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THE RISE AND FALL OF MUHAMMAD YUNUS AND THE MICROCREDIT MODEL

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"Microfinance is an idea whose time has come."
Kofi Annan - *Former United Nations Secretary-General*

"The key to ending extreme poverty is to enable the poorest of the poor to get their foot on the ladder of development . . . the poorest of the poor are stuck beneath it. They lack the minimum amount of capital necessary to get a foothold, and therefore need a boost up to the first rung."

Jeffrey Sachs - American *economist and director of the Earth Institute at Columbia University*

"Give a man a fish, [and] he'll eat for a day. Give a woman microcredit, [and] she, her husband, her children, and ***her extended family will eat for a lifetime."***

Bono - *Lead singer for the Irish band U2 and humanitarian advocate*

"This is not charity. This is business: business with a social objective, which is to help people get out of poverty."

Muhammad Yunus - *Founder of Grameen Bank and Nobel Peace Prize recipient*[1]

"*Unfortunately, the hype about microfinance is, well, just that – hype*".
Ha-Joon Chang[2]

1. Introduction

Thirty years ago, the international development community was abuzz with excitement. The reason was that the perfect solution to poverty in developing countries appeared to have been found: *microcredit*.[3] As originally conceived, microcredit is the provision of tiny micro-loans to the poor to allow them to establish a range of very simple income-generating activities, thereby supposedly helping facilitate an escape from poverty. It is a concept most associated with the US-educated Bangladeshi economist and 2006 Nobel Peace Prize winner, Dr Muhammad Yunus, who quickly became the public face of the global microcredit industry. Building upon existing microcredit models he found in Bangladesh after returning from a period of PhD study and teaching in the USA, Yunus was able to attract significant funding from the international development community to operationalize his own plans for a 'bank for the poor', plans that famously turned into the now iconic Grameen Bank. Positioned as the role model local financial institution for poverty reduction, the Grameen Bank was soon joined by 'Grameen clones' in many other developing countries. A major boost was then forthcoming in the 1990s thanks to the commercialisation of the microcredit industry, which saw for-profit microcredit institutions soon pumping out huge volumes of microcredit. By the mid-2000s, the microcredit model was the international development community's most generously funded and supposedly most effective

[1] All quotes taken from World Vision Micro '*Quotes on Microfinance*'.
http://www.worldvisionmicro.org/downloads/quotes.pdf (last accessed on December 5th, 2013).
[2] Quoted in Chang (2010:162).
[3] The terms microcredit and microfinance both initially referred to income-generating microloans, but microfinance has evolved to include other micro-financial interventions such as micro-savings, micro-insurance and so on. In this paper I will use the technically correct, though perhaps a little less recognisable term 'microcredit'.

anti-poverty intervention. Microcredit was soon wildly popular among the ordinary public, too, not least thanks to a long list of celebrities from all walks of life offering their support.[4]

Starting in 2007, however, the microcredit model began to come under a sustained attack from a variety of directions. Even long time supporters now awkwardly accepted that microcredit on average had had no positive impact on poverty. Moreover, the level of profiteering and greed that emerged in the microcredit industry as it was extensively commercialized and deregulated stunned even hard-line microcredit supporters, not least Muhammad Yunus. By 2014, not unlike East European central planning in the 1980s, the microcredit industry was fighting for its very survival: microcredit was increasingly seen as an interesting idea formulated by possibly well-meaning individuals, but an idea that nevertheless went very wrong. How could such a once universally celebrated idea come to this?

This paper is meant as a brief summary of the microcredit model and why the evidence increasingly shows, unfortunately, that it has been one of the most damaging interventions in recent economic/development policy history. It is based on a public lecture delivered as part of the International Development Studies program at St Mary's University in Halifax, Nova Scotia, on September 27th, 2013,[5] suitably expanded to reflect a variety of questions, comments and new developments discussed at the lecture and afterwards. Much of what I write here, however, draws on my earlier contribution (Bateman 2010), a book that was considered somewhat over-negative at the time, but which is now widely seen as an accurate representation of the fundamental problems that have undermined the validity of the microcredit model.[6] I begin the paper with an explanation of why microcredit's most famous advocate, Dr Muhammad Yunus, was wrong, and why microcredit in practice has been a quite disastrous anti-poverty and local economic and social development model. I then briefly analyze the interesting reaction of the microcredit industry to the accumulating bad news. I finish with some comments on the importance the microcredit concept continues to play within the still influential neoliberal political project, which helps to explain why it is that it still retains some support within the international development community in spite of having failed to substantively address the issue of poverty.

2. Background

[4] The most notable include: in politics - Bill and Hillary Clinton; business - Bill Gates, Richard Branson, George Soros, Pierre Omidyar and Michael Dell; Royalty - Queen Maxima of Holland and Queen Rania of Jordan; Hollywood - Natalie Portman and Matt Damon; music - Bono and Bob Geldof; and 'trouble-shooting' economists - Jeffrey Sachs and Hernando de Soto.

[5] My thanks to Henry Veltmeyer for his kind invitation to take part in the IDS program at St Mary's University and for his organisation of this public event. Thanks also to other IDS program staff for making my stay in Halifax so productive and enjoyable, including Kate Ervine, Gavin Fridell, Jenny Harrison, Tony O'Malley, Sonja Novkovic and Joe Tharamangalam.

[6] The latest, and by far most interesting, confirmation of this came in 2013 when Dr Claus-Peter Zeitinger, one of the most respected microcredit pioneers and founder of the largest microfinance bank in the world, the Pro-Credit Bank Group, wrote in a review that the book very accurately reflected his many years of experience in the microcredit industry. The author was also invited to the Pro-Credit Bank annual general meeting held in Frankfurt in May 2013 to give a keynote presentation in front of 200 Pro-Credit senior employees and to debate with Dr Zeitinger as to what lies ahead. Pro-Credit Bank also ordered 500 copies of the book for use as a teaching aid in their three training centres in Germany, Macedonia and Colombia. Pro-Credit Bank's future strategy is to fully exit the microcredit sector and establish itself as a reputable bank for SMEs. See 'Why Doesn't Microfinance Work? The Destructive Rise of Local Neoliberalism' – Comments by Dr. Claus-Peter Zeitinger, initiator and founding shareholder of the ProCredit group', *Zed Books Blog*, 6th June 2013. http://zed-books.blogspot.com/2013/06/why-doesnt-microfinance-work_6.html (last accessed on December 10th, 2013).

Many analysts attempt to locate the origins of the microcredit model in the long and distinguished history of small-scale finance that stretches back to biblical times. This would be a fundamental misunderstanding, however. This is because, as we shall see, the contemporary microcredit movement (beginning in the 1970s) has its origins very firmly in right wing/neoliberal politics/ideology far more than in the socialist/leftist/redistributionist political tradition that historically gave rise to so many previous local experiments with small-scale finance. Put very simply, most small-scale financial experiments prior to 1970 were about challenging/displacing political and economic elites in favour of the wider population. Notable experiments within this radical tradition in just England alone would include the Friendly Societies promoted by the radicals and proto-trade unions in the 1700s and 1800s (Thompson 1963) and the cooperative movement that emerged in the mid-1800s and gave rise to networks of cooperative banks (Birchall 1994). However, as Mader (2011) argues in a comparison of microcredit and the German cooperative banks, the modern microcredit model is not about mounting a bottom-up challenge to dominant political and economic elites, so much as quietly legitimising and perpetuating them.

In a very real sense, instead, the roots of the contemporary microcredit movement can be said to lie in the 1950s Cold War period, and particularly in the US government's policy of undermining and attacking all popular movements in Latin America that were challenging US-led capitalism in the region (Chomsky 1994). An important milestone here was the Cuban revolution in 1959, which threw the US government into a state of complete panic. More than ever before, the US government began to see socialist/leftist radicals everywhere in Latin America trying to undermine their hegemonic control and attempting to build popular practical alternatives to US-led capitalism. The US government could not allow this situation to go unchallenged. The response, as Gill (2004) reported in quite painstaking detail, was that very many socialist/leftist individuals and institutions were subjected to extreme repression and violence by their own governments operating under the careful guidance of, and with much political and material support from, the US government.

However, repression and violence have their practical limits. Accordingly, in the 1960s a parallel track 'winning hearts and minds' strategy began to evolve within US government policy circles. Later to be coined 'soft power' by Nye (1990), this technique involved providing a modicum of direct support to the poor in the form of small loans, food aid, infrastructure, technical advice, and so on, in the hope that these small gains would be just enough to contain the rising pressure for more radical change. Essentially, if at least the *hope* of a better future could be established, so the thinking went, the world's poor would be more content with their current lot, and would refuse to support those seeking to change the prevailing US-centred economic and political system in a leftwards direction, still less embrace the then 'bogey-man' – the Soviet Union. The practical aim was to pre-empt further Cuban-style popular revolutions and similar 'bottom-up' challenges emanating from various political, social and church-based ('liberation theology') popular movements (Wright 2001). For example, this new way of thinking very much informed the content of US President Kennedy's 'Alliance for Progress' initiative in Latin America launched in 1961. In 1972, therefore, the US government's aid arm - USAID – began to launch a number of microcredit programs in the region, starting with the first genuine microcredit program in Latin America, in the city of Recife in Brazil. This was soon followed by similar programs across the continent.

However, microcredit only really became part of global economic policy and the public consciousness when the basic idea was famously picked up and extended by Dr Muhammad Yunus in Bangladesh. Using the example of the iconic Grameen Bank he founded in 1983, Yunus promised that microcredit would everywhere enable the poor to very quickly escape their poverty and deprivation. Famously claiming that ‘Poverty will be eradicated in a generation’ and that our children will have to go to the “poverty museum” to see what all the fuss was about (Yunus 1997), Yunus predictably created a lot of excitement. Yunus’s claims that his microcredit model would legitimise and promote self-help and individual entrepreneurship as the way out of poverty for the poor began to galvanise the international donor community and a number of right-wing US foundations (notably the Ford Foundation) into financially supporting his idea. Essentially, Yunus promised to ‘bring capitalism down to the poor’. Encouraged by Yunus and, especially, by the US government and other international development agencies that supported Yunus, many other developing countries began to establish their own microcredit institutions (hereafter MCIs) along Grameen Bank lines. The contemporary microcredit movement was born.

