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THE DARKSIDE OF MICROFINANCE

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ABSTRACT

The main objective of this paper is to review the discussion on the main drawbacks of microfinance, with the idea of demystifying it and proposing recommendations to improve its performance towards poverty alleviation. The first part of it discusses the influence of development rhetorics in the definition of priorities for development aid. The second reviews the concepts of microcredit and microfinance in order to make the distinction clear and facilitate the understanding of the following ideas. The third approaches the issue of financial sustainability and poverty alleviation in the so-called 'institutionist-welfarist' debate. The fourth explores the relation between microfinance and social capital, as well as its influence regarding gender relations. The fifth is dedicated to the analysis of the potential of microfinance for industrial development and the risk regarding political clientelism together with the maintenance of the 'social order'. Finally, the sixth part briefly examines the non-governmental provided microfinance, its sustainability and current issues relating to microfinance impact assessment. Any mistake should be entirely attributed to the author of this paper.

INTRODUCTION

Development is a very dynamic field full of possibilities, hope, good intentions and last but not least, financial resources. These characteristics among others provide incentive for the work of a great variety of institutions, individuals or development agencies all over the world. In this sense, donor organizations, intermediary and implementing agencies, as well as plenty of consultants or development practitioners have been creating and promoting "development products" in a steady basis. In other words, concepts and approaches which generally need to be acknowledged by some leading international organization (IOs), such as the World Bank, European Commission and UNDP and/or large bilateral donors such as USAID, SIDA and GTZ. In the aftermath, an institutional-specific rhetoric is usually deep-rooted in donor organizations. Then, comes the issue of accessing funds. Apart from some exceptions such as the large and well-known international non-governmental organizations, smaller NGOs or whatever development agency needs to stick to a certain donor rhetoric for accessing funds. However, institutional change – especially on the donor side – might not be so dynamic as the development discourse is.

Once acknowledged by some IO or large bilateral agency, these concepts and approaches are adapted to their pre-existing organizational structure, policy and culture. As a result, certain aspects within these terminology and intervention models may be emphasized in detriment to others and changes may prove to be sluggish. For example, the priority given to number of females merely participating in capacity building workshops under the idea of working with gender issues. One could easily observe that gender should be considered not only in terms of number of females benefited but in terms of changes in the surrounding environment and society as a whole, which includes males. However, on one hand development agencies have been pushed around by donors for reporting impressive results in form of numbers, which in many cases become more important than the project objective itself. On the other hand, it is much more simple and less costly for the implementing agencies to do so instead of monitoring complex, indirect indicators such as the incidence variation of reported domestic violence against women and girls in a certain location.

Nowadays, microfinance is one of these approaches which have been promoted worldwide. Yet, there are still many diverging principles among organizations supporting it. For example, on one hand some defend the importance of subsidized microfinance institutions (MFIs) to tackle poverty and reach the poorest of the poor. On the other, some support the idea of financially sustainable MFIs with large coverage and spillover potential. Not surprisingly, the latter has received much more support from donors and IOs than the former. The fact is that both views share many general principles and have specific - but different - comparative advantages. As a result, by emphasizing both these approaches and the so-called “best practices” (Grameen Bank, Bank Rakyat, etc.), alternative models have been unnerved and large room for misconception has prevailed.

Poverty has different strata with specific characteristics and needs. The promotion of a sole approach of intervention at the expense of others is limited and may hinder innovation and activities which can jointly better contribute to the alleviation of poverty. Therefore, it is important for development policy-makers to understand the structural and operational restrictions of microfinance in order to devise appropriate strategies and to avoid perpetuating mistakes.

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The “third world” rhetoric and development intervention

Apart from the need of accessing funds by applying an specific institutional “development language”, pieces of rhetoric shape development intervention, investment decisions, human and international relations in direct and indirect ways. One example of an old and still influent concept is the widespread “third world poor countries”. Without going deep in the history of the present leading industrialized northern countries, the idea of “third world” provides the ground for two incongruous ideas.

