

Introduction

Doing great activities with a great educational content doesn't need to be difficult; we already have so many of them in CISV! So that everyone can benefit from them, the Education Content committee is building a database of all of our Peace Education activities. We need your help to collect a selection of activities from all our programmes. To ensure these activities are collected in a consistent way we are using an Activity Template, and there is one for each programme. This will make it easier for everyone to use and share activities. The database will be located online in 'The Library' and will be managed with help from each of the Programme Committees. The format of this template is based on the CISV Experiential Learning model.

1. Educational Content

Areas(s) of Peace Education: Please check the box which identifies the main focus of the activity.

X	Human Rights		Diversity
	Conflict and Resolution		Sustainable Development

Theme: A theme is used to connect a series of activities through a programme. What is the Theme of your programme and how does this activity fit into it?

Microloans
Solutions to poverty

Educational Goals and Indicators: Please only check the ones your activity will focus on and collect evidence for.

	1	Develop self and intercultural awareness
X	1a)	Gain awareness of alternative cultural and personal perspectives.
X	1b)	Compare own perspectives with others.
	1c)	Reflect on the challenges to own views throughout the camp.
	1d)	Put into practice the cultural awareness acquired through the camp.
	2	Develop leadership skills
	2a)	Take initiative to build and maintain a strong community.
	2b)	Maintain the values and rules of the group.
	2c)	Plan and facilitate activities throughout the camp.
	2d)	Take initiative for the practical aspects of the camp.
	3	Develop positive attitudes towards other people
	3a)	Contribute to camp's daily life and responsibilities.
X	3b)	Respect others by actively participating in all activities.
X	3c)	Listen to and respect the opinions of others.
	3d)	Accept conflict as part of community living and actively try to resolve it.
	4	Empowering people for Active Global Citizenship
X	4a)	Share personal perspective on the different educational Themes and topics.
X	4b)	Contribute to discussions on how to become Active Global Citizens.
	4c)	Join in an LMO activity.
	4d)	Consider how to use new Attitudes, Skills and Knowledge after the camp.

Evidence: How will you know if the participants have learned what the activity intended? Evidence should be matched to the indicators you identified for this activity.

- Contributions to debates
- Contributions in group discussion
- Contributions in the introduction session
- Personal written reflections following the debates

2. Explanation

Do:

Explain how the activity will happen from the beginning to the end. Be sure to include the following things

- (a) how the activity is introduced in relation to the Theme
- (b) how the structure of the activity is explained, including group sizes and directions for what participants will do
- (c) what the role of leaders is during the activity e.g. how will they collect evidence

1. Introduction (15 minutes): Participants are asked if they know anything about microfinance. Any knowledge or ideas on the topic can be told to the group.

The participants are given a sheet with information about microfinance and its possible implications for people living in poverty. They are to have a read of the sheet. (15 minutes)

2. Leaders split the participants into four groups. Two groups are to take a positive view of microfinance (ie that it is highly useful in the fight against poverty) and the other two groups will take a negative view of microfinance (ie that it does not represent a useful solution in the fight against poverty).

Each group is given 15 minutes to come up with persuasive arguments to back up their opinion. There is information provided with this activity that could be of some use to the participants in doing this [attached].

3. Once the groups have had time to come up with some persuasive arguments and gathered their thoughts, leaders pair each pro microfinance group with one anti microfinance group, so that two debates can take place. In the debates, each side has ten minutes to justify their assigned view on microfinance as a tool for escaping poverty. The pro side speaks first, then the anti microfinance group also has ten minutes in which to put across their view. The ten minutes per team and question time should be timed so groups have a fair amount of time each. The debates run simultaneously, most likely in different places so as not to disturb each other. A leader can act as a chairperson in the debate, or if a participant would like to do so then that is a possibility. After each group has put forward their views, then there can be a time for members of the teams to pose questions to members of the opposition. The chairperson is also welcome to pose questions. (Ten minutes per team, then ten minutes of questions: 30 minutes)

4. The groups reconvene together. Participants will be given paper and pens and will be asked individually to write down, in their opinion, the top three arguments for and against microfinance as a manner in which poverty could be relieved. They should draw upon their group's arguments, and what they heard from the team that presented the opposite view in their debate, and their own knowledge. Hopefully they will be able to write down things that they did not know about before. (15 minutes)

If there is more time, or perhaps later on in the week, then there could be another set of debates, except this time opinions could be reversed. Pro teams will now be anti microfinance, and will debate against a team that they did not debate against last time.

