# The Promise of Microfinance for Poverty Relief in the Developing World

By Matthew Ruben

## Introduction

> *The accepted human rights are food, shelter, health and education, and the basic responsibility of a society is to make sure that an environment exists so that people can have these things. Employment is also a right, but society can't assure wage-based work for everybody, so the alternative is self-employment. The big financial institutions currently ignore almost two-thirds of the world's population. So I say the right to credit should have the topmost priority on the list of human rights.*
>
> - Muhammad Yunus, founder of the *Grameen Bank* (Yunus 2006)

**Governor General of Canada Michaelle Jean dances with a group of women during the inauguration ceremony of the Consolidated Credit Union of Magnambougou in Bamako, Mali**
http://www.cbc.ca/cp/world/061125/w112502A.html
CBC News

The movement to expand financial services for the poor as a grassroots development strategy is a relatively recent phenomenon. Microfinance, which emphasizes granting small loans to the poorest of the poor without requiring collateral, rests upon the notion that the most impoverished people in developing countries typically don't otherwise have access to traditional financial services, but that they do possess modest survival skills that make them credit-worthy. Credit programs can offer the poor access to small amounts of capital (and often other low-cost financial services), and, in turn, they use these loans for self-employment projects, to generate income and eventually become self-reliant.

Though the model was rare and considered revolutionary in the 1970s, when there were only a handful of fledgling enterprises in Asia and Latin America, the popularity and acceptance of microfinance has become manifest in the vast numbers of microfinance institutions – recently estimated at more than 7000 by the World Bank – serving more than 20 million poor people in developing countries. In fact, the true numbers are difficult to estimate, because institutions are community-based, informal, and in many countries relatively unregulated. But where there were virtually none 35 years ago, there are undeniably many today. This acceptance has culminated in the awarding of the 2006 Nobel Peace Prize to Muhammad Yunus and the Grameen Bank of Bangladesh, early

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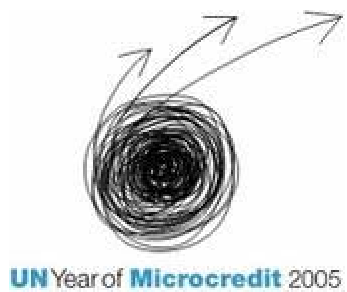
pioneers in the movement. And the United Nations declared 2005 the International Year of Microcredit. Microfinance is, by any reasonable measure, in vogue.

Why the sudden popularity? For one thing, most microfinance models don't require massive amounts of donor aid beyond startup costs. By design, microfinance institutions are self-sufficient in principle (if not in practice), relying on loan repayment rates that are high enough to be sustainable. And the programs generally don't require government assistance (outside of regulatory compliance), meaning that market forces should be able to keep microfinance programs afloat. Furthermore, the economic innovations behind the emergence of the Grameen Bank attracted the attention of the Norwegian Nobel Committee as an innovation worthy of the Peace Prize (as opposed to the Nobel Economics Prize) because it rectifies financial injustice, not just with rhetoric, but in a way that works. Is it any wonder that the movement has gained momentum?



**United Nations graphic**
http://www.audeamus.com/50226711/images/logo-year-of-microfinance-2005_rdax_168x142.jpg
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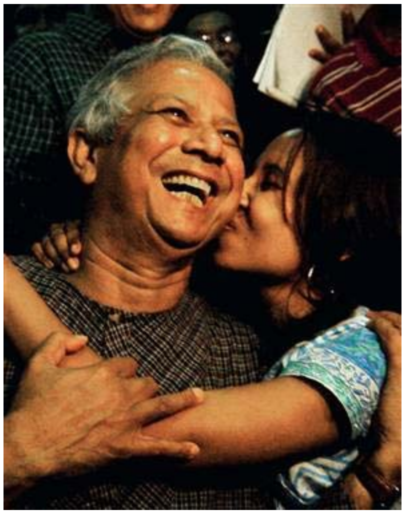
Microfinance is still considered a relatively new strategy to combat poverty, but the model has been studied and copied enough that some preliminary conclusions can be drawn about its rightful role in international development. Proponents point to the fact that microcredit does a better job targeting the poor, and it offers a smart alternative to the top-down macroeconomic approaches that have characterized traditional development policy strategies. Critics suggest that microcredit by itself is ineffective at targeting the poorest, and it may also be at odds with public welfare programs, so its role should be limited to the informal sector.

