The Limits of Micro Credit as a Rural Development Intervention

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Declaration

This dissertation has been submitted to the University of Manchester for the degree of MA (Econ) in the Faculty of Economic and Social Studies in 1996.

No portion of the work referred to in the dissertation has been submitted in support of an application for another degree or qualification of this or any other university or any other institution of learning.

Preface

I would like to thank the British Council for their generous scholarship. I would also like to thank David Hulme my supervisor for his constant support and encouragement. Finally I would to thank my mother for numerous childhood trips to the Johannesburg Public Library without which I would not have been able to read for this degree.

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Overview

> "Grameen Bank has achieved startling results providing millions of tiny, unsecured business loans to the landless poor of Bangladesh. Can a similar kind of "micro-credit" be made to work in Canada? If not, it won't be for lack of trying." - Judy Margolis in the *Canadian Banker*, January 1996.
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> "LA PAZ, Bolivia-Juana Choque, a 39-year-old woman who migrated to La Paz from rural Bolivia, recently got the first bank loan of her life, $100 to expand her sidewalk vending business... The success of such overseas programs for the poor has given rise to some 200 micro-enterprise loan programs in the United States, including several in Southern California, funded by various public and private sources. The founders of Micro Enterprise Loan Program of Orange County in Garden Grove, for example, patterned their program directly after the Grameen Bank in Bangladesh." - Chris Kraul writing in the *Los Angeles Times*, Tuesday November 29, 1994.
>
> BEIJING, September 7 (IPS) - Ask the United States and the WorldBank how they can best serve the interest of poor women, and theywill shout in unison, "micro-credit". These two world powers will, on cue, launch into the success stories of Bangladesh's Grameen Bank and the wonders of extending credit for small-scale enterprises run by poor women. Yesterday, US First Lady Hillary Rodham Clinton lauded the Grameen Bank's success in serving the poor, while U.S. Ambassador Madeleine Albright said outstanding micro-enterprise lenders in the United States will be honoured through special presidential awards" - Y Collymore in the *Inter Press Service English News Wire*, 9 November 1995.

From Bangladesh to Bolivia, from the most developed countries to the least developed countries, development professionals and world leaders are promoting micro finance institutions, more often than not based upon the Grameen Bank model, as a panacea to poverty. Lack of credit is being privileged by the above-mentioned groups in their explanations of poverty.

This dissertation will explore the limitations of micro credit as a rural development intervention. It will hopefully assist aid and government agencies who are considering establishing micro finance institutions in rural areas to assess the appropriateness of this specific development intervention.

The dissertation begins by introducing the topic of rural micro finance broadly, in which the issue of capital markets and the poor is explored. The impact and potential impact of informal money lenders and innovative micro finance institutions on rural development is examined. The next three chapters look at the conditions which limit the effectiveness of micro finance institutions as development interventions. The three conditions examined are - non-viable enterprises and/or entrepreneurs, when development needs to target the 'poorest of the poor', and finally, when poverty is very overtly the result of a political process.

Summary

This dissertation takes issue with claims made by range of development agencies and practitioners that micro credit is, or could be, a panacea for rural development. Three options for the provision of micro credit to the rural poor are presented. In some developing countries the state has provided micro credit. These schemes have frequently collapsed because they were often motivated by political, rather than financial considerations. Over the last few decades, neo-liberal theorists have re-examined the role of the much-maligned money lender. They have argued that the ostensibly exorbitant rates of interest charged, are actually legitimate reflections of the opportunity cost of the loans. They suggest that the work of the money lender be facilitated through the removal of legislative and other restrictions. In recent years innovative Development Finance Institutions (DFIs) have begun to provide micro loans to the rural poor. They have introduced a range of novel mechanisms to provide micro credit. Although there is variety in the workings of the DFIs, they commonly: supervise their loan recipients intensively; lend to groups who are jointly and severally liable for the debts of individual members, and require proof of savings before they provide loans.

The putative success of many of these DFIs, in combination with the rise to prominence of neo-liberal thought, has lead to the vigorous promotion of micro credit as a rural development intervention. On closer examination, micro credit is quite limited as a rural development intervention.

Credit is only one ingredient in the mix of factors necessary for a successful enterprise. To respond to a potential demand for a good or service, a rural micro-entrepreneur may need access to one or more of the following: transport, communications, power, water, storage facilities, a legal system for enforcing contracts and settling disputes, etc. Apart from infrastructure, micro entrepreneurs need access to information about market trends and skills to run their micro enterprises. Capitalist enterprises require a specific set of social relationships. In some rural societies such a culture may be absent, or the existing set of social relationships may hinder the development of rural micro enterprises.

If one of the aims of rural development is to assist the 'poorest of the poor', then micro credit is not always the most appropriate intervention. A comprehensive study of 13 micro credit schemes in Asia, Africa and South America indicates unanimously that the benefits of the micro credit schemes under study were not scale neutral - the upper and middle income poor tended to benefit more than the poorest of the poor (Hulme *et al*: 1996).

Micro credit schemes often treat the symptoms and not the causes of poverty. Poverty is frequently the result of powerlessness. Those who promote micro credit schemes as a panacea for rural poverty ignore the complex matrix of power relations that circumscribe the capacities of the rural poor to run micro enterprises.

This dissertation concludes that lack of recognition of the limitations of micro credit schemes may have unfortunate consequences. On a micro level, it may result in the inappropriate and unsuccessful use of micro credit. At worst it may result in the return of a 'blueprint approach' to rural development, where micro credit is promoted as a development intervention in all situations, irrespective of the local and specific causes of rural poverty or the conditions that entrench it.

Chapter 1 - Introduction

Background

A system of credit provision is a *sine qua non* for capitalist development. Entrepreneurs need credit to begin their organisations, and generally need credit throughout the life of their enterprises to fill the lag between purchasing inputs and receiving payment for outputs. In developing countries rural people have often not been able to obtain formal credit, leading many writers to see credit as a panacea, the missing ingredient, for rural development.

The famous modernisation theorist, Walt Rostow, spoke of modernisation causing compound growth that would move continually forward and never backward[1]. Echoing similar optimism Mohammed Yunus, founder of the famous DFI, the Grameen Bank, spoke of the establishment of a virtuous circle, "....low income, more credit, more investment, more income" (as cited by Hulme *et al* 1996: 108).

The title of a feature on the Grameen Bank in an article in *The Independent* newspaper reads "Mohammad Yunus believes that he can eradicate world poverty, all by means of one simple idea [credit]. Now the world's leaders take him seriously" (Jolis 1996: 15). The article then proceeds to describe the work of Yunus Mohammed and how his model of micro credit is being taken as a panacea for rural underdevelopment and poverty. Mohammed Yunus heads the mostly World Bank financed Consultative Group to Assist the Poor (CGAP), to "propagate his vision world-wide". Bill Clinton has cited his experiment as a model for rebuilding America's inner cities (*Ibid.*).