3. Debriefing

Reflect:

What questions will help participants reflect on what they experienced in the activity?

- Had you heard of microfinance before?
- What is microfinance?

- What did you learn about microfinance?
- Did you find that being told which view to take made your opinion on the topic change?
- Was it difficult to argue a point that you might perhaps not have considered before?
- How did you find the debates?
- Did you change your mind following the debates?

Generalize:

What questions will help participants think about what they have learned and put their experience into a wider context?

- What is your opinion of microfinance as a way to help alleviate poverty?
- Do you think that microfinance represents something positive for the poor?
- Do you know any other schemes or initiatives that work to reduce poverty?
- Do you think reduction of poverty is ever fully achievable?

Apply:

What questions will encourage the participants to think about how they can apply their learning in different contexts and situations?

- Would you talk to anyone about microfinance?
- What would you say about it?
- How would you present it as a concept to other people?

4. Materials and Background Preparation

Origin of Activity: Did you create this activity? If not, who did?

CISV interns

Materials: List the materials and their quantities to do the activity.

- Enough pens and paper for the group
- Something that has the ability to time (sand/egg timer/mobile phone) to time the debates

Time & Group Size: Suggest the ideal time scale and group size for this activity.

Group size: 4 groups of 7/8.

Time:

Tips for facilitators: What tips do you have for anyone who wants to do this activity? Is there anything that they should be particularly aware of?

- Make sure that everyone has an input in the discussion, and that it is not being dominated by one person in particular.
- Chairpeople have the chance to pose questions to people who have not contributed to the discussion and generally ensure everyone is involved.

Activity Name: Each activity should have a name so it can be searched for in the database.

Debating Microfinance

5. Attachments

- Microfinance: Basic Info*
- Positive Resources*
- Negative Resources*

Microfinance: Basic Info

Microfinance is the provision of financial services to low-income clients or solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services.

More broadly, it is a movement whose object is "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers." Those who promote microfinance generally believe that such access will **help poor people out of poverty.**

Microfinance is a broad category of services, which include microcredit. Microcredit can be defined as **the provision of credit services to poor clients.** Although microcredit by definition can achieve only a small portion of the goals of microfinance, conflation of the two terms is epidemic in public discourse. In other words, critics attack microcredit while referring to it indiscriminately as either 'microcredit' or 'microfinance'.

Traditionally, banks have not provided financial services, such as loans, to clients with little or no cash income. Banks incur substantial costs to manage a client account, regardless of how small the sums of money involved. For example, although the total gross revenue from delivering one hundred loans worth \$1,000 each will not differ greatly from the revenue that results from delivering one loan of \$100,000, it takes nearly a hundred times as much work and cost to manage a hundred loans as it does to manage one. The fixed cost of processing loans of any size is considerable as assessment of potential borrowers, their repayment prospects and security; administration of outstanding loans, collecting from delinquent borrowers, etc., has to be done in all cases. There is a break-even point in providing loans or deposits below which banks lose money on each transaction they make. **Poor people usually fall below that breakeven point.** A similar equation resists efforts to deliver other financial services to poor people.

In addition, **most poor people have few assets that can be secured by a bank as collateral.** As documented extensively by Hernando de Soto and others, even if they happen to own land in the developing, they may not have effective title to it. This means that the bank will have little recourse against defaulting borrowers.

Some proponents of microfinance have asserted that microfinance has the power to single-handedly defeat poverty. This assertion has been the source of considerable criticism. Research on the actual effectiveness of microfinance as a tool for economic development remains slim, in part owing to the difficulty in monitoring and measuring this impact. It is argued that **people in poverty can use these microloans to invest in small-scale businesses that in time can provide profit to lift them out of poverty.**

POSTIVE SOURCES

Microloans in Hackney

When Faisal Rahman saw a microfinance scheme - lending tiny amounts to millions of (poor) people excluded from the banking system - thrive in Bangladesh, he wondered if it could work in Hackney, London? Yes, it could...