There still remained a fundamental problem with the original Grameen Bank model of microcredit, however. This was the reliance of the Grameen Bank (Morduch 1999), and so many other MCIs that came after it, upon subsidies provided by external bodies. These subsidies came from the international donor community, host governments and other sources. With neoliberalism from the 1980s onwards the guide to development policies in developing countries, the idea of a market-driven intervention requiring subsidies to keep going was clearly anathema. Armed with its core imperative that all organizations must strive to achieve what it called ‘full cost recovery’, not just businesses but virtually all other organisations too, neoliberal policymakers simply could not tolerate a situation where large numbers of MCIs were subsidised. Accordingly, once again under USAID tutelage, the microcredit movement was given a decisive shift in the direction of commercialisation and deregulation, with the aim of ensuring its effective transformation into a financially self-sustainable for-profit model no longer in need of subsidies (Otero and Rhyne 1994). The old subsidised Grameen Bank-style microcredit model was consigned to history, replaced by a more commercially savvy ‘new wave’ of Wall Street-style go-go MCIs. After the World Bank, IMF and Jeffrey Sachs famously arrived in the 1980s to restructure the economy according to standard free market textbook principles, Bolivia became the ‘test-bed’ for the new ‘neoliberalised’ microcredit model (Rhyne 2001a).

With neoliberalism in the ascendance in key western governments from the 1980s onwards, the market-driven microcredit model soon became an important international development policy. Resources and technical support began to shift into establishing and expanding MCIs and microcredit programs. Simultaneously, other types of financial support program and intervention were scaled down or closed, such as support for SME financing programs. Many other issues were then targeted by MCIs, such as the privatization of water, education and health care. Microcredit was used here to quickly provide the poor with cash in hand in order to maintain demand for such services in the aftermath of privatization and the imposition of user-fees. Popular resistance to privatization could then be minimized long enough to ensure that private ownership was cemented in place.

Crucially, thanks to the commercialisation moves begun in the 1990s and the opportunities created, large amounts of commercial investment began to flood into the microcredit sector. This began to ramp up the supply of microcredit many times over, with the result that by the early 2000s, a growing number of countries and regions had achieved the microfinance industry’s 'holy grail' – that is, every single poor person who wished to access a microloan could now pretty easily do so. As Table 1. shows, the most saturated countries by 2008 were also the pioneering developing countries - Bangladesh and Bolivia – joined by a new class of post-communist countries from Eastern Europe, notably Bosnia and Mongolia.

Table 1. Microfinance penetration by country (and region) in 2008.

Global Ranking	Country	Borrower accounts/population
1	**Bangladesh**	25%
	(Andhra Pradesh State, India)	17%*
2	**Bosnia and Herzegovina**	15%
3	**Mongolia**	15%
4	**Cambodia**	13%
5	**Nicaragua**	11%
6	**Sri Lanka**	10%
7	**Montenegro**	10%
8	**Vietnam**	10%
9	**Peru**	10%
10	**Armenia**	9%
11	**Bolivia**	9%
12	**Thailand**	8%
13	**India**	7%
14	**Paraguay**	6%
15	**El Salvador**	6%
16	**Burkina Faso**	5%
17	**Kyrgyzstan**	5%
18	**Ecuador**	5%
19	**Guatemala**	5%
20	**Mexico**	5%
21	**Colombia**	5%
22	**Morocco**	4%

Source: Gonzalez, 2010. *Rozas and Sinha, 2010.

As the supply of microcredit grew, so too did the plaudits. In fact the microcredit model was increasingly celebrated, for example by Otero (2007), *simply on the extent of outreach achieved*. On behalf of the international development community, the ILO's then head of social finance, Bernd Balkenhol, effectively anointed microcredit as "the strategy for poverty reduction *par excellence*" (Balkenhol 2006, underlining in the original). It began to seem a slam dunk conclusion to many that, thanks to Yunus's bold idea and dogged promotional efforts, the world was about to witness an historically unparalleled episode of poverty reduction.

Starting in 2007, however, the microcredit model went into a quite dramatic decline. The initial catalyst was the Initial Public Offering (IPO) of Mexico's largest microfinance bank, Banco Compartamos, an event that exposed to the public not impressive poverty reduction figures, but a level of greed and profiteering by senior managers that stunned all those working in the microcredit sector. However, this was then followed by further revelations about spectacular profiteering by everyone at the top of the microcredit industry – owners, shareholders, investors and advisors. Very much related to this profiteering was the next bit of bad news - a run of 'boom-to-bust' episodes once again involving some of the most celebrated MCIs, who in their drive to grow as big as possible as fast as possible were found to have massively over-expanded and over-indebted the poor. Even worse, from 2010 onwards a raft of independent publications began to emerge that pointed to the fact that microcredit had had a decidedly *negative* impact on the poor (Bateman 2010; Klas 2011; Sinclair 2012). This negative viewpoint was then backed up by the results of a major UK government funded systematic review which found that virtually all the evidence suggesting a positive impact from microcredit was biased, methodology flawed or otherwise not reliable (Duvendack *et al* 2011). This very much included the major study in Bangladesh undertaken by a group of World Bank economists, Mark Pitt and Shahidur Khandker (1998), that was for many years the single most important piece of evidence in support of there being a positive impact from microcredit.

Today the microcredit model is under an existential threat. It is all beginning to look very bad indeed for those who had doggedly promoted the microcredit model, and especially for Muhammad Yunus.

3. How could Yunus get it all so wrong?

While seemingly brilliant in its simplicity, scope and humanity – who could resist supporting the poor as they bravely attempt to make their own way out of poverty! – the superficial plausibility of Yunus's original microcredit model belied the fact that it was actually based on a very fundamental misunderstanding of some basic economic and social development principles. There have been both short and long term adverse consequences arising as a result of this misunderstanding.

3.1. Lack of demand is the immediate problem, not supply

There is a rich tradition of economic, sociological and anthropological research that explains how survival in developing country communities is historically associated with a forced engagement with petty micro-business activities that became known as the informal sector (Hart 1973; Breman 2003; Davis 2006). The attempt to develop generally involved the creation of formal sector employment opportunities in large industrial units, often under public ownership. However, this formalisation process began to stall in the 1970s as neoliberal strategies came to the fore, known as Structural Adjustment Programs (SAPs). The formal sector began to shrink, and the informal sector began to grow as a share of the economic structure, employment and so on. Breman (2009: 29) summarises the situation today in most developing countries:

> To the extent that these many hundreds of millions (in developing countries) are incorporated into the production process it is as informal labour, characterized by casualized and fluctuating employment and piece-rates, whether working at home, in sweatshops, or on their own account in the open air; and in the absence of any contractual or labour rights, or collective organization. In a haphazard fashion, still little understood, work of this nature has come to predominate within the global labour force at large. The International Labour Organization estimates that informal workers comprise over half the workforce in Latin America, over 70 per cent in Sub-Saharan Africa and over 80 per cent in India; an Indian government report suggests a figure of more than 90 per cent. Cut loose from their original social moorings, the majority remain stuck in the vast shanty towns ringing city outskirts across the global South.

In practise this means that, in the absence of formal employment opportunities, the poor are increasingly being forced to attempt to survive by informally producing an array of simple goods and services that are mainly sold to their equally poor neighbours in the same community. A more recent phenomenon involves the poor being absorbed into exploitative supply chains controlled by multinational companies, notably in the textile industry (Breman 2003). Either way, the mass engagement of the poor with informal sector activities has manifestly failed to lift the oppression of poverty in the developing world.

One of the core problems here, put simply, is that although it has always been relatively easy to *produce* a simple good or service, it has not nearly been as easy (and it has been getting harder and harder) to find anyone to actually *purchase* what you have produced/provided. That is, the over-arching problem in poor communities is not so much a limited supply of the very simple goods and services needed by the poor to ensure their survival. Even the weakest communities generally have enough grocery stores, farmers, street sellers, basket-makers, bakeries, shoe repairers, personal transport suppliers, and so on. *It is the spending power to access these important items that is the problem.*

However, Yunus failed to grasp the importance of this pivotal point. His misunderstanding was made perfectly clear in his important statement that (Yunus 1989; 156),

> '[a] Grameen-type credit program opens up the door for limitless self-employment, and it can effectively do it in a pocket of poverty amidst prosperity, or in a massive poverty situation',

Early on, Yunus received a number of warnings from his peers that his microcredit model, initially based on one village (Jobra), could not be scaled up. For example, Ahmad and Hossein (1984) argued that local markets in Bangladesh were already pretty over-crowded with struggling informal microenterprises, so it was wrong to assume that sufficient local demand existed to support many more new microenterprises, or the expansion plans of existing microenterprises. The veracity of this warning was soon confirmed by Osmani (1989) and then by Quasem (1991). Nevertheless, Yunus chose to ignore these warnings. He felt that poor communities could always benefit from many more new informal microenterprises, which he believed would always, somehow, and from somewhere, locate sufficient local demand to ensure that they would mostly survive and without negatively affecting incumbent competitors. Had he *not* believed this, of course, his microcredit idea would effectively have been still-born.

But this assumption was wrong and Yunus had effectively fallen into making one of the most famous mistakes in economics and economic development policy: he had led himself into believing that 'supply would create its own demand'.[7] This was an all-too common mistake made by those working on anti-poverty policies and programs. Indeed, as the late Alice Amsden (2010) pointed out, just such an erroneous assumption - that sufficient effective demand would always be forthcoming to absorb any program-related increase in the local supply of goods and services – helps to account for so much of the failure of development policy and programs over the last thirty or so years (see also Galbraith 2008; 151-163). One might also view Yunus's fundamental logical error here as akin to the error made by those who long argued that famines were caused by 'a lack of food' and that 'more food availability' would quickly remedy the problem, when in fact, as Amartya Sen (1981) famously showed, the core problem was actually the limited

[7] This is known as 'Say's Law'.

purchasing power of the poor that prevented them from buying the food that was often quite widely available in a famine region.[8]

In Yunus's case, the practical and historical significance of his misunderstanding here was huge. It meant that the microcredit model addressed completely the wrong side of the poverty problem: it helps to create more, largely unnecessary, local suppliers of the simple goods and services consumed by the local poor, but it provides no meaningfully additional source of income with which to actually *purchase* this expanded local supply. Importantly, the few successful microcredit-induced informal microenterprises that manage to find a niche in the local economy and generate an income for their lucky owners, rarely increase *net* additional local spending power because they simply take business from their competitors, who in turn see reduced spending power.