With the rise of neo-liberal development ideology in the early '80s a great deal of emphasis has been placed on the development of micro enterprises. State sponsored development initiatives have been characterised by neo-liberals as inefficient. This has generated a great deal of interest in the prospect of rural micro enterprises, which has in turn focused on the question of credit provision to rural micro entrepreneurs.

The vast majority of developing countries have formal lending institutions such as commercial banks. However these are often inappropriate for providing credit to rural micro enterprises. Before examining the reason for their inappropriateness, we need to be clear on the distinction between formal and informal credit institutions. The distinction is often hazy.

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[1] Walt Rostow refers to this process in his seminal work, "The Stages of Economic Growth - a Non-Communist Manifesto" as compound interest. This phrase is used as short hand for suggesting that growth normally proceeds by geometric progression, in much the same way as a compound interest savings account (Rostow 1960: 2).

Definitions of formal and informal finance and trade

It is perhaps misleading to speak of two distinct forms of credit institutions, formal and informal. Ghate *et al* (1992: 8) see a continuum between formal and informal finance. Any distinction between formal and informal credit institutions needs to be fairly flexible. For one thing, the definition needs to be country specific, as in one country, some formal credit institutions, for example pawnshops, may be a registered formal credit institution, while in another they may be illegal and informal. Indeed a single country may even contain both registered and unregistered pawnshops.

The most accurate distinction between formal and informal credit institutions could be made in respect of the way in which they operate. Informal credit institutions are characterised by flexible small operations, and they operate mostly in a circumscribed area or a specific niche of the market. They tend to deliver personal service very close to the location of the borrower. They tend to be non-bureaucratic and much more flexible in respect of loan purpose, interest rates, collateral requirements, maturity periods and debt rescheduling (Ghate *et al* 1992: 9).

Capital markets and the poor

Developed countries have developed capital markets that rely on formal credit institutions. Formal credit institutions have on the whole failed to provide credit to the poor. Von Pischke in his book, *Finance at the Frontier* (1991: 143 - 168) gives reasons for their failure. Firstly formal financial institutions are removed, in a number of respects, from the lives of rural people. One need simply enter the foyer of any commercial bank to get an immediate sense of this. For instance, formal financial institutions tend to require literacy and often have little knowledge of how business operates in rural areas i.e. the complex interaction of business and social obligations. For the rural poor, transacting with formal financial institutions often involves time consuming journeys away from the village and transactions conducted during office hours with unfamiliar faces in unfamiliar surroundings (Devereux *et al* 1990: 11).

When the formal financial institution is a state run or parastatal organisation, it may be driven by a range of socio-political considerations, in addition to considerations of the clients' ability to repay. Credit provision for the development of rural micro enterprises may not be an appropriate way of facilitating rural development, and if the provision of credit is determined mostly by factors other than ability to repay the loan, it is unlikely that the micro-enterprise will be self-sustaining. In such a circumstance the state or parastatal is likely to cease providing credit.

The transaction cost of the provision of credit to rural micro enterprises may prove prohibitive to large formal financial institutions. Rural micro enterprises are often dispersed over large areas. Transactions involve relatively small amounts and they require relatively large amounts of non-interest earning cash to serve their clients (Von Pischke 1991: 147). Von Pischke claims that

"Obligations to formal institutions may not be accorded very high priority.....especially when institutions are not responsive to clients" (1991: 147) .[2]

In some instance, the opposite may be true. For example, when a non-government organisation (NGO) that was known in the past for providing grants moves into providing loans, the recipients often see the NGO as a soft target. Loan recipients recognise that the NGO would be unwilling to put pressure on lenders who defaulted and would certainly be unwilling to force the sale of collateral. [3]

Formal credit institutions deal frequently with a large number of clients who are often unknown to them. They rely on well developed financial and legal markets to obtain information about their clients, for example, institutions that collect information on bad debts and organisations that give credit ratings. Such institutions do not exist in rural areas where information about credit worthiness needs to be extracted on a more personal basis.

In assessing an enterprise, formal financial institutions tend to rely on financial profitability and cash flow analyses. These are expensive and are often inappropriate ways of assessing rural micro enterprise projects. They do not take account of social factors influencing production and distribution in rural enterprise projects in developing countries.

Unlike their larger formal counterparts, entrepreneurs who start micro enterprises typically lack assets, especially marketable ones to use as collateral for loans (Otero *et al* 1994: 13). Many rural micro enterprise projects tend to be agricultural enterprises, and are dependent on such vagaries as the weather and are therefore risky. The loans are often used in purchasing seeds, fertilisers, pesticides and herbicides which cannot be recovered if the crop fails.

Thus formal credit institutions have tended to stay clear of lending to rural micro enterprises. Two broad responses have emerged in response to this failure. The first response, a neo-liberal one, was to remove government legislation preventing informal credit institutions. This usually involved the removal of those laws that restricted trade in credit e.g. lifting the usury laws, removing state subsidised credit, etc. The second response was to facilitate the development of more innovative DFIs to overcome the problems outlined above.

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[2]This is debatable and certainly would not accord with my own work experience in South Africa where formal financial institutions were looked upon as powerful, reliable institutions that could be trusted - a belief that was exploited by many unscrupulous insurance sharks. For more information, please refer to an article I wrote on the subject entitled "Silence is golden for insurance sharks", *Mail and Guardian* , 3 Feb 1995.

[3]Imagine the furore that would occur if Oxfam sold the household implements of a rural women who defaulted on her loan.

The neo-liberal response - walking barefoot where bankers fear to tread

> "We dedicate this book to the much maligned moneylender because of her ability to walk barefoot where bankers fear to tread" (Adams 1992)

The vast majority of societies with money economies have, or have had, some form of informal money lending. Very often the money lender has been a despised member of the community.

In all societies with the malicious money lender myth, the money lender is usually believed to extract exorbitantly high interest rates because of the weak bargaining position of the borrower. Highly publicised cases of high interest rates have very often prompted governments to outlaw informal money lending through the passing of usury laws which set the ceiling on interest rates.

Von Pischke and other theorists of what has become known as the Ohio School, have argued that the high interest rates often charged by money lenders are a real reflection of the opportunity costs of the loan (Von Pischke 1991: 175). Lending to poor rural people is an extremely risky business. As mentioned previously, loans to rural people frequently tend to be for agriculture, a very risky enterprise dependent on climatic conditions. Rural people tend to be very mobile between rural and urban areas, which can facilitate debt evasion.

