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Storm Warnings from International Microfinance

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Thank you for that generous introduction. Clearly, the last year has been a tumultuous one in the international microfinance arena. From the criticism and critiques, there are trends worth noting and lessons worth considering:

Embrace and Enforce a Code of Conduct

International microfinance has been horrendously oversold. And, now, the inevitable result is a media and political backlash.

In the recent dustup about overzealous micro-lending in India, high interest rates in Mexico and un-measured results by academia, all international microfinance has been tarnished.

Microenterprise businesses in the USA might create a surge of GDP growth, rebuild ghettos and gentrify neighborhoods. But, we know better.

Poverty is much too complex to be cured by one intervention. Poverty has multi-disciplinary causes and needs multi-disciplinary solutions.

International microfinance has roughly 10,000 local MFIs reaching 190 million client borrowers. All, but a handful, are non-profits.

Nonetheless, the May 12, 2011, International Herald Tribune, reporting on microfinance in India referenced "microcredit companies." With just two -- repeat just TWO -- international microfinance IPOs, all of sudden 10,000 MFIs around the world are now being referred to as companies, not institutions for economic justice.

A great website and compelling stories are insufficient protection against bad press or intrusive politicians.

Instead, cultivate a constituency of understanding about ethical social finance and impose an enforceable process for screening out --- and throwing out -- bad actors.

Avoid the UnHoly Grail of Scale

In the international microfinance sector, to reach scale and please social investors, a mantra borrowed from the business world is that microfinance has to grow large, achieve economies of scale and return market level profits to hard-nosed money managers.

Let's remember that there is good scale and bad scale. Bigger is not always better.

In hidden hamlets and dark alleyways around the world we are re-learning that the market measures success simplistically -- by financial returns, market share and stock price. The unintended consequences of the drive to scale are played out on the backs of the poor.

In contrast, the social entrepreneurs in this room evaluate performance across a nuanced set of metrics. They serve multiple stakeholders -- all motivated by complex standards of community justice. They lead us towards what we should measure -- not what we can measure in our bank accounts.

As slavery abolitionist Henry Ward Beecher famously sermonized, "All successful business stands on the foundation of morality."

As we are learning in international microfinance, social entrepreneurs and social investors alike need to pay attention to the morality of their investments -- and less attention to the size of them.

Evaluate the Evaluations

The latest storm cloud from international microfinance is the social measurement and evaluation fad. Inventing social metrics has become the popular pet project of academics, foundations and consultants.

Personally, I have doubts. I have doubts that social scientists, scholars, foundation executives, impact investors and government managers are ever going to be happy.

Their existential unhappiness and dissatisfaction is perfectly understandable. They have undertaken to measure the one thing that we in this room most care about: the pride, dignity and rebuilt self-worth of a human being.

This is no easy task.

Consider a neighborhood newspaper anywhere in the world. Computing the value of a newspaper based on its circulation and advertising revenue produces its valuation, not its full value. A newspaper is a commercial venture, but also a social asset with a vital role in advancing free speech and fostering community cohesion.

Micro-enterprise is a social venture with ripple impacts in many directions and for many years. Its value extends beyond – way beyond – the lifespan of a randomized controlled trial.

Let's avoid delegating to the measurement mafia -- even when they are motivated by good intent -- a kind of hegemony over social change.

Let's target our dollars towards what we can dream, not just what we can document.

Know Who You Are & What You Stand For

Let's remember that the lesson from Indian microfinance AND the American recession AND a million other examples is that microenterprise is a movement -- not an industry. It is a cause. It is a visionary belief built on words like opportunity, economic justice, fairness, dignity, decency and sacrifice.

In the world of 1913 Nobel Prize for Literature Winner Tagore: "We who follow Gandhi have one thing in common: We never fill our purses with spoils from the poor nor bend our knees to the rich."

Let's remember that Bank of America, Citigroup, AIG, Walmart and British Petroleum have more in common with each other than they have in common with many of the organizations in this room.

To lead a microenterprise development organization is to aspire to live in a community where every citizen can feed a family, live in respectable housing, send children to a good school and use a functioning health system. Microenterprise is *not* about proving an ideological agenda.

To avoid the pitfalls and pratfalls which have befallen international microfinance, first, foremost and forever, fight with and for your clients.

Thank you.