We also need to note that informal microenterprises also typically experience a very high rate of failure everywhere in the world.[9] The additional problem that arises because of this issue is that, in order to repay a microloan taken out for a micro-business venture that is failing (to generate any net income) or has failed (closed down outright), many individuals are all too often forced to deplete family savings and divert remittance flows into microloan repayment, and finally sell off family land and other household assets to realise the needed cash. Even worse, some microcredit providers knowingly lend to the poor for unrealistic business projects in the hope of grabbing important assets when they inevitably fail. In India, the deliberate over-indebting of the poor in order to eventually take over their land when they default (known as 'debt farming') has been well known for years (Roth 1983). A failed microenterprise therefore has the potential to leave a very large number of individuals in even deeper poverty and insecurity than ever before.

This combination of factors largely explains why it is that microcredit programs generally create no *net* additional employment or income in the community,[10] and so also why we can find no identifiable *net* positive impact on the level of poverty (Duvendack *et al* 2011; Roodman 2012). Centrally, new microcredit-supported microenterprises do not find very many new unattached clients, but overwhelmingly simply end up taking away clients already attached to incumbent informal microenterprises operating in the same sector (for a simple illustration from Colombia, see Bateman, Ortiz-Duran and Sinkovic 2011). As new microenterprises quickly emerge, already struggling microenterprises thus see a progressive reduction in their turnover, and so also a reduction in their profits and wages - that is, *they* are made poorer. Cramming more and more new microenterprises into already pretty well-served poor communities also leads on to hyper-competition, and so also tends to soften prices. This, in turn, reduces average profits, income and wages pertaining to *all* microenterprises. That is, even *more* downward pressure is exerted on

[8] One of Sen's important examples was actually the Bangladesh famine of 1974, an event that coincided with a peak harvest that year, and with food availability in what turned out to be the three main famine areas actually being the best out of nineteen areas. Those who succumbed to the famine were largely landless labourers affected by a major flood and whose source of income completely disappeared as a result, and, crucially, was not replaced by any other entitlement (paid work, social security, charity) that would allow them to purchase sufficient food to ensure their survival.

[9] In Bosnia, for example, in the 2000s as many as 50% of new microenterprises failed within just a year of getting started. See Demirgüç-Kunt, Klapper and Panos 2007.

[10] Of course, local economies grow over time and very gradually create more local demand for the simple items and services produced by local informal microenterprises, but this is generally a slow organic process, and so quite separate to the operation of microcredit programs.

already minimal self-employment incomes (on this, see ILO 2009).[11] (However, middle class consumers often do quite well from the availability of cheaper goods and services, thus typically exacerbating inequality). Moreover, as the World Bank (2014: 25) found, with so few local market opportunities, it should not be surprising to find that the poor increasingly choose to access microcredit simply in order to underpin needed consumption spending. This may avert a household crisis in the short-term, but the long-term consequences of this strategy are quite frightening.

Consider now just a few examples of the short term problems precipitated by an engagement with microcredit, starting with the example of South Africa. South Africa's experience with microcredit after 1994 has been extremely problematic, if not an outright calamity. Once apartheid was ended, it was a key part of all international donor agency programs that the poor black majority would now be encouraged to engage in microcredit-supported informal microenterprise activity, the idea being that this would finally resolve their apartheid era poverty and unemployment problems. However, this encouragement came in spite of the abundant evidence that most poor black townships and rural communities were *already* pretty well supplied with the simple goods and services produced by informal microenterprises. This was thanks to quite rapid development of the informal microenterprise sector that took place in the late apartheid period as a way of attempting to pacify the increasingly restive black population (Smith 1992). Similar to the logic understood by the US government in Latin America in the 1960s (see above), the white South African government hoped that accelerated development of the informal microenterprise sector might convince the black population to forget about trying to overthrow the white regime and bring about the end of apartheid. The hope was that enough of the black population would seek economic salvation *individually*, through micro-entrepreneurship, and not *collectively,* through social mobilization, revolutionary organizing and the eventual redistribution of South Africa's enormous wealth and power.

The upshot of this late flourishing of informal micro enterprise activity in the black townships and rural areas was that there was very little, if any, real market space to productively accommodate very many more such informal microenterprises in the *post*-apartheid era. Most simple goods and services were adequately supplied; adequate purchasing power remained the core problem. The result of the rush of new informal microenterprises that took place in the immediate aftermath of the fall of apartheid was predictable therefore: self-employment incomes would come under serious downward pressure. Indeed, self-employment incomes fell by a quite staggering 11% per year in real terms from 1997-2003 (Kingdon and Knight 2005). Poverty was thus not *resolved* in the poorest black townships and rural communities in the immediate post-apartheid period in South Africa, but actually *intensified* and, moreover, the pain simply redistributed among the now larger population of informal black micro-entrepreneurs. Meanwhile, rather embarrassingly, the rich white community actually *benefitted* from the increased supply of cheaper goods and informal labour-based services (such as cooks, cleaners, gardeners). Moreover, when the black community began to realise that informal microenterprise activity was clearly *not* going to be the solution to their lack of employment and income, they fell

[11] In the context of the global financial crisis that began in 2008, the ILO advised that the reflexive response from the mainline neoliberal-oriented international development agencies to such conditions – stimulate an expansion of the informal sector - was even more inadvisable than usual, as well as wholly unfair, since '*As was the case in previous crises, this could generate substantial downward pressure on informal-economy wages, which before the current crisis were already declining'* – see ILO (2009: 8).

back to using microcredit simply as a way of quickly raising their living standards through the consumption route. Massive quantities of microcredit were soon being accessed in order to secure the things immediately needed to ensure mere survival but which couldn't be covered out of current income.[12] The inevitable end result of this trend, however, has been an unimaginable individual indebtedness problem in the black communities in South Africa, one that now very seriously threatens the stability of the country (see also below).[13]

A second important example of microcredit failure comes from the acknowledged spiritual home of microcredit – Bangladesh - and specifically from the iconic village where Yunus actually pioneered his microcredit model – Jobra. Since around 1980, the citizens of Bangladesh have had access to enormous volumes of microcredit. Yet, unfortunately, very little has changed in a positive direction. As noted above, in spite of many years trying to establish causation between the growing supply of microcredit and changes in the level of poverty in Bangladesh, there has been no success in this regard. Poverty has indeed been falling in Bangladesh in recent years (World Bank 2013), but there is no proof whatsoever that this development has had anything to do with microcredit. Importantly, the World Bank survey (Pitt and Khandker 1998) boiled down by Muhammad Yunus into a famous quote – '5% of Grameen borrowers escape poverty every year' – was later quite conclusively shown to be fundamentally flawed (Roodman and Morduch 2013).[14] Rather awkwardly, Pitt and Khandker's study was also used by the World Bank (World Bank 2013) as evidence to cast a positive light on microcredit, and even though it was conceded that there is nothing in the data to establish "a causal pathway between access to microfinance and changes in household-level welfare outcomes" (page 128).

Turning to Jobra itself, we can see just why there has been no real good news in Bangladesh. Except for a few bright spots of wealth that can almost all be traced back to an individual having secured a period of formal employment abroad, especially in the Gulf States, the village is just as poor and under-developed as it was in the 1970s.[15] The only visible change in Jobra that is undoubtedly attributable to the arrival of the microcredit model in the early 1980s, moreover, is a negative one: *rising individual over-indebtedness*. As is now the case throughout Bangladesh (Rutherford, 2009:193-7; Chen and Rutherford 2013), Jobra village has seen a dramatic rise in the number of cases of serious individual over-indebtedness among the clients of the main MCIs (Chowdhury 2007). The reason is that the increasingly small proportion of microloans taken out for income-generating purposes (most microloans today are taken out for consumption purposes) have simply not led on to very many successful microenterprises. Behind the handful of uplifting anecdotes describing successful clients, which the MCIs skillfully spin to the international donor community in search of additional support, there very often lies a much larger (but largely ignored) number of failing and failed clients for whom the microcredit experiment has meant

[12] By 2012, as little as 6% of the total volume of microcredit advanced in South Africa that year was used for business purposes. See 'South Africa: Microfinance and Poverty Alleviation In South Africa'. *Mondaq*, 11th November 2013. http://www.mondaq.com/x/274240/Microfinance+And+Poverty+Alleviation+In+South+Africa
[13] For example, see Mandy de Waal, 'Debt traps, the silent killers of the SA's vulnerable'. *Daily Maverick,* 7th August, 2012. http://www.dailymaverick.co.za/article/2012-08-07-debt-traps-the-silent-killers-of-the-sas-vulnerable ; also Reuters, 'Drowning in debt'. *Fin24*. 23rd March. http://www.fin24.com/Money/Drowing-in-debt-20120323
[14] One of the key revelations was that by excluding just *sixteen* outlier rich families from the 5,218 families surveyed by Pitt and Khandker (that is, just 0.4% of the total sample), ALL of the reported positive gains from microcredit disappeared – see Roodman and Morduch (2013).
[15] See 'The Jobra of Yunus: poverty there has not found itself in an archive', *Bhorer Kagaj*, Dhaka, 10 March 2007 (the partial English translation can be found at Chowdhury 2007: 202–4).

simply deeper poverty, insecurity and un-repayable business-related debt.[16] To repay the installments on a microloan taken out for a business project that failed to generate any income, an increasing number of the men in Jobra are now having to seek out very poorly paid and sporadic day-laboring jobs in nearby Dhaka and Chittagong,[17] menial and ultra-low-paid jobs that in earlier times would have been largely shunned.

3.2. Sustainable development and poverty reduction decisively stymied in the long run

An even more important issue that Muhammad Yunus and his followers completely failed to grasp relates to the core prerequisites that secure the *longer-run* development of the local economy, and so also sustainable poverty reduction. Contrary to widely propagated free market myths and neoliberal ideology, the study of economic history actually shows pretty conclusively that sustainable development and growth is associated with the construction of an effective 'developmental state'. This is a form of state capacity that is geared up to ensuring that scarce financial resources are directly vectored into facilitating the establishment and growth of the 'right' enterprises in the economy – 'right' defined here as small, medium and large enterprises that are technically sophisticated, formally registered, operating at minimum efficient scale, innovation-driven, are both horizontally (clusters, networks) and vertically (sub-contracting, supply chains) inter-connected and can facilitate the creation of new organisational routines and capabilities. At the same time, importantly, 'wrong' enterprises, which can be defined as simple, informal/illegal, petty trade-based microenterprises and one-person self-employment ventures (on this, see Baumol, 1990), are largely shunned in terms of being allocated scarce financial resources. The manifest importance of financial intermediation undertaken with the help of 'developmental state'-type structures is born out by the economic history of the developed western economies (Nelson and Winter, 1982; Friedman, 1988; Chang, 2002, 2007, 2010; Reinert, 2007; Mazzucato 2013), as well as the more recent economic history of the East Asian 'miracle' economies (Wade, 1990; Amsden, 1989, 2001, 2007; Chang, 1994, 2006; Thun, 2006).