Firstly, by creating the illusionary idea of different worlds which does not reflect the important historical linkages, among other factors, which have built the extremely unequal - but still one - contemporaneous world. This may have been initially “well” motivated by stressing the differences between industrialized and developing countries, but by no means can be taken as realistic and helpful regarding the creation of appropriate development interventions. Further to this, the present world economy is strongly interdependent despite the different structural capabilities of absorbing impacts and exploring advantages among countries.

Secondly, by establishing a sort of evolutionary line in which countries could be differently considered in relation to the so-called “developed countries”. The fact is that the concept of developing countries embraces very diverse societies, with different cultural backgrounds and visions of future. In addition, one should be careful about homogenizing developing countries in a sole “basket concept” as far intervention is concerned. This sort of ideological development ranking was deeply motivated by the Cold War period, in which countries were seen as developed capitalist countries, USSR and the peripheric countries, in other words, the first, the second and the third world, respectively.

Émile Durkheim (1895) in his book “Rules for the Sociological Method”, criticizes the optimistic and linear idea of human evolution by arguing that:

> *“…it is impossible to conceive how the state which civilisation has attained at any given time could be the determining cause of the state which follows. The stages through which humanity successively passes do not engender each other… We can certainly say how things have succeeded each other up the present, but not in what order they will follow subsequently, because the cause on which they supposedly depend is not scientifically determined, nor can it be so determined. It is true that normally it is accepted that evolution will proceed in the same direction as in the past, but this is a mere supposition. We have no assurance that the facts as they have hitherto manifested themselves are a sufficiently complete expression of this tendency. Thus we are unable to forecast the goal towards which they are moving in the light, of the stages through which they have already successively passed. There is no reason to suppose that the direction this tendency follows even traces out a straight line.”*

By and large, the “third world” misconception may result in undervaluation of the world social diversity, whereas continuing the process of undermining developing countries’ self-esteem, cohesion and legitimizing future interventionist policies. Although relatively well managed in the principles of the official development discourse, this process is still evident in the headlines of newspapers and general media in the USA for example. Frequent straight-minded comparisons between developing and developed countries perpetuate a sense of superiority and distance, while driving the public away from the causes and reality of poverty worldwide. Without putting the real benefits of development aid into consideration, the lack of political support for increasing the national budget shares for development in European countries can also exemplify this separation of worlds.

Microfinance and microcredit, a conceptual review

Despite its fundamental importance for development intervention, the complex issue of who are the “poor” according to the different approaches about poverty will not be directly addressed in this paper. For the sake of analysis, it is necessary to make clear first, what are both microcredit and microfinance and, then, how both work vis-à-vis other source of funds beneficiaries or clients may have.

According to Pretes (2002) there are four main types of capital sources that the poor can theoretically access to fund a microenterprise. One is *self-financing*, in which the owner saves his or her own earnings or borrow from relatives. Secondly, *moneylenders* who will often refuse to lend to the very poor since the poorest and most vulnerable usually have little or no collateral to put up for a loan. Thirdly, *commercial banks and other lending institutions*, which are inaccessible for the poor because of a scarcity of capital in developing countries; the need to be near a bank branch to access services; and because of the inability of the poor to assume the risk of repayment if the business venture fails. Finally, the fourth form of finance is microcredit institutions. Yet, according to Buckley (1997) it is worth noting that the principal source is usually the entrepreneur herself – over half of all enterprises were started largely with self generated funds. In addition, suppliers or merchants are also an important source since they not only broker credit in cash as a subsidiary to their trading activities but also usually offer the credit linked to the sales.

In simple terms, microfinance is the provision of microcredit plus savings services. However, the terms are often used as synonyms since microfinance embraces microcredit. Pretes argues that microcredit institutions will often make loans to clients rejected by commercial banks, and therefore there is normally little competition between microcredit institutions and banks. The principal advantage of financing through microcredit programs is that these programs are willing to loan small amounts to first-time or less creditworthy borrowers, and sometimes to those lacking collateral. Subsidiary advantages include creating a credit history for the borrower and instilling a sense of responsibility through the need for repayment.

According to Buckley, though, savings constitute the basis for achieving financial independence and the path toward microenterprise self-sufficiency.