The United Nations Millennium Declaration, signed in September 2000, set eight goals for the UN member states to reach by 2015. The first of these is to reduce by half the proportion of people living on less than one U.S. dollar a day. What role is microfinance playing in the reduction of poverty in the developing world? To what degree is microfinance, in fact, a panacea?

This essay first discusses some basic features of microfinance programs and explains why they work. The subsequent section discusses some of the major criticisms of microfinance programs. The final section draws implications for microfinance programs in general and the role of microfinance in the global fight against poverty in particular.

## Principles of Microfinance



**Yunus receiving Nobel Prize**
http://www.msnbc.msn.com/id/15246216/
MSNBC

The world's poorest people face a great many barriers to basic financial services. One problem is that the poorest don't own property, so they lack the necessary collateral needed to secure loans. Most have no credit record. Most lack education or a formal employment record. Many live in rural areas, beyond the reach of traditional banks. And many can't read or write or sign their own names. Women are often further deterred in that some societies stipulate that only a man may serve as guarantor to a loan. Furthermore, most banks would not consider allowing loans small enough to be appropriate in those instances, for the simple reason that transaction costs (monitoring and enforcement) would be prohibitive. In the absence of formal access to financial services, the poor traditionally had no choices outside of being exploited by local money lenders.

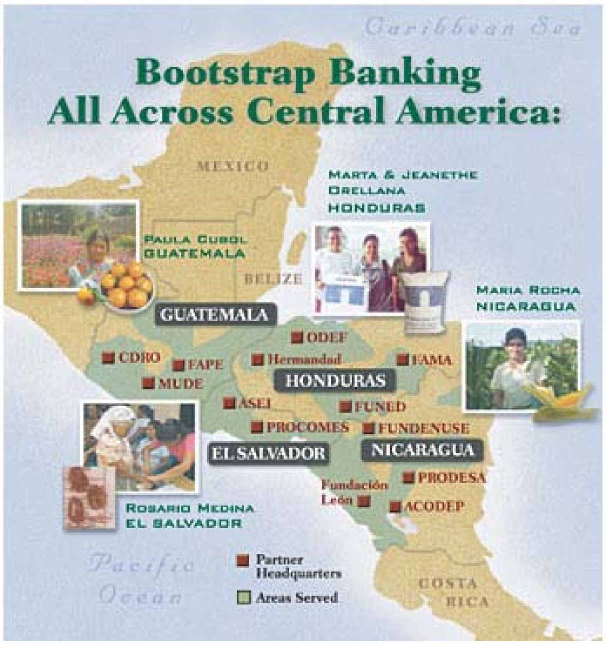
A trained economist, Yunus saw this reality as a market failure in his native Bangladesh in the mid-1970s, because by his estimation, a lack of collateral was not itself a reason to deny financial services. Bangladesh was suffering through a severe famine at the time. "I found it difficult to teach elegant theories of economics in the classroom. … I felt the emptiness of those theories in the face of crushing hunger and poverty." (Yunus 2003, 365) Yunus's response was to revisit the assumptions and goals of contemporary thinking about economics and banking. He further observed that the poor are not without ability: "Giving the poor access to credit allows them to immediately put into practice the skills they already know – to weave, husk rice paddy, raise cows, peddle a rickshaw. And the cash they earn is then a tool, a key that unlocks a host of other abilities and allows them to explore their own potential." (Yunus 1999, 140) In other words, Yunus saw the landless poor not simply as a cause, but as an economic opportunity.