The microcredit model, on the other hand, operates on almost the exact opposite principles of the successful development model just outlined. That is, its entire rationale is to efficiently intermediate scarce financial resources *into* precisely the 'wrong' (micro)enterprises. Informal microenterprises and self-employment ventures are the dominant clients of MCIs not just because of their size – *micro*credit is, after all, designed for *micro*enterprises - but also because, since the 1970s, they were very widely seen as possessing the potential to make a major contribution to bottom-up development and poverty reduction (for example, see Levitsky, 1989).

Yet, as Rienert (2007) shows, a development strategy that is substantially based on a programmed expansion of diminishing returns activities, typified by the informal microenterprises and self-employment ventures supported by microcredit, will inexorably lead to retrogression and primitivization. Important scale economies are lost, technologies suitable at certain volumes of activity are entirely abandoned, important efficiency-enhancing vertical and

[16] Few researchers chose to look into this negative phenomenon, preferring to study the much more uplifting cases of business success. One of the few researchers to report on this issue in Bangladesh is Davis (2007), who expressed his concern at how often his research showed that micro-business failure accounted for an individual's plunge into irretrievable poverty.

[17] Tom Heinemann's multi-award-winning documentary on the global microcredit phenomenon reported this to be one of the unexpected findings in Jobra. See Tom Heinemann. 2012. 'Caught in Microdebt'. http://tomheinemann.dk/the-micro-debt/

horizontal inter-enterprise connections are inoperable, and many other similar problems arise. Disaster ultimately ensues, as history abundantly shows. As Reinert (2007:171) sums up,

> "Systems based on increasing returns, synergies and systematic effects all require a critical mass; the need for scale and volume creates a 'minimum efficient size'. When the process of expansion is put in reverse and the necessary mass and scale disappears the system will collapse".

This general primitivization and retrogression process described by Reinert is *exactly* what we are seeing in all of those locations – national, regional and local – where the microcredit model has gained the strongest foothold.

It is therefore of some considerable importance to a developing country if its financial system increasingly intermediates scarce domestic financial resources (savings, remittances, public and private investment), as well as charitable aid, international donor funds and foreign commercial investment, into unproductive informal microenterprise and self-employment ventures, and so effectively *away* from all other more productive and sustainable enterprise development activities. In terms of generating a long-term solution to poverty and under-development, this would be tantamount to sending a developing country off in completely the wrong direction. *Yet this is precisely what the microcredit model does*.

As noted development economist Ha-Joon Chang points out with regard to the African continent (see 'Thing 15', Chang 2010), there are more micro-entrepreneurs, informal microenterprises and self-employment ventures per capita than probably anywhere else in the world. Many more are being created all the time thanks to rafts of microcredit programs backed by the developed countries. Yet Africa essentially remains in poverty because of this fact. What is really missing here are the institutional (financial and non-financial) and associated organizational structures, including 'developmental state' structures, required to raise productivity through carefully establishing and supporting much larger manufacturing-based/industrial businesses operating in the formal sector. The massive proliferation of petty individual entrepreneurship in Africa, and so also the diversion of scarce financial resources, technical expertise and state/collective effort into supporting this sector (that is, the opportunity cost), is actually a huge part of the problem holding back Africa.

An almost identical situation has arisen in microcredit saturated Latin America (Bateman 2013a). From around 1980s onwards, neoliberal reforms aggressively promoted the liberalisation and commercialisation of the financial sector. This ensured that financial institutions would gradually shift into the provision of microcredit, however, especially for consumption needs (Ffrench-Davis and Griffith-Jones 1995), which was emerging as a far more profitable and less risky business activity when compared to the then lending programs that supported manufacturing-based SMEs and technical support services as part of the Import Substitution Industrialisation (ISI) policy model. The result was that a large part of Latin America's modest, but still very important, industrialisation gains achieved under ISI were progressively reversed and destroyed, thereby negatively affecting the continent's long-term ability to sustainably develop, grow and raise living standards. Even the neoliberal-oriented Inter-American Development Bank (IDB) was finally forced to agree with this unpalatable conclusion (IDB 2010), lamenting the fact that Latin America's financial system had channelled so much of the continent's scarce financial resources into unproductive informal microenterprises and self-employment ventures. This was a market-driven process, the IDB conceded *(ibid*, page 6), that had directly given rise to the very high levels of poverty, deprivation and inequality seen on the continent until recently, because it ensured nothing more than "*the pulverisation of economic activity into millions of tiny enterprises with low productivity*". [18]

Going further, a number of individual country examples usefully help to underline the extent of the destruction wrought by the programmed global shift into microcredit. In Bolivia, nearly 40% of its financial resources are now intermediated into microcredit applications (Vogel 2012), but this has accomplished nothing more than to inflate an already hyper-competitive informal sector at the expense of more efficient enterprise structures. Many government officials in Bolivia now accept this analysis,[19] as do high-profile analysts working in the NGO sector (Velazco 2012).[20] Even worse, as Vargas (2012) pointed out, the rapidly growing informal sector in Bolivia is preventing potentially far more productive formal sector businesses from growing as fast as they might, which, he argues, is seriously holding back Bolivia's development. This situation arose largely because of the temporary 'competitive edge' afforded Bolivia's vast informal sector thanks to an operating modality built on subsistence wages, routine tax evasion, and a willingness to operate with woefully sub-standard health and safety conditions.

After much initial celebration and hype, and even a call from the then President of Women's World Banking, Nancy Barry, that 'Any war-torn country should look to Bosnia as a role model' (quoted in Dolan 2005), it is now increasingly agreed that the operation of the microcredit model in post-conflict Bosnia has been extremely problematic in many inter-related economic and social areas (Drezgić, Pavlović and Stoyanov 2011). The first problem, as Bateman, Sinković and Škare (2012) pointed out, was that the arrival of the microcredit model in the late 1990s manifestly helped to greatly accelerate an already worrying post-communist deindustrialization and informalisation trend underway in this once advanced industrial economy. Rather than supporting the revival of some of the best parts of the largely export-oriented industrial sector, a large part of the capital mobilised in the post-war period (savings, remittances, aid, investment) was instead diverted into the very simplest of microcredit applications. As widely predicted (Bateman 1996, 1999), by the late 2000s Bosnia's economic structure began to resemble its post-war Asian counterpart, Bangladesh, in that it was increasingly dominated by simple informal microenterprises and self-employment ventures.

A further pressing problem was that very many of the microenterprises established in Bosnia after the civil war were involved in the simple importation of consumer goods, a factor that helped lift the import bill to unsustainable proportions by the late-2000s (IMF 2010). Moreover, as ordinary Bosnians quickly began to realise that the market opportunities were not there (Matul

[18] Pointedly, the situation in Latin America only began to change from around 2000 onwards when the 'Pink Tide' of leftist governments elected right across Latin America began to reject neoliberal/Washington consensus policies, and to put in place instead robust pro-poor policy programs, notably basic income programs. The direct results to date have been hugely positive, effectively bringing nearly three decades of rising poverty, insecurity and inequality to an end (ECLAC 2009).

[19] At the insistence of senior government officials in La Paz, a 2012 study of local development institutions by the author was extended to include a special section on microcredit outlining the many problems encountered in Bolivia. And when the author was in La Paz, various events were organised, including a special lecture at the official residence of the Vice President of Bolivia, to allow the serious problems to begin to be aired publicly and discussed. See Bateman (2012e).

[20] Velazco is the former head of the Bolivian Chamber of Commerce and is now head of a major NGO in La Paz.

and Tsilikounas 2004), they increasingly took to using a microloan simply for consumption spending purposes. When large numbers of microloans were taken out to purchase imported items through the rafts of new microcredit-supported small retailers, this then added a further damaging and unsustainable twist to the tale. This process inevitably multiplied the apparent positive impact of microcredit in the short term – hence all the good publicity at the time - but in the longer term, when the reverse multiplier went into operation, the collapse of local economic activity in Bosnia in the late 2000s was equally astounding. The international development community's largest spending component now in relation to microcredit is the financing of a network of advisory offices across Bosnia that offer free advice to those hapless individuals in serious debt to the MCIs.[21]

Finally, the associated commercialisation and deregulation of the Bosnian microcredit sector unleashed a number of not unexpected developments that were hugely destructive to the country in terms of its attempt to (re)build solidarity, reciprocity, trust and a sense of community. Bosnia is a two-entity state, and while one of the entities (the Bosnian Federation entity with its capital in Sarajevo) has resisted dramatic deregulation of the microcredit sector, the other entity (the Serbian Republic with its capital in Banja Luka) effectively gave in to the lobbying by the microcredit industry, and so began a process of much more extensively commercializing and deregulating the microcredit sector. However, as predicted even by the international development agency officials supporting these moves (Lauer 2008: 18), this process inevitably allowed (if not encouraged) Wall Street-style destructive behavior on a grand scale. The most damaging development was that senior managers quickly began to asset strip their own MCI on an unprecedented scale and with almost total impunity,[22] the most notable case being that of Mikrofin based in Banja Luka (Bateman, Sinković and Škare 2012).[23] Most now agree that the commercialisation and deregulation process, and the stunning levels of greed and unethical behavior that emerged, has greatly contributed to the collapse of trust, reciprocity and solidarity within the wider community in Bosnia.

One of the most distressing impacts of microcredit in Bosnia was on women. As Pupavac (2005) relates, the attempt to encourage previously relatively emancipated and comparatively highly skilled women into a range of unsophisticated informal microenterprises – simple retail, cross-border shuttle trading, keeping a cow in the back garden, etc - was often greatly resented. This was certainly not what most women thought the transition to capitalism would entail. Symbolic of the longer-term problems created for women as a result of insisting that their salvation lay in an informal microenterprise, came from the rise and dramatic fall of Bosnia's lone MCI

[21] The Centre for Financial and Credit Counselling was established in 2009 with financial support from the UK government's aid arm, DFID, and the World Bank's IFC arm, plus some financial and/or simply moral support from the key local MCIs that were responsible for leading the poor into such high levels of debt. It was established with the aim of helping the most indebted in Bosnia to manage their way toward a sensible debt repayment strategy. Renamed 'Plus' in 2012 to avoid the stigma of indebtedness falling upon those using its services, its wider aim, but unstated for obvious reasons, is to encourage the poor in Bosnia to essentially *avoid* any engagement with microcredit if at all possible.