[The Observer](#), Sunday 21 March 2010

Nearly 10 years ago, armed with a degree in geography and a credit card, Faisal Rahman, a slight and softly spoken man now 34, had a big idea: he decided he would open his own bank in the East End of London. The idea, he says now, was really a response to a puzzle: why was it that the poorest people in Britain – the people most in need of some financial assistance, most in need of fair rates of interest – were also the people who were denied access to bank accounts?

Rahman had already, at that point, devoted a good deal of thought to that puzzle. For a start, as the son of first-generation immigrants from Bangladesh – his parents had escaped the civil war in 1971 – he had grown up with financial exclusion, on estates in south and east London where doorstep lenders and loan sharks were often the only way of getting credit. Rahman's father worked by day and studied accountancy at night, and his son picked up on some of that ambition. Rahman won a place at Cambridge and on graduating went to Bangladesh, where he was seduced by the landmark social experiment of Muhammad Yunus, the Nobel Prize-winning architect of microfinance, and his Grameen Bank.

It is Yunus's understated contention that "more than half the population of the world – over three billion – do not qualify to take out a loan from a bank. And this is a shame..." Yunus had set out to rectify that "shame" by creating a model of banking that could include the poor, loaning small amounts of money on a large scale, encouraging tiny incremental savings schemes among peer groups, making entrepreneurial citizens of dollar-a-day subsistence workers.

When Faisal Rahman studied Yunus's bank he became obsessed with the transformative possibilities of the model to the extent that, at the age of 21, he had persuaded the World Bank that he would be the right person to supervise the implementation of a £120m microfinance programme in Bangladesh. He did that for just over a year, but all the time he was developing his own big idea: to return and put into practice in east London what he had learned. "You can imagine my mother's response," he tells me now, grinning, "when I came back after working for the World Bank and explained my plans to set up a bank in a back street of Hackney. 'Faisal,' she said, 'We spent 20 years trying to get out of there!'"

Rahman spent a lot of time talking his idea through with people in the financial industry. He was told that microfinance might work in the developing world but it would never work here. That the poor would not save. That bad debtors would never become prompt repayers. That he could never develop the idea at scale. In the face of this scepticism Rahman obtained a grant for a few thousand pounds from the overdraft of a charitable trust and secured it against his credit card. He then opened the doors of Fair Finance to business.

In the years since then he has watched the banking crisis, the implosion of debt, from the other end of the telescope. While the government has been printing billions of pounds to keep the economy intact, he has been hammering out deals to tide people over with £100 until the end of the week, or watching business start-ups grow by investing in entrepreneurs that no bank would touch. He has documented how he has saved 1,000 people from eviction from their homes in the last year alone by working as an intermediary with housing associations, helping to put together cases against loan sharks and bailiffs. More than once he has been violently threatened with being run out of town. He's still here, though, quietly putting his case, lending money at fixed and affordable rates, helping people into the economy, and now attracting enough investment to expand his idea to eight or 10 further sites across London in the next year.

Lending to the poor has lately acquired a bad name, the catch-all of "sub-prime", with its inference of damaged goods, the "toxic loans", which, as we all know, got us into our current difficulties. In some ways, though, Rahman argues, the motivation of sub-prime lenders was inspiring. "It said, you know, just because a woman has got divorced and has credit history only with her husband doesn't mean you can't lend her money. Or that recent immigrants were necessarily a bad risk – it did away with all of that. Opening up mortgages to these people proved a few things – for one it proved that poorer people were fantastically loyal to the institution that lent them money..."

“Merry-go-round” micro-finance keeps slum residents fed in Kibera

Working with CARE International, residents in Nairobi's Kibera slum have developed a lottery system to choose who benefits from their microfinance pool.