The result in Bangladesh was the eventual establishment of the Grameen Bank, whose success has spawned countless similar programs worldwide. However, a great many other success stories, including the Bangladesh Academy for Rural Development (BARD), ACCIÓN International (which started in Latin America), and The Foundation for International Community Assistance (FINCA International) in Bolivia, have incorporated business models that are different in certain respects. (Some of the major differences in strategy for microfinance institutions will be explained later.)

But each of these programs has in common loans targeting communities that traditionally lack access to financial services. And each carries the central idea that loans are not charity. Some programs rely on some development aid, but these are generally seen as "startup" costs, not a means to sustain the program in the long run. As such, they rely – as banks do – on the fact that expectations dictate that loans will be paid off, with interest.

How do these programs successfully loan to poor, illiterate people who lack collateral and often lack other characteristics required for a traditional bank loan? Lenders still must seek to manage repayment risk. Four typical features are lending to small groups (as opposed to individuals), targeting women, offering graduated loans, and offering interest rates higher than traditional finance rates. The rationale behind each of these measures is explained below.

***Group lending***

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The Katalysis Bootstrap Fund

One feature common to many microcredit programs is that loans are only offered to small groups of people, not to individuals. Each member of the peer group has his or her own business plan, but every member of the group (usually a manageable number of about five) is liable if one or more members default on the loan. The joint liability serves as collateral, since even if an individual project fails and some of the borrowers are unable to pay, the group as a whole might still manage the debt. In economic terms, this also cuts down on the need for the bank to monitor its borrowers, since the borrowers will have the incentive to monitor themselves.

One clear advantage to putting borrowers into groups is that it creates a support group mechanism. Group members are encouraged to meet frequently and help each other solve business problems. For entrepreneurs, this can be a particularly useful benefit. Also, individuals by themselves lack sufficient loan collateral, and it has been established that loans are more effectively paid off if small groups are created, and loan responsibility is made a collective responsibility.

But group loans also create a collective action problem. Lending to groups may help insure the borrowers pay back their loans, but individual borrowers' reliance on fellow borrowers also gives each member the incentive to free ride on the repayment of that loan (i.e., rely on other members of the group to repay the loan). In other words, repayment of the loan acts as a public good. So why does group lending outperform individual lending? (Abbink et al., 623)

Social identity theory suggests that cooperation stems from members' identification with and commitment to the group itself. But other research suggests that cooperation is more calculated, borne from extended interaction and reciprocal commitments between group members. Partners prove their trustworthiness to one another over time, enabling group members to commit to the benefits of the whole, a self-reinforcing commitment. (Anthony, 500)

In fact, studies have shown that repayment rates are somewhat better when less-connected community members are grouped together than self-selected groups or same-family and same-church groups. Social ties may be a hindrance if they lead to more "forgivingness" toward defaulters. (Abbink et al., 624; Van Bastelaer and Leathers, 1798) Furthermore, repayment rates are associated with communities characterized by high levels of social capital, where more attention is given to shared values and opinions and where mutual trust levels are higher. (Van Bastelaer and Leathers, 1792)

So peer groups create a mechanism for better enforcement and more reliable repayment of loans. As a result, many microfinance programs require the formation of small groups of borrowers from the same community before money is lent. The groups serve as a collective source of collateral.

### *Targeting women*

Another aspect common to successful microfinance models is the practice of loaning exclusively to women. Experience has confirmed that women make the best borrowers, and it has been confirmed that women repay their loans more faithfully than men.