[22] However, asset stripping in Synergija - along with Mikrofin, one of the two main MCIs in the Serbian Republic entity - was so extensive that the entity government forced Synergija to close down in late 2012.

[23] Seemingly quite irrespective of the significant asset-stripping clearly taking place at Mikrofin, the London-based European Bank for Reconstruction and Development (EBRD) has provided, and continues to provide Mikrofin with substantial financial support. Pointedly, also, the founder and now Chairman of Mikrofin, Aleksandar Kremenović, remains a very regular guest speaker and expert panel member at many of the EBRD's high-level conferences and events.

exclusively working with women – 'Women for Women (*Žene za Žene*). Although the market for simple products (trinkets and handicrafts) and services (retail, clothes repair) was manifestly insufficient to support anything other than a tiny number of microenterprises in any one community, nevertheless a very large number of Women for Women's clients were encouraged to go into (or not advised not to go into) this already over-crowded sector. Unfortunately, almost all of these hapless women failed soon after starting out. Bosnian law then required Women for Women to drag more than four thousand of its failed women clients through the court system in order to get a required certificate to show that their failure was not a deliberate pre-arranged fraud. It was widely agreed in Bosnia that this humiliating outcome was hardly the best global advertisement for 'gender empowerment' (Goronja 2011).[24]

Meanwhile in Asia, research in Bangladesh by the UK government's aid arm, DFID (2008), pointed out that formal SMEs have a major problem accessing financial support, while at the same time informal microenterprises are being bombarded by offers of microcredit from MCIs desperate to find new clients. Hence we have the problem of the 'missing middle'. Neighboring India also faces the same problem. A growing number of analysts (notably Karnani 2011) see the massive support for India's 'survivalist' informal microenterprise sector and subsistence farming plots, and its concomitant reduction in support for SMEs and semi-commercial family farms, as the main barrier standing in the way of India's balanced growth and poverty reduction effort.

Finally, Cambodia has long been one of the countries in which the microcredit sector has gained a really strong foothold (Bateman 2010: 101-2), and today microcredit accounts for as much of 45% of total domestic credit in the economy (Sinha 2013) possibly the highest figure in the world. Apart from the almost inevitable individual over-indebtedness problem in Cambodia caused by MCIs desperate to grow as much as possible as fast as possible,[25] the other main outcome has been a growing flood of new informal microenterprises entering the local market, and so hyper-competition at the local level. Local profitable business opportunities have long dried up in such crowded markets, and so new microenterprise activity is increasingly perceived as far too risky. One outcome of this is that a growing percentage of microcredit in Cambodia is increasingly being directed straight into funding migration (Bylander 2013).

Meanwhile, in the relative absence of financial support, development of the formal industrial SME sector has been very seriously handicapped for many years (IFC, 2010). The Cambodian government reports that in 2007 there were only around 31,000 small industrial microenterprises (units with fewer than 50 employees), which represented a growth of just 26% in numbers over the last decade (*ibid*; 2). Part of the reason for such a weak SME sector, and for its low growth, is that Cambodia's commercial banks provide only 1% of working capital for SME working capital and just under 2% of investment capital in total (*ibid*; 3), a tiny amount compared to most other developing countries. The reason for this preference is the high profitability of microcredit operations. For example, the country's first microcredit institution, ACLEDA, which converted

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[24] Due to its large and growing number of defaulting clients, and consequently a seriously deteriorating financial position, in mid-October 2012 the Federation Banking Agency pushed *Žene za Žene* to close down. Its remaining loan book was taken over by the Sarajevo-based MFI *Lok*. http://www.profitiraj.ba/20110926272/mikrokreditne-organizacije.php (last accessed December 5th, 2013). However, this take-over turned into an 'out of the frying pan and into the fire'-type of situation when only a few months later Lok's CEO and some other senior managers were shown to have engaged in a massive asset-stripping exercise. http://www.slobodna-bosna.ba/vijest/4880/mikrokrediti_za_makrokriminal.html (last accessed on December 5th, 2013).

[25] Liv (2013) estimates that around 22% of the borrower population in Cambodia is over-indebted.

into a full commercial bank in 2003 and is now the country's largest commercial bank in terms of assets and clients, nevertheless maintains much of its original focus on microcredit applications. It finds microcredit to be a much more profitable and less risky business to be in compared to most SME applications.[26]

Adding to the problems in Cambodia has been the fact that the agricultural sector also experienced a severe shortage of credit on affordable terms and maturities. Crucially, given the importance of the rice farming to the average Cambodian – as many as 3 out of 5 Cambodian families depend on rice farming for their livelihood - thanks to the restricted supply of financial support, the rice sector has remained at a subsistence level for a very long time.[27] This situation compares very unfavourably indeed to neighbouring Vietnam, now the world's third largest rice exporter. Vietnam's success is down to its heterodox financial sector policy choices in the 1990s which, in spite of the extreme opposition of the international development community, promoted a raft of state-coordinated and subsided local financial institutions as the primary source of affordable credit for rice farming activities (see Bateman 2010; 191-198).

Summing up here, it is clear that back in the 1980s Yunus and his supporters failed to grasp the crucial role that financial intermediation structures play in allocating scarce capital in a way that is most likely to secure sustainable development and poverty reduction. Given that the World Bank and many of the other global financial institutions that have consistently supported Yunus have always viewed financial resource allocation as one of the most important issues to get right if a country wants to develop and grow (World Bank 2012), this is somewhat strange. Nonetheless, there is now a wealth of evidence from the field that Yunus's microcredit model has given rise to an episode of financial resource misallocation of major historic proportions, one that has undermined sustainable development through the progressive de-industrialization, primitivisation and informalization of the local economic base. Predictably, it is a process that has hit especially hard those developing countries that most enthusiastically engaged with the microcredit model, and who were otherwise expecting great things from the microcredit model over time. Today, the original marker of 'success' in these countries and in the microcredit industry *per se* – outreach – instead stands as a useful rough indicator of the extent of long-term damage inflicted on the economy by the advent of the microcredit model.

The development model that Muhammad Yunus inadvertently helped to introduce to developing countries is, in a nutshell, a modified form of the Morgenthau Plan, the plan formulated during World War Two to permanently emasculate the German economy and reduce it to such a primitive status that the country would be incapable of waging war ever again (Reinert 2007: 179-184). The Morgenthau Plan was based on funding only the most primitive of small enterprises and agricultural operations, combined with a ban on industrial research.[28] Similarly,

[26] ACLEDA's very high profitability was one of the principal reasons for one of the world's biggest investment houses, Jardine Matheson, taking a 12.5% stake in ACLEDA in 2009.

[27] See 'ADB, Cambodia Sign $70 Million Loan for Rice Commercialization, Finance Reforms', Press release, 26th August, 2013. http://www.adb.org/news/cambodia/adb-cambodia-sign-70-million-loan-rice-commercialization-finance-reforms

[28] When it was soon realised that a successful post-war Germany was actually needed to prevent the spread of communism across Europe, and that the actual Morgenthau Plan in practise was already leading to the wholesale destruction of what was left of the German economy and agricultural sector, in 1947 the Morgenthau Plan was quietly abandoned. It was replaced by a much more pro-active development plan – the Marshall Plan – that

rather than actively shepherding scarce financial (and other) resources into promoting the bottom-up (re)industrialization of a developing country through reaping crucially important scale economies in, and synergies between, industry and agriculture, the microcredit model goes in completely the other direction: it assists in *further* primitivising, informalising and disconnecting economic and agricultural structures, effectively helping to permanently 'lock-in' a state of under-development. The microcredit model has ended up as a Morgenthau Plan carried out for real.

4. Commercialisation then opened the door to massive Wall Street-style abuse of the poor

It is unfortunate that Yunus's misunderstandings were then compounded by the commercialisation of microcredit drive that got underway in the 1990s under US government pressure. Rather than leading to an accelerated phase of local economic development of real benefit to the world's poor, as was widely promised by its leading advocates (Otero and Rhyne 1994: Robinson 2001), the extensive commercialization and deregulation of the microcredit industry precipitated an even greater Wall Street-style calamity. Exactly like the sub-prime mortgage sector in the USA was designed for, and also regardless of the destruction inevitably left behind, the commercialised microcredit industry now exists simply to suck up as much value and spending power as possible from the very poorest communities and place it into the outstretched hands of the richest MFI owners and managers, individual investors and the investment community at large (Sinclair 2012: Mader 2014). This sedulous form of 'accumulation by dispossession' (Harvey 2006) has long been seen as a pernicious way of exploiting the poor and holding back their escape from poverty (for a typical example, see Gates 1998). The fundamental difference today, however, is that the modern microcredit movement has the enormous benefit of the social legitimacy conferred upon it by the international development community and host governments.

4.1. A closer look at the impact of the so-called 'best practice' MCIs

To illustrate the problems caused by commercialisation, it helps to look at a number of the most high-profile 'role model' examples of commercialised microcredit. There are many spectacular commercialisation disasters among the lesser known MCIs, as Sinclair (2012) shows, but focusing upon such examples here would inevitably lead to an accusation of selectively 'picking the worst examples' in order to prove a point. So instead, let us focus on some of the supposed 'best practice' examples that are widely celebrated throughout the microcredit industry.

The first example in this category is that of Mexico's largest microcredit bank, Banco Compartamos, an institution that has been very widely feted by microfinance advocates as one of the world's leading MCIs. Indeed, according to leading microcredit advocate, Elisabeth Rhyne, Banco Compartamos is in her opinion 'the best governed MCI' (Richardson 2007). However, a number of often over-looked (if not deliberately hidden) factors suggest that this positive assessment is quite dramatically wrong. First, it has not always been appreciated just how expensive are the services of Banco Compartamos. On some of its most important microloans it charges as much as 195% interest rates to its poor female clients (Roodman 2011). This is a figure likely to considerably disadvantage the poor as they attempt to escape their poverty

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successfully re-industrialised Western Europe and so drained away much, though not all, of the growing support for Soviet-style central planning measures (Reinert 2007).

through informal microenterprise activity, or else indebt them if used for simple consumption spending (as most actually is).

Second, Banco Compartamos then uses the very healthy surplus it generates on such problematic business activities (as well as consumption spending) to pay out very large dividends to its wealthy, often US-based shareholders. In 2012, for instance, it paid out $100 million in dividends (Rozas 2013), a figure that is larger than the balance sheets of all but a few of the largest MCIs. Also getting in on the spoils are the senior staff at Banco Compartamos, who have for a long time quietly enjoyed Wall Street-style salaries and bonuses (Richardson 2007). This hardly looks like an institution that is dedicated to resolving the deep problems found in Mexico's poorest communities, so much as further enriching an already elite group of individuals.

