies them against damage from pests, drought, floods, and other threats. But government crop insurance has succeeded little better than government credit, with which it often went hand in hand in the 1960s and 1970s. (Governments often packaged loans to farmers with insurance to cover the loan amounts.) An authoritative and carefully understated review by Peter Hazell, Carlos Pomareda, and Alberto Valdés concluded that "multiple-risk crop insurance has proved disappointing, and it has fulfilled few of its supposed objectives."[66] Jonathan Morduch is blunter: "Experts that I have canvassed have difficulty naming even one truly successful small-scale crop insurance program anywhere (i.e., one that serves the poor, makes profits, and meaningfully reduces the largest risks)."[67]

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[64] Gabriel Solorzano, President, FINDESA, Nicaragua, interview with author and Uzma Qureshi, April 27, 2006. In 2008, FINDESA acquired a bank license and became Banco del Éxito.
[65] Zeitinger, op. cit. note 61.
[66] Hazell, Pomareda, and Valdés (1986), 294.
[67] Morduch (2006), 339. See also Hazell (1992).

[…]Yet these problems have long been understood; had solutions not been found, no one would be insured today. And the success of microcredit since the 1980s has inspired hope that a new, more self-sustaining style of insurance can follow in credit's footsteps in reaching the poor. Indeed, one of the most common forms of microinsurance is "credit life," which is packaged with microcredit and covers the outstanding loan balance if the borrower dies.[68] Integrating insurance with credit minimizes administrative cost and reduces the chance that people are merely buying the insurance because they know they are about to die. Meanwhile, death is usually easy to verify and few people will kill themselves for the sake of a payout.

Although microinsurance boosters cannot point to any break-out successes comparable to that of microcredit (or even microsavings at such institutions as BRI), several initiatives outside credit life have succeeded enough to make large-scale, self-sustaining microinsurance imaginable. One belongs to the Self-Employed Women's Association (SEWA), whose role in the birth of the women's banking movement is described later in this chapter. In 1992 SEWA started an insurance arm, Vimo SEWA. Like SEWA Bank, Vima SEWA strives to give the poor services similar to what the middle class already enjoys, rather than devising the insurance analog of solidarity group lending—a clever but stripped-down and inconvenient version that is cheaper to mass-produce. The firm offers life, accident, health, and property insurance to poor women, and counted 105,000 policyholders at the end of 2004. The commitment to health insurance is particularly impressive because of the vexatious challenges of adverse selection, moral hazard, and administrative complexity.

Vimo SEWA's history is one of repeated trial and error without either clear-cut success or clear-cut failure. First, Vimo SEWA retailed another company's insurance, then switched to absorbing the risks and processing claims itself to improve service. But the Gujarat earthquake of 2001 loosed an avalanche of claims that showed the danger for a small insurer of going it alone. Vimo SEWA resumed

[68] Roth, McCord, and Liber (2007), 29.

partnering with large insurers. The dramatic sight of some earthquake victims receiving payouts led to a quick tripling of membership—which then reversed as people who did not understand insurance grew disappointed over receiving no payouts themselves. In 2001, Vimo SEWA planned to reach financial self-sufficiency within seven years. Four years later, a case study politely concluded that financial independence still lay seven years off. Funding from the German aid agency GTZ and SEWA proper has kept Vimo SEWA afloat.[69]

Figure 2. Women voting to start their own insurance cooperative, led by Ela Bhatt

Source: Photo and caption from Vimo Sewa, sewainsurance.org/vimosewa.htm, viewed May 7, 2009.

Still, the full significance of SEWA insurance venture, like its bank, lies in the example it set for others. Microinsurance is in ferment in India today. At least a dozen community organizations sell health insurance, for example, some to more people than Vimo SEWA.[70] And in the early 2000's the government began requiring major insurance companies to sell minimum fractions of their policies to poor people, whether directly or through community-rooted organizations such as SEWA.[71] In 2008,

[69] Garand (2005), 5–10.
[70] Devadasan *et al.* (2004).
[71] Roth, McCord, and Liber (2007), 52.

SKS Microfinance, now India's largest microcreditor, began rolling out a health plan in conjunction with ICICI Lombard, a Canadian-Indian insurer.[72] It will take time to judge the success of all this percolating ambition.