But that is not the only reason to target women. Women are more likely than men to faithfully utilize their loans to improve their businesses. Experience has shown that while men tend to spend disproportionately on themselves, women are more likely to spend on improving the standards of living of their family and children, on health and education, and on household needs. And, because such a high percentage of the world's poor are children, the needs of these children are better met if their mothers and caregivers are given a leg up. (Elson; Van Bastelaer and Leathers, 1798)

Giving loans exclusively to women also helps empower women in developing societies, typically places where women do not enjoy the same benefits as men. Many microcredit organizations have goals beyond poverty alleviation, and social equity and gender justice are consistent with their goals. Programs often claim – and some studies confirm – that involvement in credit programs does empower women by increasing their ability to control family finances and assets and become engaged in the community. (Hashemi et al., 650)

So credit creates economic power, which in turn creates social power. One study of a microcredit program in Senegal that lent exclusively to women found that it empowered women in a rather unintended way. As women disproportionately gained power in the community, a new class of female moneylender emerged: "They recycle their capital as high-interest loans to other farmers, becoming cash patrons to their kin and neighbors. Although only 19 percent of the women interviewed admitted outright to doing this (it is against he rules set forth by the donor agency) most women proclaimed that moneylending is the most popular way for 'other women' to invest their loans." (Perry 31)

### *Graduated loans*

**Women gather to make teak leaf plates, a self-employment project in Purulia, India, a program of Village Earth, an international Non-Governmental Organization**
http://www.villageearth.org/pages/Projects/Purulia/puruliablog/
Village Earth

Another common mechanism used by microfinance organizations is a policy of graduated loans. In other words, all borrowers start with small loans, and in paying back those loans, they become eligible for more ambitious loans. While each loan is current, credit is only further available while all members of a group are current in payments. This policy makes it possible to measure each borrower's payment capacity through successive experience. Credit ratings traditionally incorporate evidence of responsibility and stability in their measures, and the use of graduated loans operates using that same philosophy. Lenders perceive current reliability as being indications of future reliability. In other words, in the absence of a credit history, a borrower can build a credit history.

Payment discipline is further encouraged by the incentive for borrowers to gain future access to more credit. It is not uncommon for borrowers to go through many loans over the course of their relationship with the microcredit organization. These borrowers develop a credit history that allows them to take out greater loans for longer periods.

### *High interest rates*

In order for microfinance institutions to remain viable, in large part due to high administrative costs associated with small loans, they either need to be heavily subsidized or to charge relatively high interest rates. While on the surface, this appears contrary to the operating objectives of microfinance (or, at the very least, of poverty relief), it should be emphasized that while interest rates of 30 percent, 50 percent, or more appear exorbitantly high, they are quite low compared to its alternative, the traditional informal sector lending, which is usually dominated by local elites. And the high rates are necessary, given the fact that there are always overhead costs and transaction costs, and transaction costs must accurately reflect risk.

The Grameen Bank charges a relatively low annual interest rate of 20%. In order to charge a rate that low (for many years, the rate was below cost recovery levels), the bank sustained losses and had to be underwritten through subsidies. (Fernando, 4) However, Grameen is a success story in that it reportedly has not needed to accept donor money since 1998. (Yunus 2006, 16) It is more typical for microfinance institutions to charge an interest rate of 30% to 70% per year.

Interest rates vary depending upon a great number of variables, but ultimately microfinance institutions have to remain economically viable. Lower interest rates are preferred from the standpoint of poverty relief, but they must be made higher when (a) loan sizes are smaller; (b) borrowers are more likely to default; and (c) collection is made more labor intensive. With rural lending programs, all of these factors are often problematic.

| Administrative Expenses as Percentage of Loan Portfolio by Region | |
|---|---|
| Asia | 18.9 %* |
| Eastern Europe | 20.1 % |
| Latin America | 23.3 % |
| Africa | 38.2 % |

*All figures for financially self-sufficient MFIs.

| Portfolio Yield by Scale of Operation | |
|---|---|
| Large MFIs | 31.6 %* |
| Medium MFIs | 43.4 % |
| Small MFIs | 48.2 % |
| | |

**Charts showing microfinance expenses and yield by region**
http://www.cgap.org/direct/images/diagram-db06.gif
The Consultative Group to Assist the Poor