Rural people often have a low life expectancy. While this is not a problem with formal lending where personal loans are taken in conjunction with life insurance policies, such financial instruments are generally not available to rural money lenders.

Finally Von Pischke believes (1991: 176) that people tend to overlook the rural lenders' relatively restricted loan portfolio. He writes:

> "First, the number of borrowers they can accommodate is limited by the amount of funds they have to lend. A lender with a loan portfolio of 50 loans of roughly equal size would lose two percent of his loans if one borrower did not repay. To cover this risk, the lender would have to raise the annual rate of interest on the 49 remaining loans by about two percentage points. If ten borrowers failed to repay the capital loss would amount to 20% of the portfolio, and the compensating rate increase for the remaining 40 loans would be about 25%. Slow repayment because of a poor harvest, for example, also absorbs funds that the lender would want to recycle into new loans in the next season. Inability to continue to lend would jeopardise relationships with established borrowers, diminishing their incentives to repay outstanding amounts and raising the risk exposure on their entire portfolio (Von Pischke 1991: 176)."

Other research, by Tun Wai (as cited by Von Pischke 1991: 177) has shown that the seemingly high rates of interest often include payment for a range of non-financial services provided by the money lender. Tun Wai cites storage of produce and payment of market taxes as services provided by money lenders.

In response to claims made by Bhudari and others of the rapacious nature of moneylenders, Dale Adams (1992: 18) writes that " ...blaming money lenders for the financial difficulties encountered by a few of their clients is as illogical as condemning hospitals because they treat people who are ill and some of their patients pass away".

Thus essentially Von Pischke and members of the Ohio School argue that government intervention generally, and usury laws more specifically, have prevented many rural people from obtaining credit. The simple solution is, for a start, to repeal the usury laws. This would allow different money lenders to compete openly for clients, which, through market forces, would cause the interest rate to reflect the undistorted opportunity cost of capital.

The Ohio School relies on some very shaky ontological assumptions. Firstly, they assume perfect competition. They implicitly present a picture of a myriad of money lenders competing with one another for clients. While stories of monopolistic informal credit lenders are perhaps exaggerated, it is wishful thinking to assume they do not exist. There are countless examples, spanning centuries, from all over the world where credit markets exist or existed, of monopolistic money lenders, to the extent that the monopolistic money lender has almost become an archetype in European and South Asian literature.

A small farmer in Africa or Asia who does not have access to a state sponsored credit institution, may not have the option of choosing between one of the many competing informal money lenders because informal money lending may not be profitable. To recapitulate, this could occur for a number of reasons:

1. Investment funds may be scarce
2. The risks of non-payment may be too high - most rural micro credit is lent for agricultural production. Agricultural production is very risky in developed countries and it is even more risky in developing countries with poor infrastructure, corrupt marketing boards, etc. The lender cannot reduce these risks through taking out insurance because it is often not available.

In such circumstances a risk averse private sector may be "unwilling to walk barefoot....." (Hulme *et al* 1996: 5).[4]

The Ohio School focuses almost exclusively on economic growth with little attention to equity. Where informal credit markets exist, being risk averse they are likely to prefer to lend to larger, better established, wealthier and, in short, less risky enterprises. This leaves the poorest section of the population unable to obtain credit. As with the familiar "infant industry" argument, it is likely that government intervention will be necessary to help the poorest establish infant micro-enterprises. The next section explores some alternatives to government intervention in assisting the 'poorest of the poor'. Chapter 3 assesses the impact of innovative DFIs on the 'poorest of the poor'.

As noted above, the Ohio School implicitly assumes perfect competition. But the school decontextualises the lives of rural people to a much greater extent. It ignores the complex socio-

[4]The issue of imperfect competition in the rural areas of developing countries will be explored in detail in Chapter 2.

political environment of rural people. In particular it ignores the distribution of power in rural societies and the impact of this distribution on the success of credit markets. This issue will be examined in detail in Chapter 4.

Let us now turn to other approaches to the provision of credit to rural people.

Innovative micro credit institutions

Many state or donor sponsored DFIs seem to have proved successful in assisting rural people to start and profitably maintain rural micro enterprises.

The difficulties that formal financial institutions experience in supplying credit to rural micro entrepreneurs, can be divided into three categories - access, screening and incentive (Hulme *et al* 1996: 8).

The problem of access is not so much a problem faced by formal financial institutions in lending to poor people, but a social development problem. How does one ensure that only the poor apply for loans (as one would want to if the aim is to target the poorest)? The second problematic category is that of screening loan applicants. How does one screen loan applicants for bad borrowers, where borrowers do not have formal business plans or even written records? The third category relates to the incentives to repay. What incentives can be created to ensure repayment in the context of collateral free loans?

Hulme *et al* (1996: 8) survey a range of responses taken by innovative DFIs.

In respect to access problems, two methods evolved to ensure that the poor were targeted. The first was to supply very small loans that only the poor would be interested in borrowing. The second was to only allow loans on the basis of a minimum amount of assets and/or income. This approach was taken by a number of DFIs, most notably the Grameen Bank. The consequences of the targeting will be discussed in Chapter 3.

Three screening methods have evolved to assess the borrowers' credit worthiness. The most common is to lend to members of a group who are jointly and severally liable for the repayment of loans made to each member of the group. Screening is facilitated by self selected groups. This ensures that only people who the rest of the group take to be credit worthy are allowed in. Such groups have been euphemistically called 'solidarity groups' (Berenbach *et al* 1994: 127). This is by far the most common approach, although of course this does not necessarily attest to its efficacy. It could well attest to the fact that the Grameen Bank, which "stands out as the most significant peer group lending program in the world" (Berenbach *et al* 1994: 127), has frequently been copied by other DFIs, often inappropriately (Hulme *et al* 1996: 200).

Charging market interest rates and obtaining character references are the other two selection tools commonly employed by DFIs.

Perhaps the greatest innovation in providing financial services to the rural poor came with respect to the manner in which the DFIs ensured repayment. Most of the DFIs reviewed by Hulme *et al* supervised their clients intensively. This was done so intensively that the Grameen Bank was criticised for acting paternalistically[5].

In addition to close supervision of borrowers, some banks offered incentives such as rebates to borrowers who repaid regularly, as well as lending greater amounts to groups/individuals who repaid their loans on time.

Finally almost all groups insisted on their borrowers saving money, at least initially. This was designed to provide evidence of financial management skills, as well as, providing a small amount of collateral in some cases.