> *“It is of course not credit itself that levers the poor out of poverty but their ability to save from income generated from the use made of credit. It is this side of the financial intermediation equation that sometimes appears to be undervalued in some quarters*

> *but not by commercial banks which seem much more predisposed to offer savings (deposit) facilities to poor microentrepreneurs than to offer them credit. By implication, microfinance programs that stress only lending are likely to be missing opportunities to assist the many poor people who may wish to save but do not necessarily wish to borrow."*

Based on Wright, Hossain & Rutherford (1997), Morduch (2000) argues that incorporating savings mobilization in microfinance programs makes sense for a number of reasons. First, it can provide a relatively inexpensive source of capital for re-lending. Second, today's depositors may be tomorrow's borrowers, creating a natural client pool. Third, savings deposits offer important advantages to low-income households, allowing low income-households to build up assets to use as collateral, to reduce consumption volatility over time, and to self-finance investments rather than always turning to creditors. However, there are still some practical constraints to savings mobilization. The most important is that NGOs are not chartered to hold savings deposits. This creates a problem for microfinance programs (except those that are fully chartered by banks). One answer is that fully chartered savings banks could operate independently but alongside NGOs engaged in lending. In addition, maintaining savings deposits can be expensive for programs, and when they are loosing money in lending operations, they have little incentive to mobilize deposits if capital can be obtained more cheaply from donors.

Financial self-sustainability X Poverty alleviation

An important contradiction has haunted microfinance institutions since they were recognized an interesting intervention mechanism for development. Donors have demanded financial sustainability while claiming and requiring MFIs to reach the poorest of the poor. Without considering MFI operational constraints for complying with this idea, the contradiction of this donor driven demand is evident in many aspects. Let us suppose the existence of a fully sustainable MFI since its start up financially saying. It is not senseless to say that external institutional demands (namely, donor organizations) would not be considered by this MFI if not enforced by law and/or some kind of social coercion. Even if these demands refer to reaching the poorest of the poor.

According to Pretes (2002), despite their general success, microcredit programs face some problems. In particular, these institutions may not reach the very poor, given their need to sustainably finance themselves through cost recovery. This reflects a long debate which can be summarized for analytical purposes in two different approaches to microfinance: the *institutionists* and the *welfarists*.

In general lines, institutionists defend that financial self-sustainability is the most efficient and consistent way of both increasing outreach and impacting on poverty. In other words, the primary objective of microfinance is the creation of a separate system of ‘sustainable’ financial intermediation for the poor without subsidies of any kind. Based on the assumption that resources are scarce considering the dimension of poverty worldwide, the attraction of private capital to fund microfinance institutions is a key issue. Therefore, institutionists argue that it is important for the development of the microfinance industry to set clear standards of sustainable financial performance in order to build a solid image among private investors and give ground to future capital inflow. However, welfarists believe that the institutionists’ emphasis on private investors drives attention from the needs of the poor. MFIs are forced to reduce transaction costs and, then, turning themselves into profitable investment options.

Woller, Dunford & Woodworth (1999) defend that welfarists emphasize depth of outreach. Despite accepting the goal of financial sustainability, welfarists are quite explicit in their focus on immediately improving the well being of participants. They are less interested in banking per se than in using financial services as a means to alleviate directly the worst effects of deep poverty among participants and communities, even if some of these services require subsidies. According to these authors, the most prominent examples of welfarist institutions are the Grameen Bank in Bangladesh and its replicates elsewhere, and FINCA-style village banking programs in Latin America and, more recently, in Africa and Asia. The best-known examples of the institutionist approach, in contrast, are the Bank Rakyat Indonesia (BRI) and Banco Solidario (Bancosol) in Bolivia.

Not surprisingly, institutionists have been better welcomed by donors and international development agencies. Championed by the Consultative Group to Assist the Poorest (CGAP) - World Bank affiliate -, microfinance rating institutes were created and plenty of publications on the so-called ‘best practices’ were issued. Most of the literature in the field of microfinance espouses the institutionist view. Despite this fact, nearly all programs remain substantially subsidized especially regarding credit education and group formation, which represent a relevant share in the budget of most MFIs.

Woller, Dunford & Woodworth argue that the worldviews of each camp are not inherently incompatible, and in fact there are numerous MFIs that appear to embrace them both, there nonetheless exist a large rift between the two camps that make communication between them difficult.