IRIN,

Tuesday, 13 April 2010

[Nairobi informal economy, community organisation](#)

Josephine Awuor, 34, always looks forward to her turn to receive "merry-go-round" contributions from fellow members of Msingi Bora (Good Foundation), a micro-finance group she belongs to in Kibera, Nairobi's largest slum.

Meeting weekly, the 23 Msingi Bora members each contribute 50 shillings (60 US cents), which is pooled for members to take loans from. At each meeting, the members also contribute 20 shillings (26 US cents) each - to be given to one member in what they term their "merry-go-round" as they draw lots to determine the order of receiving the money.

"Numbers are written on small pieces of paper and folded and each member picks one; the number you get determines your position in the order of receiving the merry-go-round money," Awuor said. "Previously, supporting myself and my four children was really difficult; things like school fees, food and rent were hard to get but since I joined Msingi Bora, things are looking up," Josephine said.

Without a steady income - she mostly survives by doing casual labour in more affluent residential areas neighbouring Kibera - Awuor uses the merry-go-round money to buy food and other household items.

Loans from Msingi Bora, which range from 500 shillings (\$6.5) upwards, have enabled Awuor, a single mother of four, to put her children in school. Her eldest child is due to sit the Kenya Certificate of Secondary Education this year and another one is in class eight, due to sit the Kenya Certificate of Primary Education at the end of the year.

"Unbanked"

With the vast majority of the hundreds of thousands of people who live in Kibera lacking any kind of formal banking facilities, micro-finance groups such as Msingi Bora fill the gap, providing members with credit they would otherwise not have access to.

While some groups are initiated and established by the slum dwellers on their own, some groups, such as Msingi Bora, have the backing of national and international organizations that provide training and psychosocial support.

CARE International, through a community-based organization known as the Kibera Slum Education Programme, supports Msingi Bora and dozens of other such groups by providing training, capacity-building, resource mobilization as well as sub-granting for projects such as the education and care of orphaned and vulnerable children.

"CARE has found that the answer is not necessarily to bring banks or microfinance institutions to the poor, but instead enable and empower poor women to set up informal saving and loan groups," Helene Gayle, the president and chief executive officer of CARE USA, said on 10 April during a visit to Kibera.

According to CARE, members of its Village Savings and Loan Associations receive intensive money management training before their groups begin transacting loan operations. Most members of these groups are women, often earning less than \$2 a day.

Gayle said the savings and loans projects give women in slums economic options they often lack and enable them to afford health care, take their children to school and put food on the table.

"Although such village savings and loan programmes help to make a difference in the lives of women and children, there is room for improvement as more and more people should have

access to such programmes in order to have an even greater impact," she said. "The projects in Kibera illustrate that we can really make a difference in peoples' lives."

CARE also supports economic empowerment self-help groups - comprising male and female members - such as the Haki Self Help Group that operates from the Kibera Hawkers Market, making ornaments from bones.

Turning waste into profit

"We have turned waste into profit by working with the bones discarded after meals; we work with cow, camel and goat bones to make a lot of beautiful ornaments such as necklaces and bangles," Charles Ogutu, head of the Haki Self Help Group, told IRIN on 10 April. "Our main challenge is the market for our produce; we have contacts with traders who come and buy from us and later resell on the tourist markets, but sometimes their orders are not enough." Ogutu said the proceeds from the project are used for members' economic empowerment as well as the group's community projects, which include care-giving to orphaned and vulnerable children and a justice programme aimed at community reconciliation in the aftermath of the post-election violence that hit the slum in early 2008.

Lauren Hendricks, the executive director for CARE's [Access Africa](#), told IRIN that since 1991, CARE has had savings and loans programmes in 21 countries, reaching 1.6 million people. "Over this period, there has been significant improvement in household economy for those involved in the savings and loan programmes," Hendricks said. "As you know, one of the underlying causes of poor maternal health is lack of income for many women; we can combine group savings and loan programmes with others such as education so that we use resources more efficiently."