Assessing the success of credit and micro credit institutions as rural development interventions

The success of both the Ohio School and the innovative DFIs is difficult to assess. For one thing, what constitutes success is dependent on how one defines rural development, e.g. either as growth or equity. The results of an empirical analysis of DFIs seem to indicate that there is a trade-off between growth and equity. Hulme *et al* show that, predictably, the loans taken by poor borrowers tended to have less impact than those taken by relatively wealthier borrowers (1996: 201). This could be caused by a range of factors, including the fact that poor people were less likely to undertake certain potentially lucrative, but risky, investments, because the consequences of failure would be much more severe than it would be to wealthier borrowers.

Without going into great detail about the results of the work by Hulme *et al*, on the whole, most of the DFIs surveyed succeeded in lending money, and generally the vast majority of borrowers repaid their loans. This indicates that the funds were productively employed. This also indicates that there is clear scope in certain areas for the provision of credit to stimulate the growth of micro enterprise.

Nothing quite as systematic as the Hulme *et al* study has been done to assess empirically the success of lifting the usury laws. It would be almost impossible to do a comprehensive survey, because, firstly, informal lenders tend to be secretive about their lending practices and secondly, those who are engaged in highly exploitative (but now legal) practices are unlikely to want their practices to be exposed.

Development as economic growth and equity

In order to assess the effectiveness and/or limitations of micro credit as a development intervention, one needs to define development. The debate around what constitutes development is a highly

[5] One example of this apparent paternalism was highlighted in a recent *Living Marxism* (May 1996: 53) article by Para Teare, on the Grameen Bank, which claimed that one of the conditions for a loan was that women lenders boil all the water that they use.

contentious one. In practice, a range of very diverse strategies, from apartheid separate development schemes to Oxfam gender development programmes, have laid claim to bringing about development. In theory, the debate is just as wide. The founding social theorists all contributed to the debate, and offered a wide range of explanations as to what constitutes social progress or development and how it arises. Although there is much dissent in the definition of social development in the writings of the founding figures of Western social theory - Durkheim, Weber, Marx and Talcott Parsons - they all subscribe to the notion that social development is about long term and sustained improvement in human well-being.

Two broad schools of thought on development emerged over the last century - idealistic and materialistic. Of the idealistic approaches to development, perhaps the best known is the hermeneutic one, where development is viewed as the restoration of meaning to individuals. It is compatible with a very participatory approach to development. It sees individuals defining their own meaning and assigns to the development practitioner the role of restoring that meaning to their lives. As such, this approach does not specify development priorities, but allows the individuals in the community to specify their own development goals and then assists them in realising their goals (Coetzee 1986).

The major difficulty with such an approach is that it decontextualises individuals. It fails to see individuals as part of a wider society with an intricate web of power relations which circumscribe or facilitate their development.

Materialist notions of development see power as a central part of the development equation. The materialist school encompasses a broad range of approaches. One of the most common definitions and measures of development explores increases in levels of per capita income. This approach is useful because it provides a quick and easy measure of development levels. In extreme examples it can be useful - it is clear that Sweden is more developed than Ghana, mostly because of the higher per capita levels of income in the former. But it is only really useful at extremes: For instance, in what sense is South Africa, which has a higher per capita income than Cuba, more developed than Cuba, with its higher HDI[6]? Although the per capita levels of income are much higher in the former, the quality of life with respect to life expectancy and education is much higher in the latter.

As Dudley Seers (1969) noted in his seminal article, " The Meaning of Development", there has been a tendency to confuse development with economic growth. Economic growth measured in rises in per capita income fails to capture income distribution. If the benefits of economic growth are captured by a small segment of the population, improvements in (material) well-being are only likely to accrue to that segment.

There are countless definitions and measures of development. The HDI has been the subject of numerous papers and conferences. A meaningful critique of the HDI or any of the other measures is beyond the scope of this dissertation. The approach taken here is to define development broadly, focusing on improvements in levels of income and income distribution. In respect of income

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[6]The Human Development Index (HDI) is a composite measure of development that has three components - (1) life expectancy at birth, (2) educational attainment (comprised of adult literacy and enrolment in primary, secondary and tertiary institutions), and (3) income (UNDP 1995: 18).

distribution, it focuses on the distribution of income between and within classes i.e. between the wealthier of the poor and the 'poorest of the poor'. This approach gives an indication of changes in a factor that is universally taken to contribute centrally to individual 'well-being' i.e. levels of income.

By taking this broad approach, it is not suggested that definitions of development that include other measures of well-being are somehow incorrect. All measures and definitions of development that attempt to gauge improvement in 'well-being' are correct. There is no single correct answer to the question of what is development and how do we measure it. There are simply sets of good and bad answers to the question.

Chapter 2
When micro credit fails - non-viable enterprises and/or entrepreneurs

The success of any rural micro enterprise is dependant on a range of factors, of which access to credit is one. This seemingly banal point needs to be made in light of evangelical statements such as:

> "Maybe our great-grandchildren will go to museums to see what poverty was [i.e. after the spread of micro schemes]" (quoted in Bornstein 1996)

The micro finance evangelists create a vision of the rural poor as a collection of budding entrepreneurs, waiting for salvation from credit agencies, who, on receipt of credit, will develop successful micro enterprises and leave poverty forever. Their promotional activity gives rise to the worrying spectre of a return to a 'blueprint' approach to rural development (Rogaly 1996: 101). The very idea of a blueprint, implicit in the new micro finance approach to development, seems at once antithetical to the complex, localised, dynamic world of rural micro enterprise. This chapter argues that micro credit is not a sufficient condition for rural development, because it is not a sufficient condition for ensuring the success of rural micro enterprises. Infrastructure, human capital, information and social factors can make or break rural micro enterprises.

Infrastructure

Micro finance proponents are right to stress the importance of an appropriate infrastructure for credit provision. Credit is, however, one of many infrastructural needs in developing countries. To respond to a potential demand for a good or service a rural micro-entrepreneur may require access to one or more of the following: transport, communications, power, water, storage facilities, a legal system for enforcing contracts and settling disputes etc.

Infrastructural factors may be less important for non-agricultural rural entrepreneurs, for example, for bicycle repair and sewing shops. However they are very important for agriculture, one of the most significant rural micro enterprise in developing countries.

No amount of accessible credit could induce a sub-Saharan subsistence farmer to cultivate land for cash crops, if for instance, there is no place to store the crops or there is no marketing authority to market the crops or there is no way of getting the crops to the market place.

The history of post-war rural development is littered with examples of where one or more missing factors were provided by donors, who crudely assumed that the provision of one factor would be sufficient to get rural enterprises to succeed.

Human capital

Weber (1958) argued that the Protestant work ethic was an essential component in the economic development of Western societies. Hard work, skills and enthusiasm are essential ingredients for an enterprise to be successful. In developing societies with lows levels of formal education and a rational aversion to risky enterprises, such ingredients may not always be in abundance.