Third, as if it even really matters, Banco Compartamos has been quite unable to produce any real evidence to confirm that poverty has been reduced in the poor communities in which it works.[29] To apparently fill this information gap, Banco Compartamos recently chose to fund their own impact evaluation, which ended up being undertaken by a research team headed up by Yale University professor, evaluation expert, and noted microcredit supporter, Dean Karlan. However, the research team could only find very limited evidence of any positive impact arising from Banco Compartamos' micro-lending activities in the poorest communities (Angelucci, Karlan and Zinman 2013). Moreover, as both Bateman (2013b) and Sinclair (2013) note, even this muted outcome was only made possible thanks to the research team deliberately choosing to adopt a controversial impact evaluation methodology, the Randomised Control Trial (RCT), a methodology that rather conveniently overlooks most of the main negative aspects to the microcredit model.

South Africa has it own version of Compartamos in the form of Capitec. Capitec is not just well-known in South African financial circles because of the huge profits and dividends reaped by shareholders since its establishment in 2001, but also for the spectacular salary and bonus payments awarded to its high-profile CEO, Riaan Stassen, rewards that have turned him into one of South Africa's richest individuals.[30] Almost unbelievably, Capitec has been actively targeting some of the very poorest mining communities in South Africa, such as in Rustenberg (Citi Research 2012), where it has had no reservations whatsoever about making massive profits through programmatically over-indebting the poor and largely migrant black mineworker population. The impact on these individuals has been horrendous in so many ways (Bateman

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[29] In addition, much mystery surrounds an NGO that emerged out of Banco Compartamos's transformation into a fully commercial bank – Promotora Social Mexico, PSM – which was endowed with a significant amount of capital (around $US800 million) to promote projects of benefit to Mexico's poor and which was controlled by senior staff associated with Banco Compartamos. The fate of PSM is important because in 2007 many microfinance supporters used the example of PSM to defend the IPO process, saying that it would have a very positive impact on Mexico's poor. By all accounts, however, there is almost no information to confirm what PSM has achieved since 2007. Enquiries into its activities by a high-profile US-based researcher in 2012 got no reply whatsoever, though within weeks of his initial enquiry the PSM website was significantly revamped. But even today, there remains no real information on the website to show what concrete projects PSM has funded and/or supported since 2007 with its extremely generous endowment. Go to http://psm.org.mx/

[30] Awarded in 2004 a personal shareholding of 167,645 shares priced then at R7.61 per share (i.e., a total value of around R1.3 million), in mid-2012 Stassen off-loaded a fifth of his shares for nearly R100 million (around $US11.5 million) at a price per share of around R220, with nearly R400 million (around $US46 million) of *Capitec* shares still held by his private investment company. See 'R80m share bonus for Capitec boss', Fin24., May 6th, 2013. http://www.fin24.com/Companies/Financial-Services/R80m-share-bonus-for-Capitec-boss-20130506.

2012a). Perhaps worst of all, as Bond (2013) explains, the mass over-indebtedness of the mining population in Rustenburg was one of the principal underlying causes behind rising anger and bitterness in the community, a factor that eventually led to the informal strike action that triggered the infamous massacre of 34 unarmed strikers at the Marikana mine complex in Rustenburg on 16th August 2012.

Finally, there is the amazing case of SKS in India and its high-profile founder and former CEO, Dr Vikram Akula. A self-declared anti-poverty campaigner (Akula 2010), a recipient of numerous awards, and in 2006 named by Time magazine as one of the world's 100 most influential people,[31] Akula was responsible more than any other individual for kick-starting the unsustainable expansion of the microcredit sector in Andhra Pradesh state in India, an expansion that ended in a hugely destructive bust in 2010. It will take many years before the Andhra Pradesh economy recovers from such excess, waste and confusion, thus clearly disadvantaging the poor well into the future. Nonetheless, prior to the collapse in 2010, Akula was pointedly able to turn himself into one of India's richest individuals, thanks to both a very high salary and, more importantly, to a complicated series of organizational changes to SKS that awarded him a significant shareholding in SKS. As India's leading microfinance expert, Ramesh Arunachalam (2011), brilliantly shows (see also Sriram 2010), these changes allowed Akula to become an important shareholder in SKS without putting up any of his own wealth: for example, he awarded himself a large interest free loan to purchase shares in SKS). In the process of becoming individually wealthy, however, Akula had to deprive SKS's large number of poor female clients of a spectacular amount of wealth that was rightly theirs.

Crucially, in terms of (the lack of) corporate governance, Akula was aided by a number of carefully-selected board members at SKS, loyal individuals who were otherwise employed in prestigious institutions – one a Professor at Harvard University and the other a very senior official at the social investor UNITUS - but who were nevertheless willing (not least because they also stood to personally gain from their own shares and share options in SKS) to back Akula up on almost every change he came up with (Bateman 2012b). SKS actually stands out not as an example of poverty reduction success, therefore, but as a stunning example of how the general idea to commercialize and deregulate the microcredit sector has been so dramatically destructive, and particularly because it all too often gave CEOs the Wall Street-style 'operating freedom', if not the tacit encouragement too,[32] to effectively loot their own organization (on this, see Black 2005).

If the above MCIs are seen as the 'best examples' by the microcredit industry, which at least until recently was very much the case,[33] then the extent of the problems arising from commercialisation are surely easy to see.

4.2. The new normal of microcredit 'bubbles' and 'boom-to-bust' scenarios

[31] See 'The 2006 Time One hundred'. http://content.time.com/time/specials/packages/0,28757,1975813,00.html

[32] Almost all of the most high-profile CEOs unequivocally responsible for some of the worst asset-stripping episodes, as well as many other unethical actions, nevertheless remain well-respected figures within the microfinance industry and wider international development community. The fact that these individuals and institutions have not been shunned has sent out an important signal to everyone that such practices are in keeping with normal business practice; hence, they kept reappearing everywhere.

[33] Some of the most egregiously profiteering MCIs just mentioned, notably Banco Compartamos, are now coming under far more criticism from within the microcredit industry.

Very much a function of the individual and institutional abuse of the poor, just noted, are the overall unstable market-driven dynamics given birth by commercialisation and deregulation that have undermined the microcredit sector ever since. These dynamics have directly given rise to a number of destructive 'boom-to-bust' episodes that have more than wiped out any of the positive impacts associated with the microcredit mode. Moreover, such destructive episodes have effectively become the 'new normal' in the world of microcredit (Guerin, Morvant-Roux and Villarreal. 2013).

The first destructive 'boom-to-bust' took place in Bolivia in 1999, the then leading example of a commercialized and deregulated microcredit sector. Although microcredit advocates said at the time that it was a 'one-off' incident caused by special circumstances, such as the arrival of a large MCI from Chile (Rhyne 2001b), this was soon proved not to be the case. Through 2008-9 a number of new 'boom-to-bust' episodes emerged in Morocco, Pakistan, Bosnia and Nicaragua. The most recent, and most destructive by far, was in the state of Andhra Pradesh in India, an event that was created almost entirely thanks to the manifestly unsustainable expansion plans formulated by the greedy owners of the 'big six' MFIs, led by the aforementioned Vikram Akula (Arunachalam 2011).

We might also usefully point out here some of the leading candidate countries for the next 'boom-to-bust' debacle. Mexico is one such country, especially driven by the seriously saturated southern region of Chiapas (Rozas 2013), Sri Lanka, Colombia, Lebanon, Cambodia and, of course, South Africa (see above). Bangladesh was once very firmly in this category. However, for reasons we are not yet clear about (Chen and Rutherford 2013), it seems that from around 2010 onwards the main MCIs in Bangladesh began to pull back from an almost certain 'boom-to-bust' crisis of their own. Although Bangladesh's microcredit sector still remains in some considerable danger thanks to its dramatic over-expansion and high level of multiple lending (an individual possessing more than one microloan), the fears of a few years ago of a total collapse – 'a train wreck' as one leading MCI manager expressed it – have, for now anyway, largely abated. The leading candidate for a forthcoming 'boom-to-bust' scenario is now Peru, a country where a simply staggering $10.7 billion of microloans have been absorbed to date among only 4 million poor clients.[34] One clue as to what is going on is that practitioners in the field are finding, among other things, that the level of multiple lending in Peru has likely surpassed almost every other 'boom-to-bust' case to date.[35] Crucially, once again, it must be emphasized that in none of these country examples is there any solid evidence whatsoever that poverty has been reduced as a result of the massive expansion in the supply of microcredit.

Rather than an association with impressive poverty reduction figures, the defining features of the global microcredit industry today are Wall Street-style greed, irresponsibility and profiteering, all of which then combine to produce a recurring bout of destructive 'boom-to-bust' episodes.

5. The response from Yunus and the microcredit industry to the overwhelming evidence of microcredit system failure?

5.1. Yunus digs in, but also moves to focus on another 'big idea'

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[34] See Mixmarket, http://mixmarket.org/mfi/country/Peru

[35] Information provided to the author by a confidential informant working in the microfinance sector in Peru.

With the microcredit model under huge criticism since 2010, Muhammad Yunus was eventually forced to react, though only meekly. He has, for sure, put aside his earlier overblown statements as to the immense power of microcredit,[36] yet he continues to support the pretence that microcredit remains a major force in poverty reduction. His media statements and public speaking engagements are all marked out by many claims, though not backed up by any genuine independent evidence at all, that microcredit is 'one of the keys to resolving poverty'. Pointedly, Yunus has failed to react (at least so far) to the fact noted earlier that the single most important piece of evidence he extensively used in the 1990s to 'sell' the microcredit model and Grameen Bank – summarised in his famous phrase that '5% of Grameen borrowers escape poverty every year' – has been quite convincingly shown to be false. Overall, Yunus continues his work in the firm belief that nothing has really changed, and that those who choose to attack the microcredit model are mainly politically inspired rather than evidence-driven. His most recent moves have been to promote microcredit in the developed economies (especially in the UK and USA) as part of the policy response to the rising unemployment and poverty, especially in the aftermath of the global financial crisis.