Another leading case—Uganda—reminds us that that success should not be measured purely by the number of policies sold or lives covered. In 1996–97, FINCA Uganda approached the local subsidiary of the now-infamous AIG to develop a life insurance product that this MFI could sell to its borrowers. AIG offered a "credit life plus" plan that covered outstanding loans as well as making a payout for accidental death of the borrower or a family member. In time, other MFIs sold AIG's plan too. By the numbers, Ugandan life microinsurance succeeded admirably: AIG insured 1.6 million lives in 2005 through 24 MFIs in Uganda and one each in Tanzania and Malawi. It grossed $800,000 on the plan in 2004, 20 percent of that profit. But on closer inspection, many of the buyers were unaware of, confused by, or angry about the insurance policies packaged with their loans, according to a case study by researchers Michael and Janet McCord and Felipe Botero. Because the MFIs made purchase compulsory, MFI workers had little incentive to understand and explain the policy to customers. The paperwork for filing claims proved burdensome and expensive. (See Table 1.) Government officials charged fees and "un-receipted costs" (bribes) for some of these documents. Said one client, "I know of someone who lost her husband and she didn't have any money to process the documents, yet her husband had died of an accident. As a result, she gave up." When processing claims, MFIs acquitted their role as intermediaries between customers and AIG terribly, sometimes delaying longer than 6 months.[73] Impeding claims certainly makes the insurance more profitable, thus easier to sell to more people. And that shows that success in microinsurance must be gauged from the client's point of view. [check McCord's personal story]

[72] Chen, Comfort, and Bau (2008), 17.
[73] McCord, Botero, and McCord (2005).

Table 1. Documentation required to file claim under MFI-sold life microinsurance, Uganda, 2005

Documentation	Provided by
Death certificate, when applicable/available	Beneficiary
Burial permit, when applicable	Beneficiary
Copy of client's cash book	Loan officer
"Dependants/spouse schedule" (2 forms)	Loan officer
Letter from credit group	Group leader
Letter from loan officer to manager	Loan officer
Copy of loan agreement	Loan officer
Police report in case of traffic accidents	Beneficiary
Letter from local government leader	Beneficiary
Letter from deceased's family	Beneficiary

Source: McCord, Botero, and McCord (2005), 30.

Microinsurers are also making a fresh attack on the old problem of helping farmers, the poorest and most disaster-prone of people in developing countries. As with so much in microfinance, the core innovation goes back farther than most realize. Scholars in India discussed it in the 1920s.[74] [Chakravarti. Trying to learn more] The idea appears to have arisen in the West independently. In 1947, Harold Halcrow, a young man who had grown up in North Dakota farm country, was studying for a PhD. in economics at the University of Chicago. Concerned even then that crop insurance programs like those Franklin Roosevelt had introduced just 15 years before were fraught with costly burdens of adverse selection and moral hazard, he hit upon an alternative approach. Instead of directly insuring a wheat farmer, say, against individual losses, Halcrow proposed basing pay-outs on an *index* such as average wheat yields per acre in the farmer's county in a given year, or (a possibility the Indian scholars appear not to have considered) inches of rainfall. Such indexes *could* correspond well with the individual farmer's yields. Collecting the necessary data would be cheap and nearly fraud-proof. Since every farmer in a country would appear equally risky to the insurer—all would be paid or not according to the same formula—the system would end "adverse selection" for the most claim-prone farmers. And since the

[74] Idem (2007), 1.

insurance would not compensate for individual farmers' carelessness, it would prevent "moral hazard," i.e., preserve incentives for husbandry. True, the plan would not cover all risks: if locusts blighted just a few farms in a county, neither rainfall index nor a county-wide yield index would reflect the damage, and those farmers would be out of luck. But Halcrow's dissertation committee, which included future Nobelists Theodore Schultz and Milton Friedman, saw much to like and persuaded Halcrow to pursue and publish the proposal. It went nowhere in the United States for forty years.[75]

In 1989, an American agricultural economist of a later generation was brought to Washington, DC, to direct research for the congressionally mandated Commission for the Improvement of the Federal Crop Insurance Program. Pondering how to revamp the program, which had done nothing to rebut Halcrow's old skepticism, Jerry Skees became at least the third person in history to invent index-based crop insurance. He then discovered Halcrow's work. This time around, through, the idea was tested. Acting on the Commission's recommendation, Congress created the Group Risk Plan in 1992, which insured against county-level yield drops. At Skees's invitation, the 81-year-old Halcrow attended the program's official launch. Then in 1998 Skees consulted for the World Bank, where he worked especially with Peter Hazell (quoted above) to propose rainfall insure for farmers in northwest Nicaragua. Rainfall measuring stations would be spaced across the region; if precipitation at a station failed to attain a set minimum, nearby policyholders would receive payments. Calibrating to rainfall rather than average regional yields seemed more practical since historical data, essential for the insurer to compute odds, were more available for rain. Focusing on rain also made a single policy useful to growers of a variety of crops, as well as to shopkeepers and other non-farmers who depended on the local agricultural economy. But the

[75] Halcrow (1949); Jerry Skees, Professor, Department of Agricultural Economics, University of Kentucky, Lexington, Kentucky, interview with author, May 4, 2009.