> *“Our specific concern is that in advocating their position, some prominent institutionists have gone too far – to insist that all MFIs adopt institutionist values and ‘best practices’, to attempt active suppression of the welfarist point of view, and to cause the expansion of ‘best practices’ to become antithetical to the welfarist objective of direct poverty alleviation among the very poor…Donors have become confused by the veil of unity and the argument that a common set of standards is needed to advance the apparently common agenda”.*

Table 1: Microfinance & poverty alleviation programs

Income level	**Financial services**	**Poverty alleviation programs**

Low income	Commercial Banks (public and private)	▨	
Economically active poor _ _ _ _ _ _ _ _ _ _ _ _ _ _ *Poverty line*	▨ _ _ _ _ _ _ _ _ _ _ _	▨ _ _ _ _ _ _ _	▨ _ _ _ _ _ _ _ _ _ _ _ _
Extremely poor			Assistencial prog. (food, water, employment generation, training and resettlement).

Poverty has different strata with specific needs. The challenge of poverty alleviation requires a range of policies such as food security, employment generation, health and family planning services, training, education, infrastructure (water, sanitation, and roads), housing and communications. As shown in table 1, credit provision can only benefit part of the population under specific circumstances. Hence, one approach should not be emphasized at the expense of the other since different policy options are necessary.

Local credit & savings schemes, social capital and women empowerment

Community self-help groups are commonplace anywhere in the world. The Rotative Savings and Credit Associations (ROSCAs) are one example of a community self-help group giving ground for savings and credit informally. Different schemes can also be seen throughout many countries. According to Buckley (1997):

> *"In Ghana, a common method of saving was in the form of savings groups organized by an itinerant collector (sussuman). The collector would act as the intermediary, collecting daily deposits of an amount determined by individual savers, which were usually then placed on deposit in a commercial bank, and distributing each member's savings at the end of a given month minus one day's contributions which he kept as his fee. He would keep records and distribute savings cards to members for them to keep record of their contributions. Although he charged a fee, he reduced the transaction costs of members, as they did not have to meet up to pool and disburse funds or to chase after members who delayed on payment of their contributions as in ROSCAs, and his presence seemed to encourage savings discipline."*

In other words, credit may be neither the real problem nor the answer to the constraints experienced by microentrepreneurs. In fact, attention is drawn to the availability and suitability of existing sources of finance, which may, paradoxically, be undermined by microfinance institutions.

Rogaly (1996) argues that studies of the impact of micro-enterprise credit suggest that it is not necessarily beneficial to very poor people. According to Rogaly, interventions in the provision of financial services should not be made without locally specific analysis of the functions of existing savings and credit facilities. An emphasis on scale acts as a disincentive to such analysis, and increases the risk of the re-emergence of a 'blueprint' approach to anti-poverty action.

ROSCAs, tontins, merry-go-rounds and all other examples of community self-help groups around the world are, in fact, forms of *social capital*. In other words, "social relationships that help people to get along with each other and act more effectively than they could as isolated individuals." In addition to the issue of considering existing sources of capital, Buckley argues that extended family and kinship networks, rather than market based alternatives, form the basis of many problem-solving strategies by the poor.

> *"The extended family and kinship networks create entitlements and the practice of eleemosynary within extended families is endemic. Employment for kin, for example, is a type of insurance and fits into life cycle planning strategies or cycles of reciprocal*

> *obligations and can imply a drain on an entrepreneur's resources or a source of cheap labor depending on the circumstances. Similarly, the prestige and power afforded to a successful entrepreneur by members of his extended family may act as an incentive to entrepreneurial endeavor which may at least partially offset the distinctive effects of sharing income and wealth. The same networks can aid the aspiring entrepreneur with start up capital and funds for enterprise expansion on favourable terms or act as a drain on financial resources if the entrepreneur is called on to fund funerals, school fees, etc."*