### *Microfinance models in practice*

Taken together, these features – requiring group lending, targeting women, providing incentives through graduated loans, and making interest rates high enough to cover costs – provide a basic financial service model for poor communities. The basic model is currently being tested around the globe, in rural and urban areas, in industrialized countries, and in the poorest countries. Each of these four features are a part of the Grameen model, which most estimates have deemed a success, both as a viable business as well as a social investment. (Schreiner, 357)

And the remarkable truth is that loan repayment rates above 90 percent – figures that are comparable to, or an improvement upon, conventional bank loan repayment rates in industrial societies – have become commonplace in the world of microfinance. Not all programs meet with such resounding success, but enough have proven financial successes, at least with respect to loan default rates, to quell any doubts about the efficacy of lending to the poor, in principle.

Furthermore, microfinance, and its overall benefit to a community, has the capacity to go beyond simple business loans. More substantial services can be provided by microfinance organizations as well, and the poor can use financial services not just to invest in business, but also to invest in educating and providing health for their families.

Nevertheless, lending models of microfinance institutions do vary substantially, depending on the characteristics of the target groups, local laws, or organizational philosophies. What works for Grameen in rural Bangladesh may not be necessary or desired in places where community problems are different, where customs and social structures and existing banking practices provide different incentives for organizational modeling. Microfinance programs have emerged in places as different from Dhaka as Chicago and Detroit. Other programs have chosen to make individual loans rather than group loans, and/or to freely loan to men.

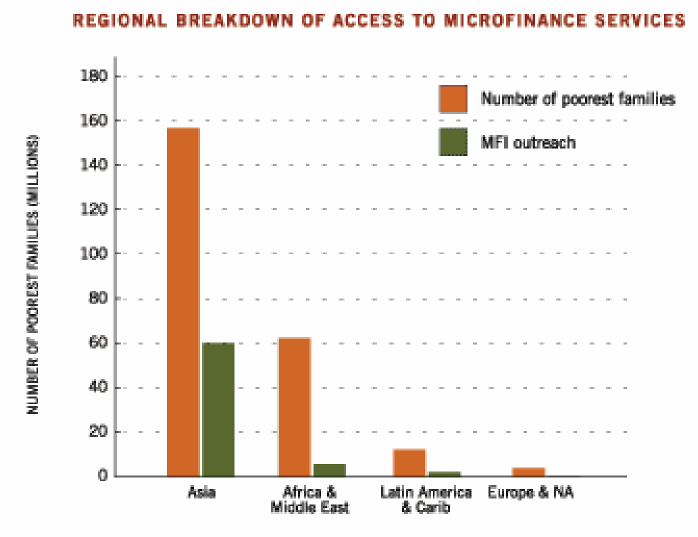
And many programs offer – or even require – savings plans. Members who are repaying loans on a weekly basis also are required to save money and deposit it into a group savings plan each week. Programs offering this service include Grameen and the Philippines-based Centre for Agriculture and Rural Development. (Gow, 11) Grameen further provides its members with a package of social welfare services, including family planning education, nutrition and child development programs, and physical exercise programs. (Auwal, 17)

The Bangladesh Rural Advancement Committee (BRAC) mandates that members complete a lengthy awareness and training course before they receive their first loan, and thereafter provides opportunities to participate in other business training programs. The Grameen Bank operates with a different philosophy, offering little instruction. It is not clear which is a superior model, as there have been successes of both types. (Hashemi et al., 649)

So ultimately, the details vary. But the greater insight is that microfinance offers some promise to poor communities. The revolutionary aspect of these programs is that micro-level banking can be a viable business enterprise without the prerequisite of collateral. And for many organizations, these steps are a positive gesture toward alleviating poverty. But how grand a gesture?