Nicaraguan government paid the proposal little attention. Perhaps it rang discordant after Hurricane Mitch smashed through the country that fall, dropping a meter of rain in places and killing thousands.[76]

Still, Skees and his collaborators had sowed the seeds of an idea. One would sprout in India. There, the World Bank partnered in 2003 with ICICI Lombard and BASIX, an Indian company that provides financial and technical services to farmers, to pilot rainfall insurance. The Bank's Ulrich Hess and Joanna Syroka helped design the policy. ICICI Lombard underwrote the insurance. And BASIX retailed it to growers of groundnuts (peanuts) and castor in Andra Predesh State, leveraging its credibility in villages where it already worked.[77] By 2005, the program reached 6,700 farmers in six states. Counting the sales of ICICI Lombard and other insurers through other retailers, the national total exceeded 100,000 the same year.[78] Explosive growth augers well for the future for rainfall insurance. Of course, rainfall insurance hardly erases the risk agriculture: no farmer's fortunes track perfectly with the rain drops at a measuring station a kilometer off, and a bounty can bring economic devastation too if it brings prices down. And even allowing for these limitations, many people who apparently could benefit from precipitation protection are passing up on it. One study of the Indian pilot found only 5–10 percent households that could buy it did, and many bought far less than they would have needed to cover the value of their crops.[79] The problems of distrust, denial, misunderstanding, and cash flow still lurk in the microinsurance market.

Crosscurrents

We have traveled along four branches of microfinance—solidarity, village banking, individual, and microinsurance—mostly following the flow of time. For a fuller understanding of the contemporary landscape, it helps to depart from time's arrow to discuss a few cross-cutting themes.

[76] Ibid.; Skees, Hazell, and Miranda (1999).
[77] Manuamorn (2007).
[78] World Bank (2005), 99.
[79] Cole *et al*. (2009).

Gender

What makes modern microfinance stand out against the historical record is its emphasis on serving women. But modern microfinance did not start out that way. In fact, the Johnnies of microcredit came lately to the focus on women. The successful microcredit methods started out largely by and for men. John Hatch aimed his first village banks primarily at male household heads.[80] Barely 20 percent of Grameen borrowers in the experimental first three years were female.[81] Every *triciclero* in Acción's solidarity group pilot was male.[82]

It turns out that the movement to help women bank originated distinctly from the microcredit movement, and did so first. In the 1980s, the two fused—or perhaps one should say that the women leading the former showed the men spearheading the latter the error of their ways. One of the earliest seeds of the feminist take on banking was planted by an Indian woman named Ela Bhatt, in the city of Ahmedabad, in Gujarat state, as told by writer Elisabeth Bumiller:

> [Mahatma] Gandhi's first fast… was in Ahmedabad in 1918, on behalf of the striking workers who labored in the city's textile mills. Out of that fast grew the Textile Labor Association, or TLA, the oldest and largest trade union of textile workers in India. A generation later, a young Brahmin woman from a well-to-do Gujarati family could find no better place to nurture her Gandhian ideals than in a job with the TLA, which did extensive welfare work among its membership. By 1968, Ela had taken over the women's division of the union, a job that historically entailed social work among the member's wives.
>
> Ela would soon demolish the assumption that what these women needed was charity from well-meaning people like herself. In 1971, she met with a group of "head loaders"—women who carry cloth on their heads between Ahmedabad's wholesale and retail markets—who complained that the cloth merchants routinely cheated them. Ela helped them form a group to collectively demand better pay, then wrote an article about their plight for one of the local newspapers. When the merchants countered with an article of their own, insisting they were paying the women fairly, Ela printed the merchants' claims on cards and distributed them to the women.
>
> Out of that effort grew the [Self-Employed Women's Association (SEWA)], which today has organized women into 70 different trade cooperatives, from fish vending to cattle raising to weaving to hand-rolling the small Indian cigarettes called bidis.[83]

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[80] Hatch, op. cit. note 38.
[81] Grameen Bank, "Historical Data Series in USD," grameen-info.org/index.php?option=com_content&task=view&id=177, viewed November 28, 2008.
[82] Ashe, op. cit. note [x].
[83] Bumiller (1995).

From the start, Bhatt saw financial services as central to economic emancipation: in 1974, remarkably early from the vantage point of microfinance history, SEWA started a bank. SEWA Bank continues to this day, with 22,000 loan accounts (none through groups) and 308,000 savings accounts as of March 2008.[84]

The birth of SEWA Bank was part of larger historical current, a new and global wave of feminism. A major symbolic moment in that movement was the first World Conference on Women in Mexico City in 1975. There, amidst the giant U.N. gathering, ten women from five continents met to discuss how to advance their visions for women's banking. One participant, American Michaela Walsh, had broken through many glass ceilings on Wall Street over a career of more than 15 years. She had worked at one of the first hedge funds and served as Merrill Lynch's first female manager.[85] She returned to New York from Mexico determined to break this time through the glass floor that prevented formal banks from reaching poor women in poor countries. She founded Women's World Banking (WWB) in 1976 and registered it as an international non-profit group in 1979, inviting Bhatt onto the board.[86] Like FINCA and Acción International, WWB is an organization of microfinance organizations, albeit a particularly decentralized one. It provides advice, training, and a forum for exchange of ideas among its 54 members, some of which operate for a profit, some of which do not.