Literacy, numeracy and formal education levels in most developing countries are extremely low[7]. Non-numerate people struggle to start enterprises by themselves as it is extremely difficult for them to keep track of the flows of income in their enterprise. Those entrepreneurs who are numerate but not literate can often go some way in developing their enterprises, but their enterprises are severely limited. For example, they do not have access to information from the print media, they cannot enter into written contracts and have to act on trust and they cannot easily engage with the state and formal private sector who normally work with written documents.

Incentives to start new rural enterprises or develop existing ones may be unaffected by the existence of cheap or more accessible credit for two reasons. Firstly, in rural areas in developing countries, the market for any good or service is, compared to developed countries, highly imperfect and unstable. For instance, small farmers in developing countries may not want to change from subsistence crops to cash crops and become entrepreneurs, even if cash crops could provide a significantly higher income, because doing so is very risky. Transport systems are fragile, farmers do not have access to legal systems if marketing authorities breach agreements etc. Not only is it very risky to become a rural micro entrepreneur, but the consequences of failure - potentially starvation, are severe.

Secondly, the incentive to become an entrepreneur - higher levels of income - is not significant if there are no consumer goods to buy with the new income. With the non-availability of consumer goods, the marginal utility of additional cash earnings is close to zero.

Information

A combination of low levels of formal education, the remoteness of rural areas and poor communications networks often mean that rural entrepreneurs are the last to be informed of changes in market conditions. The case of the Power Station initiative (Box 2.1), a South African, Oxfam-funded rural income generating project illustrates how critical information of market conditions is to rural entrepreneurs.

In 1990, the Power Station project consisted of a number of theoretically autonomous groups, each of which produced different types of handicrafts. Through a marketing organisation they sold their handicraft all over Southern Africa. Most of their handicraft was sold in Johannesburg, over 1000 kms away from the project.

Up until 1990, these handicrafts sold reasonably well. However, in 1990 South Africa went into an economic recession. Many people in the formal sector lost their jobs and began to move into the informal sector. Many moved into handicraft production. The local handicraft market became saturated and the price of handicrafts dropped.

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[7] According to the World Bank's "African Development Indicators" for 1990, 39% of all males and 62% of all females in Sub-Saharan Africa above the age of 15 were illiterate.

Because local producers could not see the link between increased unemployment in a distant place and the decrease in the price of their handicrafts, they did not stop producing. Instead conflict occurred between the marketing group and the producers. The producers felt that they were being cheated. The marketing group could not convince the producers to stop producing or change production. The rural entrepreneurs lacked the skill, knowledge and confidence to seek other marketing groups or ways of marketing their craft in other markets, for instance foreign markets.

Lack of information played an important role in the producers downfall. If the producers had had more information about unemployment, and the education to use that information i.e. the ability to link unemployment to increased handicraft production and to link that to a decrease in price, or information on how to go about selling their goods in foreign markets, then their micro enterprises would have been more likely to succeed. At least they could have averted some of the loss they incurred by stopping production earlier.[8]

Box 2.1 : The Power Station Initiative

Social Factors

Many social factors can prevent the establishment of enterprises or, at least, mitigate against their chances of success. Not all groups of people have values central to entrepreneurial success - competitiveness, the need for achievement, the pursuit of profit or strong notions of private property.

In some parts of rural India, for example only, certain castes are allowed to act as moneylenders. If there is only one member of this caste in a particular isolated rural village, then that person will have a monopoly that will be maintained through social norms.[9]

Indeed there are even societies that do not use money in their transactions and do not have a great deal of private property. The Khoisan people, in the deserts of Northern Namibia, or at least those of them who have not yet urbanised, are traditionally migratory. They do not use money or any other equivalent to facilitate their barter relationships. They do not have any culture of accumulation and live through traditional hunting and gathering. It is highly unlikely that access to credit will solve any of the development needs expressed by this community.[10]

A less extreme example of the significance of social factors in determining the success of rural micro enterprises comes from the author's work in providing credit to former farm workers.

In 1991 the author worked for a South African development project which bought a farm for the use of farm workers who were dismissed from commercial white-owned farms. It was assumed by the project designers that it was simply apartheid legislation that had prevented these former farm workers from becoming successful farmers.

[8]The information contained in Box 2.1 was obtained through personal communication with many members of the project during 1990.
[9] This information was obtained through personal communication with an Indian rural development worker.
[10]This information was obtained through interviews, during April 1996, with members of the Community Development Initiative in London who had recently assessed the feasibility of establishing micro credit schemes in Namibia.

The project provided free land to the former farm workers and access to credit. All the elements for the farm to run successfully were apparently in place. The new farmers were highly skilled, had access to extension officers and were highly motivated, the marketing network for their product, wool, was highly developed, the wool price was high, etc.

The project, however, failed. Being former farm workers they were part of informal networks of support designed to survive the tenure insecurity of farm workers on white owned farms during the apartheid years. This involved, among other things, supporting the unemployed and/or recently evicted households. Because of the insecurity of a farm workers life this, was, and still is, a very important way of reducing risk.

When the former farm workers were given land and access to credit, they were immediately flooded with requests from evicted farm workers to allow their cattle to graze on the project's farm. They were unable to refuse the requests and the land could not support their own stock as well.

In this case the new farmers acted not as profit maximisers but utility maximisers. Where there is such a strong divergence of profit and utility, there is little scope for successful rural micro enterprise projects, irrespective of how much credit is available.

The list of factors that can cause the failure of rural micro enterprises projects is by no means exhaustive. They capture some of the most significant categories of reasons why rural micro enterprises can fail. One could go on at length providing reasons - geographical, macro-economic (inflation, trade tariffs) etc. The point of this chapter is simply to illustrate that credit is not a sufficient condition for rural development; it is not even a sufficient condition for ensuring the success of rural micro enterprises.

Chapter 3
When micro credit fails to reach the poorest or otherwise marginalised

If some notion of equity is part of the definition of development, then the question of which segments of the rural population are affected by a micro credit intervention becomes central to assessing the success of micro credit as a development intervention. The establishment of the World Bank financed Consultative Group to Assist the Poor (CGAP), will facilitate the development of an enormous number of micro credit schemes that set themselves up to be judged by their impact on the 'poorest of the poor'.

The results of the few empirical studies that have assessed the impact of micro credit schemes on the 'poorest of the poor' seem to suggest that they benefit the richest segment of the poor. Before examining the results of the research, the problems that arise when one attempts to quantify social impact need to explored.