## Limitations and Criticisms

Microfinance has no shortage of critics. One common concern is that microcredit might provide governments the excuse to eliminate public programs and aid programs, so that microcredit, from a policy standpoint, would privatize anti-poverty programs. This criticism may be of concern, but only if policymakers use microfinance to replace other programs. The next section further addresses the role of the greater development arena. But this section focuses on the more directly applicable criticisms of the internal logic or implementation of microfinance programs.




**Regional Breakdown of Access to Microfinance Services**
http://www.unitus.com/graphics/poverty/regionalbreak_chart.gif
Unitus

Probably the most common criticisms of microfinance directly concern the reality that microfinance programs may have to strike a balance between two competing incentives. Not all microfinance programs have the stated goal of reaching the poorest of the poor, but most attempt to reach communities that banks wouldn't otherwise reach. Either way, if these programs are seen as effective mechanisms to alleviate poverty, they must adequately meet the needs of the very poor. But while this may be a part of their stated mission, microfinance organizations cannot simply behave as charities, because they are not charities. In order to survive, they must also charge rates high enough to counter risk, avoid going to communities that require a more labor intensive operation, or avoid high risk altogether. So these organizations must make choices with regard to how they wish to be viable, especially if they wish to be economically self-sufficient (as opposed to relying on outside aid). As such, critics find fault with thriving microfinance institutions, arguing either that their interest rates are too high, or that they are not lending to the poorest people in the community. In short, these institutions are often seen as focusing on being self-sufficient at the expense of battling poverty. (Hughes and Awimbo, 75)

Some have proposed that interest rate ceilings be imposed on microfinance institutions, but this might lead them to avoid lending to poorer people. Otherwise, a rate ceiling might discourage potential investors or put a microfinance institution out of business. (Fernando, 4) A different strategy for microfinance institutions is to target the less risky poor, those people who qualify for programs but also have an established credit history and an established business. For these borrowers, repayment rates will be higher.

In fact, many programs have moved away from group lending in favor of lending to individuals and found that they have improved loan repayment rates. Why would individuals have higher repayment rates than groups? One simple reason is that the set of individuals chosen for the loans constitute a less risky sample of the population. Comparatively wealthier villagers are selecting into programs, and programs are too concerned with avoiding greater risks to change tactics. Field workers face incentives to lend to less-poor, more educated clients. The problem is undoubtedly a reflection of the fact that development intervention is often driven by performance indicators, a direct result of Non-

Governmental Organization (NGO) desires to offer positive reports back to their donors, which are often foreign, or perhaps NGO desires to divest themselves of reliance on foreign donors. (Ahmad, 69)

Avoiding the poorest in a community in favor of offering loans to the less-poor appears to be a common strategy for many microfinance institutions, and the finding is a recurring theme in microfinance research. A variety of studies have found the very poorest are systematically excluded from two Filipino programs, two programs in northern Thailand, and four programs in Bangladesh, so there is reason to believe the behavior extends to a great many microfinance institutions. (Ahmad, 71; Coleman 1624; Hemingway, 53; Milgram 220)

The potential problem with this approach is reflected in Yunus's claim:

> The inability to reach the poorest of the poor is a problem that plagues most poverty alleviation programs. As Gresham's Law reminds us, if the poor and non-poor are combined within a single program, the non-poor will always drive out the poor. To be effective, the delivery system must be designed and operated exclusively for the poor. (Yunus 1998, 48)

A much different criticism has focused on the matter of empowering women. While many microfinance programs lend solely to women, studies of women borrowers have found evidence in varying degrees that control of the loan often transfers to her husband or other male relative, depending on the program, region, or measurement. Women have been seen redirecting loans to men right in front of their bank officers. Women also have been asked to join by their husbands. So women are often not the end user of the loans. The problem is difficult to measure or enforce, but it is one that the development community needs to be wary of. (Goetz and Gupta, 49)

Of particular concern, of course, is that these women nonetheless bear the liability for repayment of any loans. A more recently published study of an economically sound program in Bolivia found that not only were at least 12 of the 28 women in the study found to be borrowing for their husbands or other family members, the study emphasized another more fundamental problem. It revealed that although women tended to meet the repayment schedules, the high interest rates were a significant deterrent to their economic advancement. The research studied two different programs, with interest rates of 30% (plus a 2% commission fee) and 48%, fees that would be seen as typical of microfinance programs. Both programs also required savings of 10% per loan cycle. What this study showed is that many of the women simply didn't make enough money from their business enterprises to pay off their loans without borrowing money from family members to make payments.