In the mid-1980s, as WWB was finding its footing, certain unconventional methods for delivering credit in bulk to the poor burst onto the Western development scene in the person of Muhammad Yunus and came to be called "microcredit." (See chapter [9].) If WWB members felt miffed at how microcredit attracted a spot light in a way the WWB never had, at a lack of credit where credit was due, they nevertheless took up the "microcredit" mantle.

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[84] MixMarket [mixmarket.org/en/demand/demand.show.profile.asp?ett=2455] viewed May 9, 2009.
[85] [Carter (2007).][or cite Walsh]
[86] Women's World Banking, swwb.org/history, viewed May 9, 2009.

At the same time, the rhetoric and practice of the microcredit pioneers veered decisively toward serving women, in response to pressures from both funders and clients. On the funding side, early promoters of microcredit discovered that lending to women attracted donors such as the Rockefeller Foundation and the U.S. Congress much more than lending to men. Behind the sensibility stood a growing body of evidence roughly in line with the stereotype that women invest extra resources in their children while men spend them on beer.[87] And women turned out to pay back much more reliably in group-based microcredit. That women are more pliable to the social pressure leveraged by group lending may be a cause for worry. Or it may merely corroborate the view that women use finance more responsibly. At the heart of this ambiguity is the paradox that women like Jyothi's savings clients (in Chapter 2) may gain financial autonomy in the home precisely by binding themselves financially in public. Perhaps Grameen set the trend for microcredit's shift to women: amidst several repayment crises among its predominantly male clientele, its female fraction doubled to 40 percent in 1981–83.[88] Lending to women became an official Grameen priority in 1985. (See Table 2.)[89] Today, 97 percent of Grameen members are female. Worldwide, the figure for the typical lender that works exclusively through solidarity groups is 99 percent; that for village bankers is 94 percent. The share for individual lenders is a comparatively low 50 percent; but even such gender parity goes against history.[90][update?]

[87] Armendáriz de Aghion and Morduch (2005), 190.
[88] Todd (1996), 20; Grameen Bank, op. cit. note 27.
[89] Khandker, Khalily, and Khan (1995), xii.
[90] MIX (2008). Figures are end-2007 medians among institutions reporting to the *MicroBanking Bulletin*. "Pure solidarity group lenders" excludes those that also lend individually.

Table 2. Share of Grameen members who are female, 1976–2008

Year	%	
1976	20	
1977	14	
1978	24	
1979	41	
1980	31	
1981	39	
1982	39	
1983	46	Grameen *Bank* born
1984	56	
1985	65	Focus on women becomes official
1986	74	
1987	81	
1988	86	
1989	89	
1990	91	
1995	94	
2000	95	
2005	96	
2009	97	

Source: Grameen Bank, Dhaka, j.mp/cGEN0o, viewed March 2, 2010.

Savings vs. credit

Chapter 2 showed how people can view borrowing and saving as more similar than different. Although the two services allocate risk and obligation oppositely—a loan hangs over one's head—whatever credit can do, savings can too. Both can finance investment or pay for consumption or help a family through health crises. All but the poorest households are can and want to save. But the most common informal methods—jewelry, cash-under-the-mattress, ROSCAs—carry considerable risks. Jewelry can be stolen. Money can be dissipated in inflation. Goats can lose their value after earthquakes if everyone tries to sell them at the same time.[91] "Most people, including the poor, want to have savings nearly all the time and to be in debt less frequently," says Malcolm Harper, former chairman of BASIX.[92] That may seem seems obvious but it does not go without saying in the world of microfinance because, for reasons detailed in chapters 5, micro*credit* has dominated microfinance, especially in the public imagination. In the

[91] Armendáriz de Aghion and Morduch (2005), 59–68, 158–61.
[92] Harper and Vogel (2005), 5.

classic Grameen groups, members saved even as they borrowed, but in an onerous and involuntary way. They were forced to put part of a new loan's proceeds into an emergency fund to guard against defaults, and also to contribute regularly to a group fund, which members could only access when they departed. And though Hatch foresaw saving as well as borrowing within village banks, so that the members' capital would eventually supplant that of their sponsors, FINCA, the group he founded, continues to pump millions into village banks, tilting them toward credit.[93]

Yet the dominance of credit has been neither complete nor uncontested. The dangers of debt argue for the general superiority of savings over credit as a way for poor people to manage fluctuating mismatches between what they earn and what they need to spend. Recall BRI's 3.5 million loan accounts and 21 million savings accounts, the latter generally held by poorer people. At the least, offering savings as well credit gives people more options, thus more freedom.