In terms of the huge damage inflicted by the turn to commercialisation in the 1990s, Yunus's position here is much stronger, of course, since he was not at all responsible for the drive to commercialise and deregulate. Nonetheless, things are still somewhat complicated here. For one thing, Yunus generally supported the commercialisation moves that got underway in the 1990s, and he instigated the conversion of the Grameen Bank into a commercial for-profit institution through the 'Grameen II project' in 2001 (Hulme 2008). Later on, however, when it became clear to all that commercialisation had unleashed a monster that it could not control, Yunus increasingly went on record with his concerns that the commercialisation of microcredit has actually been a fundamental mistake. It has allowed the money-lenders back into the community under the guise of being responsible MCIs. Yunus has notably publicly scolded both Dr Vikram Akula at SKS and the Banco Compartamos management team for egregiously exploiting the poor through the combination of ultra-high interest rates, ultra-high salaries and bonuses, and the stratospheric financial windfalls realised via the Initial Public Offering (IPO) process. Yet, always omitting his own role in helping things along, and other than simply talking about his *concern* over the direction the microcredit industry is taking, Yunus has been largely unwilling to use his enormous stature and physical presence on so many high-profile boards and foundations to actually do anything to curtail a trajectory that he claims to find so deeply damaging. In fact, as Sinclair (2012) points out, in many cases Yunus has quietly continued to support, if not actively promote, some of the very worst examples of commercialisation.

Instead, what Yunus *has* done, concretely, is to gradually shift into promoting what he calls a 'social business'. This is an ostensibly new type of business unit that Yunus says represents a radically new and more humane form of capitalism (Yunus 2007, 2010). However, Yunus has extensively promoted the social business concept by referring back to the Grameen Bank and other Grameen affiliates as the most successful examples of the concept. As we have pointed out, however, the poverty reduction 'success' of the Grameen Bank (and every other MCI) is very much a myth, which is rather awkward to say the least. Moreover, there are some serious flaws

[36] These statements caused much controversy at the time. One highly respected development economist, David Hulme (2008; 6), criticised Yunus because he, 'energetically promoted microenterprise credit as a panacea for poverty reduction (something that intensely annoyed me, as it was so wrong)'.

within the logic and practise of social business that Yunus has overlooked, or downplayed, that undermine its legitimacy (Bateman and Novkovic 2014).

5.2. Agnotology

Agnotology is the phenomenon whereby the powerful are engaged in the intentional production and promotion of ignorance. It is a technique deployed in order to advance a particular economic, political or ideological goal. The classic example of agnotology is that of the tobacco industry, which in the 1950s and 1960s financed a raft of dubiously 'scientific' studies, alongside some genuinely scientific studies, the aim of which was to unjustifiably question the 'smoking leads to cancer' link that had been pretty much proved by independent hard science. The term gained widespread recognition in 2013, however, thanks to Philip Mirowski (2013). Mirowski convincingly demonstrates how the financial sector went out of its way to deliberately confuse and manipulate the public by creating an entirely false impression as to which parties were principally responsible for the global financial crash of 2008. The result, as intended, was to put a block on any large-scale reform to the financial sector and, a by-product, to give a further lifeline to neoclassical economics in spite of its manifest failure to even envisage, still less formally model, a situation whereby markets would fail so catastrophically.

In the microcredit sector, agnotology is increasingly widespread. The proximate aim is to suggest that the emerging evidence of zero, or even negative impact, is simply not to be believed, is politically driven (therefore suspect) and that there is much disagreement. The standard narrative – that microcredit is a brilliant force for positive change – need only be modestly recalibrated. Perhaps not surprisingly, all of the key techniques used by the Wall Street-led financial sector have transferred over to the microcredit industry. Let me discuss two of the most striking examples of agnotology that recently emerged within the microcredit sector.

The first example involves a book project undertaken by David Roodman while employed at the hugely influential Centre for Global Development (CGD) in Washington DC. Roodman declared that he was setting out to carefully examine the evidence that microcredit constitutes a useful intervention in society, and specifically in poverty reduction policy, and come to some sort of conclusion as to its effectiveness. The book project used a novel technique whereby Roodman discussed and debated on his website what he was writing and he invited comments, data and other feedback with the ostensible aim of making sure the book was as accurate as possible. Even more important, however, the book project was jointly promoted and financed by the World Bank's microcredit advocacy body, the Consultative Group to Assist the Poor (CGAP) and the Mastercard Foundation, two of the most high-profile supporters of the commercialised microcredit paradigm.[37] When it came out, Roodman's book (Roodman 2012) was given a very warm welcome by the microcredit industry, as shown by the long list of endorsement solicited from the highest profile individuals working in the microcredit industry, including Dr Muhammad Yunus, and by the many positive reviews from the same people.

[37] As the World Bank was then very much in thrall to the neoliberal policy agenda and was vigorously imposing it on developing countries all around the world, CGAP's motivation here was very clearly ideological. The Mastercard Foundation's support, however, was predicated more upon the book being a good CSR contribution that might resonate with its long-term objective of building a profitable market for financial services in developing countries, an outcome that would ultimately benefit its multinational corporation founder, Mastercard Incorporated.

Much support and praise for Roodman's book emerged in spite of the fact that the book very properly came to the conclusion that the accumulated evidence overwhelmingly shows that microcredit has *not* worked to reduce poverty. As Roodman later summed up in an interview with Time magazine, '*On current evidence, the best estimate of the average impact of microcredit on the poverty of clients is zero'*.[38] But having admitted this crushing fact early on in his book, it is what Roodman did next that was so troubling: he appeared to completely change tack and he now began to come up with a set of spurious justifications as to why microcredit was nevertheless still of vastly enormous importance to society, and it should certainly not be abandoned as an anti-poverty measure. Perhaps the central claim made in this category was the idea that microcredit was a fantastic process of 'institution-building': that is, it created a raft of financially self-sustaining institutions, which Roodman saw as a very positive output in and of itself. Many were not convinced by this specific claim, however. This included both microcredit supporters, such as Dean Karlan (Karlan and Appel, 2012: 82-3), who earlier pointedly argued that 'microcredit is the means to the end, not the end itself', and that 'the tool is not what matters; reducing poverty is', to microcredit critics, such as the current author (Bateman 2013c: 4), who argued that 'Without fully taking into account what an institution has actually *achieved* in the community, one simply cannot fall back to argue that the mere *existence* of that institution itself is a positive outcome'.

The lasting impression gained from Roodman's work is that his justifications for microcredit in the book are so weak and evidence-free, and coming after such an impressive start, that they must surely have been conjured up as a way of simply muddying the waters, an attempt to create an entirely artificial world in which microcredit supporters could hold on to their belief that microcredit was capable of delivering the important advantages that they had always been led to believe. In future, solid evidence that microcredit was failing could be (and was) countered by reflexively deploying Roodman's fake counter-narrative of institution-building and other systemic successes. One can only presume that this lifeline thrown to the microcredit sector was very much appreciated by both the Mastercard Foundation and, especially, CGAP: it may even have been exactly what they paid for.

The second, and much more clumsy, agnotological project was announced in 2010 (appropriately enough, it began with a press release issued on April 1st – April Fools Day!). This was the admission by the world's six leading microcredit advocacy and investment bodies - ACCION International, FINCA, Grameen Foundation, Opportunity International, UNITUS, and Women's World Banking - that they would no longer accept the (negative) results emerging in all of the latest independent impact evaluations, but would instead revert back to justifying and promoting microcredit to the general public based on the 'evidence' of their own carefully selected anecdotes and in-house produced case studies (see ACCION *et al* 2010). Even long-time microfinance supporters were taken aback at the sheer cynicism of a coordinated move to create the impression that the very basis of independent empirical research was unsound, and that a series of carefully chosen anecdotes would henceforth suffice as 'proof' that microcredit was working.[39] The set-back to knowledge and progress represented here if the project is carried

[38] See 'Does Microfinancing Really Work? A New Book Says No'. *Time*, January 6th, 2012. http://content.time.com/time/world/article/0,8599,2103831,00.html (last accessed on December 5th, 2013).
[39] For example, see the blog posting by leading Indian microfinance advocate, Sushmita Meka, on the India Development Blog, http://www.indiadevelopmentblog.com/2010/04/deja-boo-hoo-have-we-learned-anything.html (accessed on August 22nd 2013).

through to its logical conclusion – independent academic research is deemed to be useless compared to a handful of uplifting stories provided by the subject under evaluation – can only be immensely negative in so many obvious ways.

5.3. We need to talk about 'financial inclusion'

By far the most dramatic response to the gradual debunking of the claims that microcredit is a poverty reduction agent, however, surrounds the concept of 'financial inclusion', which is defined by the World Bank (2014: 1) as 'the proportion of individuals and firms that use financial services'. During the last five or so years, as the bad news has mounted, there has been a definite programmed shift into promoting the claim that microcredit is (now) actually all about promoting 'financial inclusion'. Concomitantly, this shifting of the goalposts has seen virtually all references to microcredit being a direct aid to poverty reduction removed from the official publicity and PR statements released by the microcredit industry. And already, just as in the early stages of the microcredit industry, the metric of 'success' in terms of the promotional effort behind financial inclusion has been redefined. 'Success' in promoting financial inclusion means the mere extent to which poor individuals are simply linked to the financial system – have bank accounts, use savings facilities, pay bills by mobile phone, and so on – rather than what this mechanical relationship means in terms of important life goals, such as escape from poverty, security, income, or employment. Crucially, this shift is being orchestrated without any solid evidence pointing to the fact that financial inclusion *per se* will lead on to the net benefits attributed to it. This is especially the case if one takes into account the inevitable reduction in funding on other forms of intervention, such as health, education and infrastructure (Bateman 2012c).

However, we need to get real. As with the microcredit model in the 1970s and 1980s, the 'evidence' is not what is really driving the shift towards financial inclusion becoming the goal of the microcredit sector: politics/ideology and institutional self-preservation are. It is no accident that the financial inclusion movement is effectively led by the World Bank's CGAP advocacy unit, and backed up by the Boston-based ACCION investment and advocacy body with its Centre for Financial Inclusion, two of the most aggressive supporters of the commercialisation of microcredit. The former is clearly playing its part in the wider movement by the financial sector to determinedly retain the momentum in favour of a fully market-driven financial system and, as Crouch (2011) and Morowski (2013) show, almost no matter what the end results happen to be. ACCION, for its part, probably has important institutional legitimacy and survival concerns of its own to worry about.[40] After all, if microcredit is consigned to the dustbin of development policy history, then what is an institution established to promote microcredit supposed to do instead?

Progressive commentators have long marvelled at the ability of establishment scholars, practitioners and institutions to consistently avoid any responsibility for their ideologically-driven errors and mistakes. Often, as James Galbraith once noted, this is achieved simply by 'changing the subject'.[41] Similarly, the microcredit industry's willingness to quietly ditch the original

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[40] However, it should be noted that ACCION's hugely profitable investments in many microcredit institutions, especially Mexico's Banco Compartamos, have more than ensured its financial survival.