Therefore, microfinance constantly faces the challenge of stimulating individualism and economically rational decision-making, while considering existing social capital in its target communities. In addition, Woolcock (2001) argues that microenterprise programs essentially use social relationships as an alternative source of collateral. The poor are typically denied loans from standard commercial sources because they lack adequate surety, and because the size of the loans they require have such high relative costs. From a banker's perspective, in short, lending to the poor is a high-risk venture. One way in which microenterprise programs endeavor to circumvent these problems is by lending not to individuals, but to groups, thereby dispersing risks and lowering costs by devolving to borrowers' social relationships — or "social capital"— tasks that are ordinarily performed by material or monetary assets. The social capital of the poor thus acts as a substitute for what they lack by way of physical or financial capital. However, it is not necessarily clear whether the way microfinance programs generally use social capital adds up or deteriorates it. Pretes (2002) argues that the system of collective peer pressure that has contributed to high repayment rates has in fact a darker side:

> *"…some borrowers who have had difficulty in making payments have been humiliated and stigmatized in their villages, becoming virtual outcasts. The pressure to make payments and repay the loan can create social tension, especially in small communities where everyone knows the borrower's situation…Furthermore, women do not always benefit from microcredit programs aimed especially at them, because their husbands or other male relatives may force them to obtain loans, and then use the money themselves, leaving the women to find some way of making payments."*

The issue of women dominant participation in microfinance programs has been commonly regarded as a genuine way of empowerment. However, Mahmud (2003) defends that assessments on women's empowerment have yielded contrary results, which can be difficult to reconcile to each other, even when evaluating the same program. Some studies find that participation in microcredit programs results in women's economic and social empowerment, while others conclude that participation leads to greater subordination of women by reinforcing patriarchal norms of behavior.

> *"It is argued that credit imposes a burden upon women as debt collectors for microfinance organizations. The intense pressure of timely loan repayment produces new forms of social and institutional dominance over women by families and by microfinance organizations, increasing tensions within the family and in the relationship between women clients of microcredit and programme personnel. There is also the hypothesis that microcredit diverts attention and resources from other more effective strategies for women empowerment. The assumption is that new cash inputs to the household through women are likely to be identified by household males as a resource for their use. It is also believed that women's labor burden is increased without any significant concomitant increase in control over the productive process. As a result, it is suggested that women do not benefit from access to credit in terms of welfare outcomes. Moreover, it has been argued that the 'hidden transcript' of programmes which target women to generate 'social collateral' in order to ensure high repayment rates, may escalate violence toward women borrowers...Women also face difficult trade-offs between the exercise of choice and adherence to existing social norms, many of which perpetuate women's subordination…Recent research which examined the household decision-making process of whether to join a programme or not has shown that women in unequal gender relationships within the household are more likely to become members."*

Commoditization, politics and the maintenance of the social "order"

Commoditization is an important fix faced by microfinance, no matter the approach adopted. The aim of supporting millions to survive by enhancing their possibilities, though, deserves the highest esteem. However, financing low-productivity and labor intensive activities with meager propospects is obviously not a sound way of alleviating poverty in the long run.

Buckley (1997) considers that facilitate access to credit and markets run the risk of being ineffective or even detrimental if they are not accompanied by changes in the undertakings themselves aimed at improving the use currently made of factors of production (i. e. changes in techniques – ways of doing things – and/or technology – the equipment, machines, tools used). Nevertheless, based on his research regarding Kenya, Malawi and Ghana, Buckley argues that less than 10% of all respondents who had received formal credit, including credit from NGOs, were able to demonstrate *any* type of change in technique or technology since they had received their first loan.

Further to the issue of providing business capacity-building services, which is not performed by many institutionist/minimalist inspired MFIs, it is possible to say that dynamic entrepreneurial activities are commonly not embraced by microfinance, if at all. Eversole (2000) argues that by continuing to offer a limited range of microfinancial services, suitable to certain kinds of business, we ignore and perhaps even discourage the rich diversity of microenterprise activities.