Stuart Rutherford, the British microfinance expert, worked hard to prove the practicality of microsavings in the Mecca of microcredit. In the mid-1990s, he became convinced that microcredit in Bangladesh was stuck in a rut. In addition to being inflexible, opaque, and authoritarian (with male loan officers running weekly meetings of groups of female borrowers), it did not offer individualized blends of credit and savings. So Rutherford created *Safe*Save, which caters to dwellers in Dhaka's slums, dense warrens of one-room houses of bamboo, tin, and thatch. There are no group meetings. Rather, as with some 19th century British "collecting societies" (see Chapter 3) a bank officer visits clients at home daily, allowing them to save a penny a day if they want, and collecting loan payments on a flexible basis. Program officers use Palm Pilots to record transactions into a computer system designed to prevent fraud and protect savings.[94]

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[93] Jeffrey Ashe, Director of Community Finance, Oxfam America, Boston, MA, interview with author, September 26, 2008. [confirm]

[94] Stuart Rutherford, Dhaka, interview with author, March 2, 2008.

With just 13,000 clients and an average savings balance of $25, *Safe*Save is not a Bangladeshi finance giant, but it may have influenced one of them.[95] For a major plank of the "Grameen II" package of reforms adopted around 2001 was to make the Bank into an institution worthy of that name: a good place to put money. Grameen introduced new kinds of individual savings accounts and raised interest rates on existing ones. In a startling development, the bank saw its savings "portfolio" surpass its loan portfolio at the end of 2004. Few realize that the icon of microcredit now does more savings than credit.[96]

It seems that there are two good ways to provide savings services. One is intimate and informal, such as in small, functioning cooperatives, village banks, and other Accumulating Savings and Credit Associations (ASCAs, defined in Chapter 3). The other is large-scale and formal, through government banks and well-regulated private ones. There is little middle ground—*Safe*Save squeezes through a loophole in Bangladeshi law—because legally chartered entities such as non-profit groups must almost always meet high regulatory standards before they can be entrusted with other people's money. A small NGO, on the other hand, can go about *lending* money rather easily. This is why within the self-identified "microfinance" universe, BRI and Grameen account for two-thirds of savings accounts worldwide.[97] Accepting the need for prudence, it is still important to ask whether microfinance institutions and their regulators have allowed as much scope for savings as they could.

Pure finance versus integration of other services

Few would deny that poor people need more than financial services to better their lot. Health, education, infrastructure, physical security, political freedom, and many other things matter too. In the convening power of group microfinance, groups such as BRAC have spied an opportunity to provide non-financial services as part of the package at little extra cost—recall the teaching of adolescent girls I saw in Ban-

[95] *Safe*Save, Dhaka, safesave.org/performance.html, viewed November 27, 2008.
[96] Rutherford (2006), 8.
[97] [www.mixmarket.org, viewed November 27, 2008.]

gladesh. “We conceive that Human Development is given not only through access to financial resources but also [through] an integrated group of basic services that will allow poor people and poor social groups to improve their quality of life and insert themselves in the economic cycle of their country,” explain Carmen Velasco and Saiko Chiba of Pro Mujer, which delivers a blend of microfinance and basic health services to women in five Latin American nations.[98] California-based Freedom from Hunger (FfH) supports village banking affiliates on three continents that provide “Credit with Education”: in addition to managing credit at weekly meetings, the loan officer worker teaches “basics of health, nutrition, birth timing and spacing, and small business skills.”[99] Vijay Mahajan, the director of BASIX in India, remarked, “if you look at [our] income statements, 80 percent of it is still financial services because that’s the fuel which makes it all go. But unless you add on these other things, you’re just burning the fuel without really getting much result.”[100]

Some argue that microfinance institutions do best when they stick to their knitting. After all, rich people don’t want their bankers telling them what to feed their kids. More to the point, even if poor women value such education—and they well may, for lack of alternative sources—the benefits of weekly training on a limited set of topics may decline after a year or so. Then there is the question of whether one organization can do two different things well. ASA and Acción’s affiliates, for example, have succeeded by delivering financial services only, striving for constant gains in efficiency and quality and, ultimately, permanent extension of the financial system to poor people. [ck for Rhyne Bolivia quote, p. 100] A virtue of providing just one service is that it is subject to clear market test: people can take it or leave it. Once a well-intentioned donor begins bundling, the risk rises that the added services are so many unneeded sewing machines, doomed to gather cobwebs. Or worse, if the lender uses profits from