The measurement of any social intervention is inherently difficult. Unlike the natural world where one can often readily establish closed systems, and conduct experiments using controls, the social world is an open system and it is difficult to separate out one set of causal factors from another. How, for example, can we assess what would have happened if a particular loan had not been granted? It is difficult to establish a control group to test against.
Aside from this methodological problem there are also a number of problems that arise in collecting information. For example, respondents to an impact assessment who have received loans have an incentive to lie about their impact if they hope for more credit, or if they have used the loan for a purpose other than the stipulated one (Johnson *et al* 1996: 77).

Perhaps the most important difficulty, and one that arises repeatedly in development studies, is defining well-being. When we talk of the equity impact of a development intervention, we are speaking of the distribution of improvements in well-being among a target group. There is a tendency to reduce well-being to material well-being, which arises in part because material improvement are easier for the social scientist to quantify than non-material improvements. Non-material improvements in well-being are difficult to quantify because they involve inter-personal comparisons of utility. Such comparisons are difficult to make. How can we presume to know the needs of others when we ourselves are often not in touch with our own complex needs and wants?

In the context of a developing country where the provision of basic needs cannot be assumed, material needs are primary, in that one has 'to be before one can well be' (Lipton as cited by Hulme *et al* 1996: 108). Thus when speaking of the impact on the 'poorest of the poor' this chapter refers to the impact in respect of income.

Mention needs to be made of another important concern regarding the measurement of income. In many developing countries people earn a living through a variety of formal and informal pursuits,

many of which result in non-cash benefits that are difficult to quantify. It is not possible to quantify such income generating activities in absolute terms, and the result of the research should be seen as showing trends rather than absolutes.

The most recent comprehensive study of the impact of a variety of micro credit schemes on the 'poorest of the poor', is provided by Hulme *et al* in their book "Finance against poverty"(1996).

Chapter 5 of the Hulme *et al* (1996) study looks at the impact of various micro credit schemes in relation to improvements in raising absolute levels of income from below the poverty line to above it, and in relation to dampening income fluctuations above and below the poverty line. The conceptualisation of poverty as living below a poverty line, leads to promotional strategies that emphasise credit provision for income generation activities. Alternatively, poverty reduction can be viewed with respect to dampening fluctuations above and below the poverty line. Income fluctuations above and below the poverty line are experienced frequently by many in developing countries, for example, in the period prior to a harvest, illness in the wet season, etc. Such a conceptualisation leads to greater emphasis on saving schemes. Savings provide a buffer against the vagaries of income fluctuations.

The results of their study of the impact of 13 micro credit schemes in Asia, Africa and South America in improving incomes, indicate unanimously that the benefits of the micro credit schemes under study were not scale neutral - the upper and middle income poor tended to benefit more than the 'poorest of the poor'. This is due to a number of factors (Hulme *et al* 1996: 109 and Johnson *et al* 1996: 84):

- The wealthier the individual or household the greater the range of investment opportunities. The poorest households or individuals are often only able to invest in the least lucrative investments.
- Those with more income have access to a greater volume of information i.e. they have a greater ability to buy and assimilate market information.
- The richer poor have the ability to take on riskier, more rewarding investments, without threatening their minimum need for survival.
- Related to limited investment opportunities is the fact that rural markets have a limited capacity to absorb new products and the market can saturate relatively quickly with current goods and services. Very poor entrepreneurs will often not be able to trade the goods or services they produce in urban centres or internationally (because of limited funds). Osmani (cited in Hulme *et al* 1996: 119) conducted research in Bangladesh where the above-mentioned condition obtained and found that soon after the advent of new production stimulated by micro credit, the rate of return on oversupplied goods fell below the repayment rate on the loan.
- The richer poor are able to invest more in absolute terms and thus reap much bigger rewards in absolute terms.
- If the use of the loan is not specified, the 'poorest of the poor' will tend to use a greater proportion of the loan for consumption than the middle or upper income poor.
- The 'poorest of the poor' often exclude themselves from larger loans, "not wanting to jeopardise their access to future credit by gaining a reputation for being uncreditworthy" (Johnson *et al* 1996: 84).

In respect of reducing the vulnerability of the 'poorest of the poor', the study by Hulme *et al* found that the same result obtained in 10 micro finance institutions surveyed (1996: 116 - 117):

- Over half the institutions simply excluded the 'poorest of the poor' outright or allowed only a very small percentage to take part in their schemes.
- Of those who engaged with the poorest, the result of the loans in respect of increases in asset holdings seems inconclusive - a mix of increased asset holdings and high rates of enterprise failure.
- None of the institutions influenced investment in risk reducing activities.
- Less than a third of all the institutions provided accessible savings/storage facility.
- Only two of the recorded institutions gave additional entitlements during crisis periods.

Whether these trends are global and inherent to micro finance institutions in developing countries is open to debate. However, for reasons mentioned above, the 'poorest of the poor' will always benefit the least and will always be the riskiest clients.

There is a trade-off between the financial success of micro finance institutions and the number of clients they draw from the 'poorest of the poor'. Perhaps the most worrying find of the study was the trend by many of the micro finance institutes to exclude the 'poorest of the poor', in spite of all the lip service paid to serving this group.

Other interventions are necessary to target these groups. It would be tragic if all the micro finance hype persuaded governments and donor agencies to change their spending from programs which have a tried and tested (and often contested) impact upon the 'poorest of the poor', such as food aid, health care and other welfare transfers, to micro finance schemes, which unambiguously target the middle and rich poor.

Chapter 4
When micro credit fails - treats the symptoms and not the causes of poverty

Introduction

Many development academics in the Seventies would have been astonished by the claims made by politicians, academics and journalists (and reported at the beginning of this dissertation) as to how micro finance would solve world poverty. Where just twenty years ago development academics were writing about dependency and local elites capturing the benefits of development projects, today these academics and politicians who promote micro finance as a panacea either choose to ignore those power relations or pretend they do not exist. This chapter will explore the neo-liberal ethos that gave rise to this attitude.

The ethos of neo-liberalism

The collapse of the Bretton Woods agreement in 1973 decisively ended the "golden Sixties". Inflation and unemployment began to rise steadily throughout the 1970s. Increases in money supply caused inflation to rise dramatically in Western Nations. Keynsian orthodoxy began to lose its political place in many key developed nations to the anti-Keynsian, monetarist theorists of the Chicago School, the most prominent among of whom was Milton Friedman. Friedman argued that the state needed to reduce its role to ensuring the minimal function of maintaining external security and enforcing voluntary contracts. He believed that state run industries were not only inefficient, but were inherently less efficient than privatised industry. He argued for privatisation of state industry, and proposed that the private sector take up many of the functions of the state. Taxes were to be reduced because they would not be needed on the same scale, and to give consumers more choice over their consumption. Markets were to be freed of factors that were said to 'distort' them like tariffs, pressure groups and licensing boards (Friedman 1980).