It is far easier for the women to borrow than to repay. The two programs boast remarkable repayment rates, but the women nonetheless faced great competitive pressures (as many women were doing the same thing in the same small area) and repayment schedules. These women worked hard and were enthusiastic, but market forces were unfavorable:

> In the face of inadequate income to make payments, three strategies are utilized. Borrowing from within their social network and/or selling household goods is the most common (92%) and accessible that nearly all the women had to resort to, often every payment cycle. The second strategy is to reduce food quantity and/or quality. Thirty eight percent said that they had at some point cut back quantity and/or quality of the food given in order to save the requisite money for the 'sacred payment.' … The final option available for women chronically short on cash was to obtain work to make money to pay off loans (21%) (e.g., taking in laundry, housekeeping, working on a road crew). (Brett, 15)

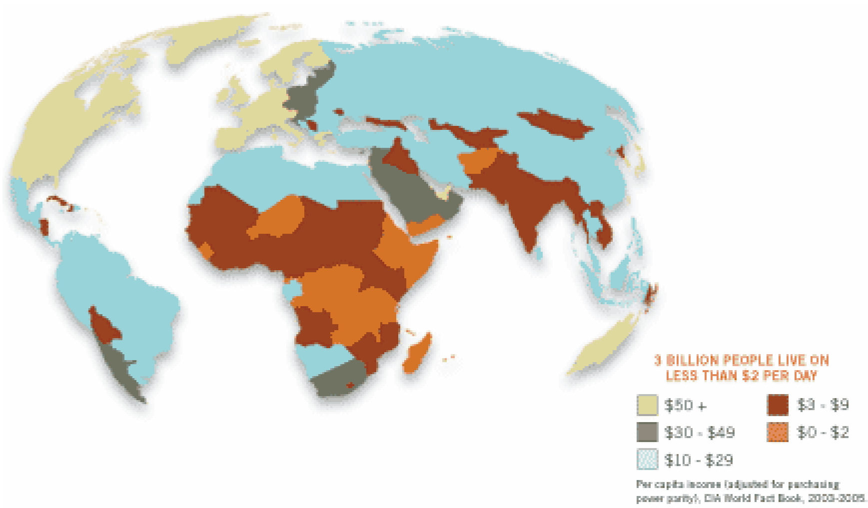
In short, the women were enthusiastic to get access to seed money, but found themselves saddled with debt. The reality is that microlending is a costly venture, even for microfinance institutions that are both efficient and barely profitable. As a result, interest rates will tend to be high, even if they are comparatively lower than what the informal market would otherwise offer. Consequently, many poor entrepreneurs will struggle to make ends meet. For microcredit to offer a social benefit, borrowers must be able to repay the loans and see other social advancement. Otherwise, clients won't see a benefit from credit, and worse, they risk putting themselves and their families in further debt.

Taken together, these criticisms highlight a primary strategic question for the microfinance movement. There is an emerging model of microfinance that better resembles commercial banking than traditional charity. These programs concentrate on offering loans at market interest rates that both provide services to the poor and to existing small businesses, although the very poorest might be left out. Shareholder and donor expectations will dictate the mission of these organizations and likely push them to operate with an eye toward turning a profit. These firms will raise capital more quickly, be able to expand into more markets at a faster pace, and consequently reach a lot of people. Strictly speaking, this is not the Grameen model, but if the goal of the microfinance movement is to provide financial services to areas not traditionally reached by commercial banks, these profit-minded microfinance institutions do fill that niche.