[41] James Galbraith presciently described as early as 2001 – that is, well before it became readily apparent in the context of the financial crisis of 2008 - that this form of denial was quite central to the US economics profession - see 'How the economists got it wrong', *The American Prospect*, December 2001. http://prospect.org/article/how-economists-got-it-wrong (last accessed on December 5th, 2013).

declared aim of microcredit, and bring forward a largely fake replacement objective, is being undertaken not just in order to keep the microcredit sector in existence, but also to maintain confidence in market-based solutions poverty overall. All this clearly points, of course, to the fact that goals other than poverty reduction are at work here. The final section briefly reflects upon this question.

6. A final word on the political rationale for microcredit

It is well established in the literature that a major gap exists between the *declared* objective of any particular policy intervention, and the *hidden* political agenda drawn up by the main international development institutions and the rich country governments that control these institutions (Ferguson 1990; Scott 1992). It is therefore quite logical to explore the hidden political agenda that emerged to first help establish the contemporary microcredit model as one of the most popular of anti-poverty interventions of all time, and then doggedly sustain it in spite of its manifest ineffectiveness. Indeed, as the microcredit industry began to take shape in the neoliberal 1980s, it was inevitable that a parallel literature would emerge to explore the specifically political and ideological goals that lay behind the microcredit model (for example, Bateman 2000, 2003; Bateman and Ellerman 2005; Elyachar 2005; Feiner and Barker 2007; Rogaly 1996; Weber 2002).

More recently, Bateman (2010), and Bateman and Chang (2012), confirm that, for a number of reasons, the microcredit model has been of real strategic importance in rolling out and under-girding the neoliberal political agenda at the local level. These reasons include:

- the need to ensure that ‘development’ and ‘progress’ are always and everywhere mainly seen as an outcome of individual capitalistic entrepreneurship processes, even in the very poorest communities, and that there is no real need for state intervention or the building of collective capabilities.

- the need to provide an acceptable outlet for popular pressure arising from the catastrophic impact of the neoliberal model on the poor. The poor are to be encouraged to accept individual entrepreneurship, self-help and an informal microenterprise as their only way out of poverty, and, very much a parallel to the immense attraction of gambling to the poor, to be content to live on the constant hope that they will be the one of the tiny handful to succeed in a meaningful way.

- the microcredit model lowers the cost of business for the private sector, thus permitting tax reductions that benefit business elites at the expense of the poor and supposedly stimulates them to even greater heights of wealth and job creation. Centrally, informal, non-unionised, non-tax-paying, regulation-avoiding informal microenterprises can produce many inputs required by larger private businesses at very much lower costs than unionised, formal businesses that offer secure employment, pay decent wages to employees, and respect health and safety legislation at work.[42]

[42] Indeed, very many development programs, notably those implemented by the US government’s aid arm, USAID, have been structured to achieve *precisely* this aim – to replace unionised formal SMEs by informal microenterprise suppliers in the supply/value chain of major multinational enterprises. There is typically much celebration and PR

- the need to promote privatisation and liberalisation in spite of the negative impact on the poor. For example, privatisation projects that deny the poor access to important services (e.g., water) can be temporarily supported by a microcredit program that for a period allows the poor to continue to access the now more expensive private services. Initial user and public resistance to such privatisation programs can thus be minimised.

- the need to ensure that the poor forget about any demand for the meaningful redistribution of wealth and power, even though respected poverty analysts see this as the single most important way of resolving endemic poverty (Green 2012). Instead, if the poor refuse to access microcredit and to engage in microenterprise activity, they can now be blamed for their own poverty – they were too lazy, they made wrong business choices, etc.

Most recently, however, the politics of microcredit issue was quite dramatically raised by a project contracted by the UK government's aid arm, the Department for International Development (DFID), in order to undertake a systematic review of all the impact evaluation evidence purporting to establish a positive impact from microcredit. The project was undertaken by an independent evaluation team headed up by Dr Maren Duvendack, one of the world's leading evaluation experts (Duvendack *et al* 2011), and including other high-profile evaluation experts (e.g., Richard Palmer-Jones) and a high-profile expert on microcredit (James Copestake). In other words, this was a research team with impeccable credentials for such an important study. Nonetheless, it was no secret that DFID was hoping for a broadly positive result in order to dispel the growing criticism of microcredit, not least because DFID supports many microcredit programs in Asia and Africa.

However, the research team could offer little support to the notion that microcredit has imparted a positive impact on the lives of the poor. The overall conclusion Duvendack *et al* came to was therefore quite a shock for some: '(the) current enthusiasm (for microfinance) is built on (..) foundations of sand'. Furthermore, they go on to make the quite explosive point that they believe the case for microcredit has been made not so much on the basis of the *economics* (of poverty reduction and development), but on the *politics*, and that further research is required by political scientists in order to understand '[*why] inappropriate optimism towards microfinance became so widespread*'(76).

Duvendack *et al* were quite right to highlight the fact that politics is important here. Indeed, in the context of the global financial crisis, it is becoming something of an art form. One only has to look at the way that microcredit programs are today being very extensively used to convey an impression that 'something is being done' about mass unemployment when, in fact, nothing is being done. Let me give just two examples that usefully indicate the crucially important serviceability of the microcredit model to the neoliberal project, and to the related movement to ensure that the general population understands that free market capitalism is simply in a temporary funk and a funk, moreover, that can only be addressed with measures promoting even *more* capitalism.

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hype as to the number of jobs created in the informal microenterprises, while the concomitant loss of jobs in the unionised sector is simply ignored or else, even better for neoliberals, blamed on the trade unions themselves!

Consider the situation in Greece today, where in the last five years a vast number of formal microenterprises and SMEs have ceased trading (as many as 15% between 2007 and 2011 alone), have had to lay off most or all employees, and/or are now bordering on collapse (Kotsios and Mitsios 2013). Many more informal microenterprises have experienced similar problems. The most recently released data is even more alarming, showing that there has been a quite dramatic collapse in local demand in the last two years (2012 and 2013), and so there has also been a collapse in profits, incomes and wages. Accordingly, even *more* microenterprises and SMEs are slated to exit very soon (IME-GSEVEE 2013). Very similar problems exist in Spain, Italy, Portugal and Ireland. Nonetheless, this robust independent evidence is almost entirely rejected by key neoliberal policymakers, who continue to insist that 'more microcredit' and 'more microenterprises' constitutes a meaningful response to the crushing problems of unemployment and poverty (Bateman 2012d).

For example, the European Commission has introduced an entirely new wave of microcredit programs for Southern Europe, including a special €100 million microcredit fund. The justification for these programs is that the key problem holding back new microenterprises is a lack of finance, and not the abject lack of demand in the local community. Evidence to support the contention is provided using data on demand and enterprise exit from the years 2002-4; that is, well before the current financial crisis! (*ibid*). A similar unsubstantiated response to mass unemployment and poverty has been proposed for many parts of the USA by the Association for Enterprise Opportunity (AEO). Ina major report, the AEO argues that there are still massive employment opportunities to be exploited in the microenterprise sector, even in those locations (e.g., 'rustbelt cities') where the global financial crisis has been having such a destructive impact (AEO 2013). Just as with regard to the European Commission project, the AEO report has very little to say on existing microenterprise exit patterns, however, and whether or not the highest rates of exit, as in Europe, are in exactly the 'rustbelt states' they wish to help. This, of course, would invalidate the central claim that the report is trying to make, which is that microenterprises hold out a massive opportunity for positive change.

The implicitly political motives that lie behind both of the above projects should be abundantly clear, at least to those who care to look. First, it is to show to the public, and to the poor in particular, that 'something is being done'. Even though such projects have little realism or truth to them, they nevertheless have very high PR value. In addition, if the poor do not wish to get involved in such projects (perhaps because, quite rightly, they realise that there are no local business opportunities), then it is also much easier to blame them for their own unemployment and poverty predicament. This very much plays to the prejudices of the neoliberal establishment as well as the popular misapprehension, for many decades stoked up by the right wing media, that the poor and unemployed are 'lazy and undeserving'. Second, there is the felt need to ensure that the extremely important macro-message goes out to everyone, especially the poor, unemployed and otherwise discontented, that the solution to the disastrous failure of neoliberal capitalism in recent times is simply MORE neoliberal capitalism. This, of course, was one of the surprising findings outlined by Mirowski (2013); that a form of 'cognitive dissonance' prevailed when things began to collapse in 2008, with the main believers in the neoliberal project simply redoubling their allegiance to the system alongside calls for even *deeper* adherence to neoliberal policy imperatives.

If it ever was, the political serviceability of the microcredit model to neoliberal capitalism is now no longer in any doubt. So long as the poor can be instructed to believe that their ultimate salvation lies in the microcredit model and in self-help and a microenterprise of their own, the political authorities everywhere can avoid facing up to the real issues that confront the world in the new millennium - secular stagnation and the structure and functioning of an economic system that perpetually creates the multiple horrendous realities that microcredit purports to address.

7. Conclusion

Yunus promised the world — and especially the poor — that microcredit would usher in an historic episode of poverty reduction and sustainable bottom-up development. Unfortunately, Yunus was wrong. Albeit perhaps well-meaning, Yunus nevertheless misunderstood key local economic and social development circumstances and triggers, and so ended up kick-starting a process that ultimately led on to the establishment of a 'poverty trap' of increasingly historic proportions. Worse, as the neoliberal project began to dominate the policy formulation process in the 1990s, it was inevitable that Yunus's original subsidised microcredit model would be cast aside, even by Yunus himself. However, the 'neoliberalisation' of microcredit then backfired in a most spectacular way. The dominant narrative describing microcredit today centrally involves the astounding financial and other benefits accruing to the *providers* of microcredit – to the managers and owners of MCIs, investors, advisors, international development agency staff, etc – and not to the poor *recipients*, who overwhelmingly remain just as much in poverty as ever.

It is an unpleasant task to have to conclude that a well-meaning intervention has not worked out as was intended. Nonetheless, the sooner we begin to accept the sour reality that has emerged, the better it will be for the poor. Right now we urgently need to respond to the damage done by microcredit to so many enfeebled communities, where a 'pure' hyper-competitive local version of the textbook free market economy ensured that material and spiritual progress were thrown into reverse. We also need to begin to free our minds and imagination to think about alternative national and local financial models and institutions, the ones that economic history shows have been of genuine long-term benefit to humanity and society, and to the poor in particular. However, this would be the subject for another paper entirely (but see Bateman 2012e, 2013d; Chang 2007).

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