The principles of the Chicago School proved popular with the electorate of many industrialised nations in the early 1980s. The governments of Reagan and Thatcher in particular saw the neo-liberal principles put into action. The change in political environment gave rise to new opportunities for the Chicago School economists. It "expanded their access to public platforms and (increased) their prospects for reward and honour" (Toye 1993: 23).

Like the Modernisation theorists before them, the neo-liberals transposed the problems of the developed world, and what they took to be their causes, onto the developing world. By 1985 the World Bank declared

> ".....the record of development and the growing store of empirical research have heightened the recognition of the importance of markets and incentives - and of the limits of government and central planning. The new vision of growth is that markets and incentives can work in developing countries. But they are filtered through government policies and agencies, which, if inappropriate can reduce or even negate the possible benefits. Second, physical investment is only one determinant of the spread of development. Human development is at least as important and sound government action remains at its core. Third, the economic policies of governments, and the distortions they induce are now a major focus of the analysis of development policy" (cited in Toye 1993: 48).

This statement contained a summary of principles of the neo-liberal development school, these being:

- Reducing the size of the public sector: neo-liberals claimed governments had over-extended themselves (related to the Chicago School notion of appropriate government action). In particular the neo-liberals took nationalised industry to be inefficient and ineffective.
- The over emphasis on physical capital formation: the 'break' with Keynes and Modernisation theorists. Governments were thought to have spent too much time and money on physical capital formation and neglected human capital formation.
- The proliferation of distorting economic controls: aside from the stated objection to government-imposed barriers to trade, for example licenses, neo-liberals objected to the proliferation of government policies which were motivated by egalitarian/humanitarian objectives e.g. consumer food subsidies, but resulted in dead-weight efficiency loses (Toye 1993: 49).

The exploration of these government losses was a worthwhile and badly needed contribution to development studies. Anne Kreuger, one of the first theorists of the neo-liberal school, provided an incisive account of the notion of rent seeking. She explained how resources were used up competing for, and allocating, government licenses that could be used more profitably elsewhere (Colclough *et al* 1991: 327).

Government failure was at the very core of the failure of development policy. Indeed in an interview with a range of panellists on the causes of famine, during the mid-Eighties, Peter Bauer, one of the doyens of neo-liberalism, declared that the chief cause of famine in less developed countries was "....government failure" (Devereux 1993: 8)[11].

The key neo-liberal theorists were Balassa, Bauer, Lal, Kreuger, and Little (Colclough *et al* 1991: 6 and Toye 1993: 71). In stating this, one must of course bear in mind the intellectual diversity of these authors' although these writers shared and aggressively marketed the idea that the failure of developed countries was principally a result of three factors already mentioned. In respect of development thinking, the neo-liberal theorists were not only involved in the adaptation of the Chicago School to solve the problems of the developed world, they were also partly involved in refuting the analysis of the so-called Structuralism School of development.

[11]This goes against the standard idea that famines are either caused by an inability to grow or gather food, there being no food to buy and/or people having insufficient income to buy food.

A key theme of the Structuralist School was the idea that the under development of Less Developed Countries (LDCs) was due in part to their relationship with developed countries. For example, Structuralists asserted the terms of trade were often loaded against the LDCs and that developed countries had the competitive advantage of large, established industries. In addition, members of the Structuralist School, especially Dudley Seers (1969), pursued new definitions of development that were wider than simple economic growth in that they included notions of equity. Neo-liberals reject the idea of growth with equity (Colclough *et al* 1991: 6). The neo-liberals stressed the freeing of markets from government intervention. Indeed a central criticism of the neo-liberals is their continual attack on government actions, for example vaccination programs and free primary school education, which can result in a more egalitarian society, and their conspicuous lack of criticism of the vast national defence programs of many LDCs (Colclough *et al* : 1991; Toye 1993).

The neo-liberal vision of why countries have not developed has been summed up neatly by Lal in his seminal article "The Political Economy of Economic Liberalisation" (1987). Lal argued that the cause of the (fiscal) crisis in many developing over the past decade from the mid Seventies to the mid Eighties, was a result of politically created entitlements (Lal 1987: 282). By entitlements, he was referring to those groups in the economy that were able to secure guaranteed income flows from the state, such as the deserving poor, industrial labour and old age pensioners. These entitlements have to be paid for by taxing another group. As the number of groups securing entitlements increases so too do taxes, which leads to tax avoidance and the gradual but (according to Lal), inevitable growth of an underground economy. This fiscal crisis grows and the ensuing deficit can only be financed by three means: domestic borrowing, external borrowing, or the levying of an inflation tax. Without a tax base to repay the borrowing, the domestic crisis deepens and eventually, Lal argues, the state may not even be able to garner sufficient resources to pay for its functionaries to carry out the basic classical state functions of defence, enforcement of voluntary contracts, law and order, and the provision of basic infrastructure.

The neo-liberal solution to the above problem was the liberalisation of the economy. This would involve tax reductions, reducing government intervention in the market as well as reducing government size.

The promotion of micro finance as a development intervention lies comfortably with the neo-liberal philosophy developed by Lal, Friedman, Bauer and others and promoted by the World Bank and the governments of the United States and the United Kingdom, in that micro finance:

- develops new markets and promotes free market culture.
- involves minimum state intervention.
- creates entrepreneurs who are in touch with local markets.
- provides loans and not grants, consistent with notions of reducing grant entitlements. Micro finance promises to deliver self-financing poverty reduction.

- works with informal enterprises, which by definition, are further removed from state influence than formal or state run enterprises.

Finally, and perhaps most significantly, the promotion of micro finance as a development intervention is consistent with theories of methodological individualism, in that it presents a picture of lone individuals, operating in a vacuum who, but for a lack of credit, would be able to be successful entrepreneurs. Like much neo-liberal theory it is based upon the idea that society consists of nothing more than a collection of individuals.

Methodological individualism

Neo-liberal theorists justify their position, by arguing that there is no such thing as society, because we cannot see an entity called society. However this is rather a narrow perspective. There are many things which exist even though we cannot see them. A magnetic field is an example of an entity that exists but cannot be seen. We know that it exists because it has effects. In this instance *to be is to do*.

In the very same way society can be said to exist. It exists in that it facilitates or circumscribes individuals behaviour through social rules and conventions. In making claims of a virtuous circle, "....low income, more credit, more investment, more income" (as cited by Hulme *et al* 1996: 108), micro finance evangelists, ignore social (and other) constraints to accumulation. The micro finance evangelists dislocate the recipients of micro finance from the web of social power relations in which they are inextricably entangled.

The poor are often poor not because they do not have access to credit but because of their relative powerlessness. In attributing the cause of poverty to insufficient access to credit, micro finance evangelists obscure the generative mechanism behind much poverty - an unequal distribution of power at all levels - international, national and local.