Source: the humanitarian news and analysis service, IRIN, <http://www.irinnews.org/>

NEGATIVE SOURCES

Impoverished Indian families caught in deadly spiral of microfinance debt

Small loan schemes devastate the lives of millions of poor people and reveal the dark side of India's economic boom

[Jason Burke](#) in Palivelupa

guardian.co.uk, Monday 31 January 2011 20.19 GMT

The morning routine in Palivelupa village, 100 miles north-east of Hyderabad in central [India](#), has been established for years. Once the buffalo are taken to the fields, the tea made and the children sent to school, the women meet under the big neem tree and wait for the debt collectors.

Until recently, Rama Peadda Boiana, a 29-year-old farmer's wife, labourer and mother of three, was in charge. "She was hardworking and clever," Boiana's sister-in-law, Taj Mani, told the Guardian. "That is why she ran the group."

And that could be why she took her own life. There were many reasons for her suicide, but the sums she and other local women owed to half a dozen microfinance firms played a big part. Some say Boiana felt responsible for the trouble the villagers were in. Others allege she used

others' repayments to pay off her own debts. "We are hardworking people. That's all," said Boiana's husband, Chera Lu, 36.

The story of Boiana and of Palivelupa is that of a good idea gone drastically wrong, devastating the lives of millions of desperately poor people, threatening a banking crisis and revealing the dark side of India's economic growth. Pioneered in Bangladesh in the late 1970s, microfinance involves granting small loans that no conventional bank would give to the very poor, allowing them to launch small-scale economic ventures. Around 30 million households in India have received £4bn in such loans over the past 15 years.

In recent months, however, the industry has been thrown into crisis as it has become clear that a significant number of borrowers – between a tenth and a third, depending on the estimate – cannot afford to repay their loans.

At the heart of this financial and social disaster is the central state of Andhra Pradesh, where the past five years have seen the aggressive selling of loans to often illiterate villagers, followed by equally aggressive debt collection.

"I have nothing, less than nothing left," said Victoria Bandari, who lives in a one-room mud and brick home in Palivelupa. "All I have is debt, which I will pay for the rest of my life."

Addicted to debt

Bandari's story is typical. The 38-year-old took her first loan in the late 1990s from a government-run agency. She spent the 10,000 rupees (£140) on her house. The loan was partly repaid, but when her son was badly injured in a road accident in 2002 Bandari took another loan for a similar sum, this time from a commercial lender.

Within months, the same firm had sold her a supplementary loan. With interest repayments and upfront charges reaching 40% to 50%, Bandari, whose husband works as a labourer for a pound a day, was trapped. Offered further loans as new firms joined a financial feeding frenzy, she had taken on debt of £800 by the end of the decade.

"After the fourth loan they are addicted," said Vijay Mahajan, founder of a major microfinance lender (MFI) and spokesman for the industry in India.

With her creditors pressing morning and evening, and taking her daughters' wedding jewellery as part-payment, Bandari was forced to mortgage her home and her government ration card, issued to "below poverty line" households so they can claim subsidised food. Now someone else in the village is using the card, and the family go hungry.

Venkat Narayana, professor of economics at Kakatiya University in the Warangal, the centre of the crisis, said: "Many are motivated simply by money. The capital is coming from overseas Indians, the internet boom, corrupt politicians. They are seeking profit among the poorest of the poor."

Narayana said many villagers had spent their loans on consumer items such as mobile phones, motorbikes and TVs. "Even if they do invest, it is often in something that cannot be sustained. The mass media has exposed them to a new dream of material affluence."

Like many villagers, Bandari used much of the cash to pay for the schooling and marriages of her children. "The money just goes. I don't know where," she said.

Blow to development

The future of the industry is uncertain. In October last year, the government of Andhra Pradesh imposed new restrictions, in effect halting new loans and slashing repayment levels. "The industry here is dying a slow death now," said Mahajan. "It is really tragic. This is a huge blow to sustainable financing for the poor. It will take a decade before anyone sensible goes back into this field."

Vasant Kumar, the minister who drafted the laws, said it had been imperative to stop "atrocious activities". There is no question of cancellation of loans however, he said.

Since the law was passed, the debt collectors have stopped coming to Palivelupa, but the respite will only be temporary. The morning visits will soon start again.