Not having dynamic firms with prospecting products is one important aspect which contributes to the difficulty of microenterprises to scale-up. In other words, increasing small firm spillover possibilities to generate income and employment and, thus, breaking with the 'vicious circle' of poverty in a macro level. According to Grosh & Somolekae (1996), small enterprises occasionally succeed in graduating from a micro scale to a medium scale, and their success provides an ideal which sometimes captures the imagination of researchers and policy makers. Nonetheless, this is the tiny exception, rather than the rule. Most enterprises which begin on a micro scale remain that way indefinitely and only a few medium-scale enterprises begin as microenterprises. Given their low educational level, many, perhaps a large majority, of those who earn their living in the informal economy in developing countries would simply never be able to preside over a business as it expands from a micro scale to a medium scale. Those most likely to succeed at presiding over a medium-sized firm are presumably those with experience in larger organizations. Furthermore, Grosh & Somolekae point that:

> *“Another reason that some enterprises might be unable to graduate to larger scale might relate to market and technology. There may be market niches where diseconomies of scale exist, so that the firm might be profitable at a micro scale, but the market is so small that expansion would increase fixed and average costs enough to make the firm lose money. This might be especially true in serving the needs of very poor customers. There are many goods and services which medium and large-scale firms have not found it profitable to sell to such customers, leaving voids which have been tilled by microenterprises.“*

Another hypothesis defended regarding firm graduation is when it happens within generations. This is based on the idea that given the so-called ‘missing middle’ (medium scale enterprises) in most of developing countries, businesses may play a crucial role in making it possible for their country to move to a further stage of development where there are many more medium scale enterprises, and where productivity, wages and working conditions will be better than in the original microenterprises which made their rise possible. Despite the limited empirical evidence, it may happen if the graduation occurs not by an individual entrepreneur, but intergenerationally. In this sense, Kevane & Wydick (2001) defend that “a realistic and worthy goal for microcredit programs is to bring about moderate increases in employment generation and household income, along with great improvements in the financial stability of the enterprise. These marginal improvements in the economic well-being may be enough to allow the (hopefully better educated) children of these entrepreneurs to lift their households into more substantial increases in welfare”.

It seems quite clear the relation between education and the idea of intergenerational firm graduation. Thus, it is worth asking ourselves one question which might result controversial: is this view compatible with the dominant trend of reducing public expenditure and, consequently, state participation in welfare provision in developing countries? Since education requires a large amount of resources in a steady basis, developing country governments may not be able to provide places for their entire population while coping with other important interests, both nationally and internationally saying. Jain & Moore (2003) argue that “the notion that microfinance programmes are primarily engaged in the promotion of small-scale enterprise has an obvious appeal in an era characterized by the strength of neo-liberal ideas about the benefits of the market and private enterprise.” In this sense, microfinance does not necessarily advocates for its beneficiaries in order to counter-balance negative outcomes of dominant interests neither nationally nor internationally. It has been, conversely, a mechanism of intervention with relatively untroublesome public relations vis-à-vis donor expectations and, consequently, public and private fund raising.

However, microfinance is not only appealing to donors. The complicate mix of democracy and poverty may drive many to use it according to personal interests, namely electoral purposes. Again, it may contribute to keep the “status quo” instead of really lead to some process of change. Tendler (2002), commenting small firm support programs in Brazil points:

> *"I came to interpret what I was observing as a kind of unspoken deal between politicians and their constituents–myriad small-firm owners, many in the informal sector. If you vote for me, according to this exchange, I won't collect taxes from you; I won't make you comply with other tax, environmental, or labor regulations; and I will keep the police and inspectors from harassing you. I call this tacit understanding "the devil's deal" because it causes informality to become more attractive and formalization less attractive, than they otherwise might be. Once the deal is made, it is difficult for either side to get out of it. […] The small firm [SF] sector becomes mainly an instrument for preserving and even creating jobs – albeit often poor-quality jobs in poor-quality firms– rather than as an opportunity to stimulate economic development. This frees policymakers to dedicate their economic development attention elsewhere, by reducing for them the political cost of the job losses that ensue from the modernization of industry and economic-policy reforms. From this perspective, and more generally, SF-assistance programs do the important work of helping to maintain the "social peace," rather than necessarily to modernize the local economy. Contributing to this same perspective, many international donors and non-government organizations couch their current support for IS[informal sector]/SF assistance, such as micro-credit and other programs, in terms of "safety-net" measures for poverty reduction. In maximizing the number of satisfied constituents, this kind of support to small firms is ideal for maintaining and increasing electoral loyalty. It is less than ideal, however, for stimulating local economic development that is sustained and employment-enhancing."*

Non-government microfinance, impact assessment and sustainability

Non-governmental organizations (NGOs) are important players regarding microfinance, but private companies are also increasingly involved in the issue. As already mentioned, NGOs are not entitled to charter savings services in most countries, thus, they usually operate in partnership with some financial institution when this is the case. However, according to Morduch (2000) most microfinance programs nowadays are run by NGOs. In fact, this results from a shift of donor priorities since experiences in which government was involved ended up subsidizing well-off, politically-connected entrepreneurs rather than poor households, and few mechanisms were in place to stem the leakages. The ultimate result was high costs and little benefit for the intended beneficiaries.