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[98] Velasco and Chiba (2006), 4.
[99] MkNelly and Dunford (1998), 6.
[100] [CGAP interview http://cgap.blip.tv/]

credit to subsidize the added services, as BRAC does, both lender and borrower may find themselves propelled into inappropriate loans that do more harm than good.[101]

The successes of organizations on both sides of this strategic divide give both points of view credence. Given that programs designed by outsiders to help poor people usually fail, there is much to be said for financial purism. But if specific, bundled interventions can be shown to work, then they deserve to be taken seriously. A study done through FfH's Peru affiliate, for instance, found that borrowers assigned to receive business training along with their credit earned higher and more stable incomes. They also repaid their loans more reliably, perhaps because the training attracted them into attending more of the weekly meetings.[102]

Charity versus profit

A longstanding tension in the microfinance movement is between the urge to help the neediest and the exigencies of running credit organizations that must balance their books to stay in business and grow. Sam Daley-Harris and the Microcredit Summit Campaign he founded represent one pole in the tension, viewing the moral case for microcredit as so overriding that the practical challenge for activists is primarily to mobilize funding to quickly reach hundreds of millions of people. "The World Bank Must Commit to Using Microfinance to Empower the Very Poor," runs a section title in the 2007 *State of the Microcredit Summit Campaign Report*.[103] Others agree on the goal of reaching so many, but argue that the best way to achieve it is to create relatively self-sufficient, business-like MFIs. Writes Michael Chu, the former executive director of Acción, "humanity has found only one way to deliver consistently and simultaneously the four attributes of scale, permanence, efficacy and efficiency, and it is through private enterprise. This is the result not of any single firm—individual enterprises are born, prosper and die—but of the emergence of an entire industry. And industries are born out of the union of two factors: an

[101] On BRAC, see note 30.
[102] Karlan and Valdivia ([forthcoming]).
[103] Daley-Harris (2007), 11.

economic activity and above-average returns."[104] If an MFI must charge higher interest rates in order to cover costs and expand to serve more people, the thinking goes, then it generally should. Poor people have shown themselves willing to pay remarkably high rates. And in this there is nothing unusual. University of Michigan business professor C.K. Prahalad, who wrote the widely cited *Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*, lauds Hindustan Lever for selling anti-bacterial soap in packets small enough for the poor to afford out of their meager daily earnings. Middle-class Indians no doubt can buy the equivalent in larger quantities at lower unit cost.[105]

The debate is easy to caricature. In reality, those who emphasize serving the poorest recognize that large, mostly self-financing institutions such as the Grameen Bank reach the most people. And those stressing financial self-sufficiency acknowledge that higher rates do deter the poorest from borrowing. In fact, research has confirmed as much. In an experiment run through *Safe*Save, which lends as well as takes deposits, a 1 percent increase in interest charges (not a 1 percentage point increase) reduced uptake of credit by 0.25 percent immediately and 1.18 percent in the long run.[106] [Chapters 5 and 8] will explore the merits of the two cases more fully. For now, we note that financial self-sufficiency and profit orientation are important dimensions of variety as one surveys the microfinance landscape. In Indonesia, BRI was a government institution when it moved into sustainable microfinance, and is now partly privatized. One of its models, BDB, was privately held. Almost all microfinance in Bangladesh is delivered by legal non-profits whose finance operations are self-supporting and even profitable. In India, companies such as Share Microfin and SKS Microfinance are expanding rapidly by using their for-profit status to attract investment from private equity firms and venture capitalists such as Sequoia Capital (which backed Cisco and Google) and Legatum Capital. Without that status, the companies could only obtain

[104] Chu (2007).
[105] Prahalad (2006), 222–23.
[106] Dehejia, Montgomery, and Morduch (2005).

investment funds through grants—whose quantity is limited—or loans—which become risky as they are piled on. Equity investors are welcome in that they share the risks of the companies they buy.

The worry for some is that in selling equity, for-profit MFIs are also selling their souls, that the companies will pursue profit at the *expense* of their customers, not *in service* to them. Chapter 8 explores this controversy.

Big numbers

Microfinance institutions today number in the thousands. The Microcredit Summit Campaign, a Washington, DC-based group that lobbies for more aid for microcredit, counted 7,478 affiliates in 2008.[107] As one might expect, most MFIs are tiny while a few are large enough to account for the majority of all microfinance activity. Statistics are patchy, but all signs point to continuing rapid growth. Many MFIs maintain ties to rich-country "network organizations."

