



How the World Works

BY ANDREW LEONARD

The difference between calves and cows

For a couple of weeks now, I've been puzzling about poor women and cows in Bangladesh.

Let me explain.

On the same day that Muhammad Yunus, founder of the Grameen Bank and chief apostle of the church of microcredit, received the Nobel Peace Prize, the Center for Global Development (CGD), a Washington nonprofit, published a study by [David Roodman](#) and [Uzma Qureshi](#) with the title "Microfinance as Business."

Microfinance is generally taken to mean the provision of small loans -- [microcredit](#) -- and other financial services to very poor people, and Yunus is widely acclaimed as the man who pioneered its effective application. So CGD's timing was excellent. But the thrust of the study was contrarian to the point of outright dissidence. Though the Nobel Prize committee, as CGD noted in its own interview with Roodman published three days later, "praised Yunus and Grameen for 'their efforts to create economic and social development from below,'" [Roodman says](#) that for him "the jury is still out" over whether microfinance contributes to economic development among the poor. In their paper, Roodman and Qureshi argued that there isn't yet definitive evidence that microfinance actually lifts people out of poverty.

"Unfortunately, rigorously derived evidence that microcredit helps people in this way is surprisingly thin."

Surprising is the right word, because microfinance has never been hotter. 2005 was dubbed "the Year of Microcredit" by the United Nations. Philanthropists, aid donors and profit-seeking capitalists of every stripe are all pouring hundreds of millions of dollars into microfinance schemes across the globe. ([An absorbing article in last week's New Yorker](#) delves deeply into the differing motivations, and consequent friction between, the new players in microfinance, who include Microsoft's Bill "philanthropist" Gates and eBay founder Pierre "profit-seeking" Omidyar.) Heartwarming success stories of people living in extreme poverty -- mostly women -- who have clawed their way out of the most abject circumstances with the help of minuscule loans abound.

And then there's that Nobel Prize. The prestige of microfinance has never been higher.

But the title of Roodman and Qureshi's paper, "Microfinance as Business," offers a clue to the construction of their contrarianism. The contention is that microfinance programs that are successful work because they are good businesses, and not because they lift people out of poverty. For example, the authors argue that microfinance programs tend to focus on making loans to women not because of the demonstrated effectiveness in getting women out of poverty, but because it turns out that women are more likely to pay back their loans than men. This is supposed to be because women are more amenable to peer pressure -- they don't want to look like deadbeats in the eyes of their communities.

This observation, say the authors, intersects with the problem of proving that microfinance works as a poverty alleviator.

"Despite the growing clientele and high repayment rates, it is not as clear as we would like that microfinance is directly improving lives. Many in the microfinance world recognize this reality, but it is nevertheless a contentious assertion. The observation of the present study, that commercial imperatives can explain so much about microfinance, lends the assertion credibility. For example, if the emphasis on women in group lending grows out of their greater susceptibility to peer pressure, then the burden of evidence rises for those arguing that it helps them too."

Which brings us to the cows.

Roodman and Qureshi note that the recipients of most microfinance loans must begin repayment almost immediately. This raises a fundamental paradox about the provision of credit to the extremely poor. Where do they find the money to repay the loan if they use that loan to invest in some profit-making enterprise? The authors suggests that A) the extremely poor don't get these loans; instead, they go to people who already have access to some small amount of income with which to repay the loan, and B) they don't generally use the loans for investing in profit-making activities; instead they use them to "smooth out consumption," to pay for food or other necessities when times are extra-tight.

As conceptual proof of his assertion, Roodman and Qureshi write, "If a woman takes out a loan to buy and raise a calf, for example, the calf will not start generating income for her a week later, when the first payment is due. Similarly, microloans usually mature in six or twelve months, though presumably many investment opportunities open to the poor would take more time than that to generate a return ... Thus, microcredit restricts itself to those who already have enough income to repay the loan from other sources, regardless of the success of any new enterprise they pursue."

But wait. Why would the woman buy a calf? Why not buy a full-grown dairy cow, which starts producing milk immediately? Or a few chickens, which start laying eggs right away?

This may seem like a trifling quibble, but the more you think about it, the more odd the reference to a non-income-producing calf begins to seem. If you start digging around the Internet for references to women, cows and the Grameen Bank, you will unearth numerous references to dairy cows. The woman (or group of women) who buys a dairy cow with a loan provided by the Grameen Bank is in fact a foundational illustration of the possibilities of microcredit. Conceptually speaking, it demonstrates exactly how credit can transform a poor person's life. The cow gives milk right away. Income can be generated right away. The loan can be paid back right away. To transform that income-producing cow into a non-income-producing calf makes little sense, unless you're trying to stuff microfinance into a box that fits other assumptions.

Naturally, the calf-cow difference does not prove that microfinance works. Roodman and Qureshi are hardly the only experts [challenging the conventional wisdom](#). [The best review of studies](#) evaluating the impact of microfinance programs that I have been able to find online (funded and commissioned by the Grameen Foundation, so it is necessary to subtract for bias) also acknowledges "that no study is perfect, and many suffer from serious methodological flaws."

But the study's author, Nathanael Goldberg, also notes that "there is much to be enthusiastic about" and that "it would be hard to read through all of the many positive findings in these dozens of studies -- noting how rarely the comparison groups showed better outcomes than clients -- and not feel that microfinance is an effective tool for poverty eradication."

According to both Goldberg and Roodman, new "impact evaluations" that conform to the highest state-of-the-art standards are currently under way. So this might be a case where more data actually leads to more clarity. Let's just hope the new studies distinguish between calves and cows.

UPDATE: Don't miss David Roodman's [thoughtful response](#).

-- **Andrew Leonard**

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