Yet, probably except for NGOs capitalized by trust funds – which is basically made of private donations –, most of NGOs are dependent on donor funds and/or regular private donations. Therefore, it is clear that long run financial intermediation could only be done by NGOs if it generates some surplus. Then comes the argument of the 'institutionists' that households require access to credit, *not cheap credit*. Morduch, calling this view 'win-win' position asserts that this idea is joined by eight principal claims. First, that raising the costs of financial services does not diminish demand. Second, that due to their scale, financially sustainable programs can make the greatest dent in poverty. Third, that financial sustainability will give programs access to commercial financial markets. Fourth, that since they come at no cost to donors, financially sustainable programs are superior weapons for fighting poverty. Fifth, that subsidized programs are inefficient and thus bound to fail. Sixth, that subsidized credit most often ends up in the hands of the nonpoor. Seventh, that successful microfinance programs must be nongovernment programs. And, eighth, that subsidizing credit undermines savings mobilization.

Woller, Dunford & Woodworth (1999), quoting Dichter (1996) capture the essence of an important concern for the NGOs when he writes that the overarching emphasis on financial self-sufficiency has consequences

> *". . . for the soul of many NGOs (compassion vs. making a buck) both in terms of outreach to the very poor and in terms of impact and effect of recipients. . . . NGOs who shift into sustainable credit programs may be losing their real competitive advantage: the capacity to reach the very poorest and engage in a variety of activities that help people change, but which cannot necessarily be financially supported by recipients of assistance. . . . Financial self-sufficiency will bring in its train deep changes in the ways NGOs do work, not to mention who and what they are."*

Nevertheless, microfinance rating is largely done not by measuring impact but simply by reviewing MFI’s financial indicators. Even considering income level of beneficiaries, which is not necessarily done, aspects such as development of financed ventures throughout time both in terms of size and application of new techniques are not yet the main concern. Despite its potential cost and complexity, preliminary assessments of social capital considering risks and opportunities for the beneficiary communities (not only for the project itself) have not been common in the institutionist nor welfarist discourse. Disputing who owns the truth seems to be more important than the fact that one truth both sides recognize: extreme poverty has excruciated humankind and darkened its future for too long time.

Conclusions and recommendations

This review attempted at demystifying microfinance based on critical literature about it and, in a lesser extent, my personal experience working with microfinance NGOs and other development agencies in Brazil. The introduction was a brief analysis on how the development rhetoric shapes intervention both in the national and international perspective. Then, I briefly explored the widely used "third world" idea which still helps building the background of international politics and, consequently, development aid.

If NGOs both in the southern and northern hemispheres are to be important actors in the mobilization of civil society in a more critical way, it is important for them to recognize advantages and drawbacks of fashionable intervention measures to avoid the risk of promoting case-careless development recipes. Nonetheless, the need of funds may drive many to follow 'best practices' instead questioning 'best to whom?'. On top of that, many important aspects may be regarded as side issues despite the fact they might contribute much more for developing countries and poverty alleviation. Clear examples are: international trade and finance, namely subsidies and trade policy options, capital speculation and external debt issues.

In summary, addressing the root causes of poverty may be neglected in favor of palliative remedies widely adopted. Curiously enough, in no other scientifical branch this happens so clearly. First, one needs to minimally understand the causes of a disease for then attempting to find a cure for it. Although, the causes of the poverty malady may be strongly influenced by local specific features nowadays, they drawn considerably from historical aspects which exert a harsh influence. It is not entirely senseless to say that one hypothesis is that extreme poverty and its growth may be in fact side effects of some sort of remedy we, patients of one world (not the second, nor the third and nor the first), have been prescribed.

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