Most microcredit happens where most people are, in Asia. Table 3 shows statistics from the Microfinance Information Exchange (MIX), whose data is supplied by more than 1,000 self-identified and self-selected MFIs. These institutions are generally ones that seek exposure on the MIX web site to help obtain foreign financing, unlike many of the state banks and cooperative-like institutions counted by the Microcredit Summit Campaign.[108] Within this core group, penetration is highest in South Asia, with 1.77 microloans per working-age adult at the end of 200[6] (and [x.xx] in Bangladesh). (Since some people borrow from more than one MFI at a time, the number of *borrowers* is lower and unknown.) Uptake is high is some small Latin American countries and loans are ten times bigger in dollar terms than those in South Asia, which gives the region the largest loan portfolio, at [$2.7 billion]. But despite recent growth in Mexico, overall penetration in Latin America is barely above the global average of 0.81 loans per working-age adult. Despite the big numbers in Indonesia, outreach is low in East Asia and the Pacif-

[107] Daley-Harris (2009), 22.
[108] For discussion, see Rhyne and Otero (2006), 6–12.

ic relative to population, primarily because China's government has made little room for microfinance. Penetration is lowest in the richest region in the table, Eastern Europe and Central Asia.[109]

Table 3. Prevalence of microcredit, all developing regions and selected countries, end-2007

Region	Number of MFIs reporting	Active accounts (millions)	Working-age population (age 15–64, millions)	Accounts/ 100 working-age adults	Loan portfolio (million $)	Average loan balance ($)
Sub-Saharan Africa	319	7.7	430	1.79	2,709	424
Ethiopia	16	1.9	42	4.50	333	210
Kenya	20	1.2	21	5.96	749	613
Middle East & North Africa	52	2.5	199	1.25	1,121	452
Morocco	10	1.2	20	6.14	701	565
Eastern Europe & Central Asia	266	2.9	308	0.94	9,450	3,251
Bosnia and Herzegovina	15	0.5	3	17.39	1,200	2,666
Mongolia	7	0.4	2	21.78	509	1,300
South Asia	273	39.4	947	4.16	4,237	108
Bangladesh	70	25.0	98	25.43	2,050	82
India	116	11.1	705	1.58	1,492	135
East Asia & Pacific	156	7.3	1,334	0.55	5,748	790
Cambodia	15	1.0	9	11.34	683	685
China	7	0.0	942	0.00	24	689
Indonesia	42	3.8	150	2.51	4,453	1,179
Latin America & Caribbean	339	12.6	362	3.47	16,813	1,339
Bolivia	26	0.9	6	16.13	1,563	1,752
Mexico	44	4.2	68	6.21	2,621	625
Nicaragua	30	0.5	3	14.81	572	1,161
Peru	55	1.8	18	10.04	3,693	2,074
All	1,405	72.3	3,580	2.02	40,078	565

Sources: Microfinance Information Exchange; World Bank (2009). Modeled on Rhyne and Otero (2006).
Note: Excludes Vietnam Bank for Social Policies, with 6.8 million accounts, as highly subsidized.

Self-identified microfinance institutions do not hold a monopoly on small loans. Table 4 offers a larger perspective, using data from a survey led by Robert Peck Christen and Richard Rosenberg of the Consultative Group to Assist the Poor (CGAP). The survey covered many kinds of "alternative financial institutions," whose missions include offering financial services to the masses, even at the loss of some profit. (Even though these figures go back a few more years, those for "microfinance" are generally larger than the ones in Table 3 because the sample is more exhaustive.) The data cover MFIs; coops and credit unions; the big state development banks that often subsidize and direct credit; rural banks (which

[109] [Microfinance Information Exchange]; World Bank (2008).

are small and locally owned); and postal banks.[110] [Stephen Peachey of Oxford Policy Management has added parallel data on non–postal savings banks, some of which also make loans.[111]] Table 4 shows that microfinance institutions are a major source of credit for poor people in developing countries, though trailing the big development banks by a factor of two. And the number of loans reported by savings banks is [stunningly large, 197? million]. But take these numbers with large grains of salt. For many of the institutions in the data set, we cannot tell how many of the loan accounts truly were active—as opposed to being disguised grants—nor how many were held by “poor people,” however defined. So MFIs may have rival development banks and savings banks in genuine lending to poor.

Table 4. Active loan accounts at “alternative financial institutions” circa 2000 (millions) [perhaps add same countries in table 3]

Region	Micro-finance institutions	Co-ops and credit unions	Rural banks	State/ agricultural/ development banks	Postal banks	[Savings banks]	Total	Share of total (%)
Sub-Saharan Africa	4.0	0.9	0.0	0.3		[to come]	5.2	1
Middle East & N. Africa	0.9	0.0	0.0	5.9		0.0	6.8	2
E. Europe & Central Asia	0.4	0.1	0.0	0.0		0.0	0.5	0
South Asia	22.4	0.4	1.5	22.0		0.0	46.2	13
India	4.0	0.1	0.0	19.7		0.0	23.8	7
East Asia & Pacific	18.3	1.1	3.1	65.6		0.0	88.1	25
China	0.2	0.0	0.0	46.6		0.0	46.7	13
Latin America & Caribbean	4.5	0.7	0.2	0.1		0.0	5.3	2
All	50.4	3.0	4.8	94.0		197.0	349.3	100
Share of total (%)	14	1	1	27		56	100	

Source: CGAP (2004); [Peachey].