Power relations and the limits of micro credit

Underdevelopment and poverty has often been attributed by so-called dependency theorists and others to the unequal power relations between rich and poor nations. Many theorists (Frank 1971, Cardoso 1979) writing during the 1960s and 1970s attributed underdevelopment to the unequal relationship between developed and undeveloped countries.

Dependency theorists took underdevelopment to be the result of colonisation. The relationship was and is (argue dependency theorists) sustained by unequal terms of trade through tariffs and other forms of protection imposed by stronger developed countries on their weaker counterparts. In its weakest form, few but the most ardent free-marketers could fail to recognise that developed countries have a massive advantage in having developed first. Their industries produce goods at much lower costs than developing countries because of bigger economies of scale. Developed

countries can pressurise weaker developing nations into accepting terms of trade that are not in their interest through a range of devices for example, indebtedness.

National politics can entrench poverty and undermine the success of micro finance interventions. The British-based donor organisation, Co-operation for Development, together with Palestinian NGOs and the Bank of Palestine, established a micro finance project in Palestine. The programme provided loans of between $2 000 and $30 000 to Palestinian entrepreneurs to launch new businesses, expand existing businesses, re-finance businesses short of working capital and purchase new equipment. While the scheme was well devised and innovative, it floundered in part due to the Israeli occupation of Palestine, under which:

- The university which supplied logistical support to the programme was shut down by the Israeli authorities.
- Buildings used by micro entrepreneurs were torn down as part of Israeli occupation policy.
- Participants were arrested.
- The area was often sealed off, impeding the flow of goods and services into area.
- Palestinians migrant workers were refused entry into Israel, reducing their income and hence purchasing power.

The national political situation in Palestine militated against the success of micro credit lead development intervention.

On the local level in certain conditions, those with social power can ensure economic returns to their social power by appropriating all the benefits obtained from micro credit schemes. In rural Baluchistan, most of the land is owned by a few feudal landlords[12]. There is almost no market for land as sales of land are extremely rare. In addition the transaction costs involved in a tenant farmer moving off the land are by and large prohibitive, partly because of indebtedness and partly because they have not been able to accumulate enough to afford to move. Thus a few landlords act as oligopolists, enjoying a captive market. A micro finance project was established in the area in the early 1990s. The project lent money to tenant farmers to finance the purchase of high yield variety crops. While the project successfully allowed high yield variety crops to be grown, there were few benefits for the farmers because all additional profit was simply appropriated by the landlords who increased the rent. The tenant firmers could not resist the rent increases because the transaction costs of moving were too high and there were no competing land owners to rent or buy land from at a cheaper rate than the "feudal" landlords. Thus micro finance did little to improve the lot of the tenant farmers since all extra profit was appropriated by the landlords.

The aboves example illustrate how at all levels (international, national and local) the success of a micro finance scheme hinges critically on the social context and the particular set of power relations that prevail.

[12]This example was provided by a fieldworker from the area, Usmaan Quazi, who worked for Halcro Consulting during 1992.

Conclusion

Micro credit is increasingly promoted, not only as a positive rural development intervention, but in some instances as a rural development panacea. This frenzied promotional activity derives in part from the putative success of prominent DFIs, most notably the Grameen Bank.

The rise of neo-liberalism has facilitated a distorted perspective of the prospects and possibilities of micro finance as a rural development intervention. The promotion of micro credit as a rural development intervention has tied in neatly with neo-liberal development ideology. As mentioned, it develops new markets and promotes a culture of entrepreneurship; it involves minimal state intervention; and provides loans, not grants, moving away from welfare type interventions; finally and perhaps most importantly, it shifts the locus of attention away from society towards the individual.

This ideological conjunction has, to borrow a phrase from John Toye "expanded their [the micro finance evangelists] access to public platforms and their prospects for reward and honour" (Toye 1993: 23). As the rewards and honours increase (heading CGAP, US presidential awards etc.) so the incentive for biased appraisals of the prospects and possibilities of micro finance increases. Eventually we are left with a situation in which Yunus Mohammed tells us that after the global spread of micro credit,

> "Maybe our great-grandchildren will go to museums to see what poverty was" (quoted in Bornstein 1996)

The limits of micro credit as a rural development intervention have been lost in the promotional frenzy. Essentially, the limits arise from the individualist focus of the intervention. Micro credit as a development intervention requires an enabling environment for it to be successful.

By an 'enabling environment', reference is made to those conditions which have been outlined as necessary for the success of micro enterprise. The provision of micro credit is a necessary but not sufficient factor in ensuring the success of rural micro enterprises. Sufficient infrastructure, skilled entrepreneurs, access to information and culture conducive to micro enterprise are necessary conditions for the success of micro enterprises and hence micro credit.

Even where micro credit does succeed in stimulating the growth of micro enterprises, the developmental impact of this on the poorest members of the target communities varies. Empirical work by Hulme *at al* (1996), indicates that the wealthier segments of the target groups seem to benefit the most. This is the case for a range of reasons. The wealthier the individual or household the greater the range of investment opportunities. The richer poor have the ability to take on riskier, more rewarding investments, without threatening their minimum need for survival. The wealthier the individual or household the greater the range of investment opportunities. Aside from better returns to wealthier investors, the 'poorest of the poor' often exclude themselves from larger loans, "not wanting to jeopardise their access to future credit by gaining a reputation for being uncreditworthy" (Johnson *et al* 1996: 84).

The impact of a micro credit scheme is limited by the political framework in which it is implemented. Political forces at the local, national and global level can undermine the success of micro credit. On a global level, developing countries are often in weaker bargaining position than developed countries. In such situations, developed countries have the capacity to impose terms of trade on developed countries that may be detrimental to micro enterprises in developing countries. On a national level, the Palestinian example demonstrated how a myriad of seemingly unrelated laws can curtail the success of a micro credit programmes. The example of a failed micro credit scheme in Baluchistan is perhaps the most stark example of economic returns to local social power.

While lack of access to credit is undoubtedly *a* factor in *some* instances of rural poverty, the causes of rural poverty are complex and dynamic. They cannot simply be reduced to lack of credit. The lack of recognition of the limitations of micro credit as a development intervention is likely to have a range of unfortunate consequences. It may, at worst, as Rogaly (1996:101) speculates, herald the return of a blueprint approach to rural development. Already we are witnessing the promotion of micro credit where other solutions (infrastructural, educational, political) may be more appropriate.

A great deal more sober reflection and investigation into the limits of micro credit as a rural development intervention is urgently needed to counter the frenzied lobbying of micro finance evangelists, and re-allocation of development funding likely to follow in its trail.

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