But if this model predominates in the developing world, it is likely that the very poorest people will be left behind. The Grameen Bank model, which more closely resembles the activities of international programs FINCA and Opportunity International, purports to be very different. All people wishing to join Grameen must prove that they own less than half an acre of land and that their total wealth is less than the value of one acre of medium-quality land. This ceiling, dictating who the bank may offer loans, acts effectively as a means test, which forces the program to focus on the poor rather than on established businesses. Programs like these also tend to offer relatively more lenient repayment terms. Rather than pursue profit, they emphasize the need to be sustainable. Grameen also offers credit at relatively low interest rates, but it required a substantial amount of donor aid before it was able to declare self-sufficiency.

### Implications for Poverty Relief

Muhammad Yunus famously makes the claim that access to credit is a human right. At a minimum, the microfinance movement has highlighted the great need for financial services in economic sectors not otherwise targeted by banks. It is certainly true that most poor people don't have access to formal financial services. It is equally true that there remain a vast number of poor people.




**Map Showing Income by Region**
http://www.unitus.com/graphics/poverty/poverty_map.gif Unitus

By World Bank estimates, more than a third of the world's population lives on less than $2 a day, and for-profit banks have established that they don't see enough of an economic incentive to reach this segment of the world's population. Microfinance institutions can not only make it easier for the very poor to secure small loans, they also have proven, in some circumstances, to be able to help create jobs and income, improve agricultural productivity, empower women, and give the poor access to better nutrition and improved housing. (Wahid)

However it has been established that microfinance providers face a great many decisions about what strategies will reach the most people, help the most people, and help the poorest people. Microfinance institutions must also decide whether to concentrate on lending or provide other services. Furthermore, microfinance institutions may not always be particularly helpful, particularly regarding rural communities, as well as in areas lacking in basic infrastructures, ravaged by AIDS, or suffering from hyperinflation.

At a minimum, the widespread adoption of the microfinance model appears a very positive step. Traditional aid might be able to set up schools and hospitals in poor communities, and opening up trade barriers might come with a promise of benefits of improved infrastructure and services to poor communities. But microfinance allows a poor person the opportunity to affect the welfare of his or her own family directly. Roads and schools and drinking water are critical, but not as helpful to a poor person who can't afford to borrow money from a traditional moneylender to purchase husked rice for the harvest.

Nevertheless, it is also probably true that the best anti-poverty strategy is to use microcredit along with other social investments, not just to reduce poverty, but to expand a country's basic social resources. Employment programs and education programs can make the poor more employable. Improvements in public infrastructure, and the introduction of schools and hospitals can benefit communities. And all programs require a legal and regulatory framework, which is controlled on the policy level. Microfinance by itself would be more effective in conjunction with policies that bring other services to poor communities as well. Microfinance can only go so far in a country suffering from hyperinflation. Microfinance programs are not the best way to bring safe drinking water to a community. Microfinance is limited in countries lacking in proper health care infrastructure and funding.

The popularity of microfinance in any form has the potential to distract from other vital antipoverty measures. It would be easy for donors and governments to create and fund credit programs and ignore other, potentially more serious problems faced by the rural poor. Microfinance by itself does not solve the need for medical services, infrastructure, education, and land reform. The 1998 UN report *The Role of Microcredit in the Eradication of Poverty* recommends microfinancing as one part of a larger effort for promoting small business enterprise. The other components include improving access to land, appropriate technology, and markets, as well as promoting self-help groups and counseling to help poor people successfully manage small businesses.

But microfinance certainly has the potential to fill a vacuum that has existed for far too long. And for all its hype, microfinance still has a lot of room to grow. Within Asia, more poor people benefit from microfinance institutions in Bangladesh, Thailand and Vietnam than in China or India. (Weiss and Montgomery, 393) One hopes that microcredit will spread to untapped areas. And one hopes its spread will be accompanied by an appropriately diversified antipoverty plan.

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