Parallel figures on *savings* accounts put microfinance in even more striking perspective. The first surprise is that microfinance institutions hold more savings than loan accounts—103.6 million versus 50.4 million. Most MFIs require clients to make some savings even as they borrow (see Chapter 5). Typically the deposits cannot be withdrawn on demand, and are not what is usually meant by savings accounts. Even with these savings, the MFIs tend to remain *net creditors* to their clients lending out more than they take in in savings. But these distinctions seem minor next to the huge number of accounts re-

[110] CGAP (2004).
[111] Peachey (2006).

ported by postal savings banks—318 million—which in turn pales next to the [1.4 billion??] non-postal savings banks accounts. It bears repeating that we know little about these accounts and the people who hold them: How many accounts are small and forgotten? What is the average number of accounts per account holder? And how poor are the account holders? For example, a World Bank report had this to say about the hundreds of millions of postal savings accounts in Asia:

> This is significant, but the accounts are not frequently used: reports suggest 1.1 transactions per year per account. Some of the savings products are indeed long-term programs that would require only 1 transaction in 2 or 3 years. The majority of the accounts are demand deposits, however, so one would expect higher transaction volumes or else presume large numbers of accounts to be dormant.[112]

Nevertheless, the table demonstrates that the "alternative financial institutions" people in rich countries hear about are a self-selected group whose business models tend to rely on foreign capital. Alongside them are some invisible giants that apply alternative models for delivering financial services to the poor on a large scale. They are easy to miss but hard to dismiss.

Table 5. Active savings accounts at "alternative financial institutions" circa 2000 (millions) [perhaps add same countries in table 3]

Region	Micro-finance institutions	Co-ops and credit unions	Rural banks	State/ agricultural/ development banks	Postal banks	[Savings banks]	Total	Share of total (%)
Sub-Saharan Africa	4.0	5.6	1.1	0.3	12.9	[to come]	23.9	1
Middle East & N. Africa	0.7	0.0	0.0	0.0	16.5	0.0	17.3	1
E. Europe & Central Asia	0.2	5.7	0.0	0.0	11.5	0.0	17.4	1
South Asia	18.7	1.6	11.5	53.8	136.4	0.0	222.0	11
India	3.9	0.4	0.0	50.0	124.0	0.0	178.3	9
East Asia & Pacific	78.7	12.1	6.0	15.8	141.0	0.0	253.6	13
China	0.0	0.2	0.0	0.0	110.0	0.0	110.2	6
Latin America & Caribbean	1.3	8.5	0.0	0.1	0.2	0.0	10.0	1
All	103.6	33.6	18.7	70.0	318.4	1400.0	1944.2	100
Share of total (%)	5	2	1	4	16	72	100	

Source: CGAP (2004); [Peachey].

Conclusion

That microfinance institutions may provide only a fraction of micro-sized financial services to poor people in developing countries is a cause for reflection. However, it is not fatal to the project of this

[112] World Bank and ING Bank (2006), 21.

book. Much more than the other kinds of institutions, MFIs make a pitch to people in rich countries: give to us, or invest in us, or advise us, and through us you will help the poor. It is important to perceive the larger context: for major donors such as GTZ and the Gates Foundation, cooperatives and savings banks may offer strategic opportunities for assistance to expand financial services for the poor. To suggest that microfinance, by virtue of being one current in a larger stream, is less worthy of support is about as logical as suggesting that an orphanage is unworthy of aid because it only a drop in the bucket when it comes to nurturing parentless children.

Rather, microfinance, the form of finance that makes the strongest pitch for support, should be judged on its own merits. What matters most is whether it is a good channel for helping deserving people. And that, as scientists say, is an empirical question.

This book began by pointing out the powers and limits of storytelling. The last two chapters have tried to exploit that power because the stories of the creators of microfinance deserve respect and because understanding where things come from helps us understand what they are today and where they may be headed. But when we ask about the impact of microfinance, we hit the limits of narrative. At this point we mostly leave storytelling behind and shift into an analytical mode. Chapters [6–8], the heart of the book, wrestle with the question of what we know about how microfinance affects people and societies. We will approach that question first through a back door, in chapter 5, by applying one of the most powerful scientific paradigms ever: the theory of natural selection.