India's pirates of microfinance

Micro-moneylenders who profit from borrowers in southern India are undermining the principles of microfinance

- [Sarika Bansal](#)
- guardian.co.uk, Wednesday 24 March 2010 12.00 GMT

India is a land of entrepreneurs. From tech-savvy businessmen to street barbers, the country is full of people who can identify opportunities and use them to their advantage. The unorganised "micro-moneylenders" in the southern state of Andhra Pradesh are no exception. To illustrate the point, let us take the example of a hypothetical village in Andhra. As with most fertile villages in the region, MFI's (microfinance institutions) have a strong presence in the area. For years now, they have been lending small sums of money to women in the village, purportedly to help them jumpstart micro-businesses. The MFIs send staff to collect weekly loan instalments, which they do in early morning centre meetings. In these meetings, 20-40 customers gather and repay their instalments together, and if somebody cannot pay, the others cover for her.

Suppose that, in our hypothetical village, one such meeting just ended. Customers are pleased that they have paid the money they owed this week – it means they are a step closer to receiving a larger loan in the future. The loan officer is similarly pleased – 100% collection means that he will get a pat on the back and a boost in his variable income. Far away in a world-class Indian city, the MFI's founders are also pleased – high repayment rates mean that more investors will be interested in them.

As of late, however, high repayment rates may speak of something else entirely. Specifically, they may mean that micro-moneylenders are at work. These individuals, it seems, come in two flavours. To date, both have only been seen anecdotally, but both have the ability to subvert the microfinance industry. The first type looks and acts like a traditional moneylender. Minutes before centre meetings, they offer money to cash-poor customers – typically 200-400 rupees (£3-£6) – and ask them to repay within a week. They are quick, inconspicuous, and exorbitantly expensive.

The second type is harder to find, since they look and act like MFI customers. In isolated incidents, it seems enterprising customers have begun "lending" money to their fellow centre members. Before the meeting begins, they subtly dole out cash to those in need, and in return, charge commission for their generous services.

The presence of micro-moneylenders should hardly come as a surprise to microfinance practitioners. Many customers in Andhra are running three to four loans simultaneously, meaning they need to continuously be cash-rich to pay instalments. For customers that run seasonal businesses, such as harvesting rice or weaving winter blankets, this may prove difficult. Customers also know that the loan officer will not adjourn the centre meeting until every rupee has been paid. This practice was begun to instil discipline in repayment habits, but over the years, has become a nuisance to women whose livelihoods are time-dependent. Women who are paid by the number of saris they produce, or by the time they spend picking cotton, want centre meetings to end as quickly as possible – even if it means becoming further indebted in the process.

Unfortunately, it is impossible to determine how widespread micro-moneylenders are. To date, their existence has been only verified in whispers from branch staff in areas with high microfinance activity. There are no statistics, academic reports, or roundtable discussions to confirm how active these individuals are.

Regardless, the presence of micro-moneylenders should serve as a warning signal to the industry. Traditional wisdom has, for years, been telling us that the higher the repayment rate, the more effective the MFI. Staff incentive schemes and investment decisions have been made using this linear benchmark. The emergence of micro-moneylenders reminds us that

the story may not be so simple, and that high repayment rates may mask other, less appealing, truths.

At its outset, microfinance was created for two primary reasons. First, it was developed to fight local moneylenders who charged exorbitant rates. Second, it was designed to help disenfranchised individuals climb rungs of the socioeconomic ladder. In the future, practitioners should keep both of these guiding principles at the forefront. Those who do will be the ones to truly benefit the women of our hypothetical village.

Microcredit won't make poverty history

Small loans can empower women, argues Salil Tripathi - but don't expect them to help the very poorest, no matter what the Nobel judges say

- [Salil Tripathi](#)
- guardian.co.uk, Tuesday 17 October 2006 16.11 BST

There is surprising consensus between the left and right about microfinance: both camps believe that it is one sure way of removing poverty.

The announcement last week that Muhammad Yunus, the founder of Bangladesh's pioneering microcredit institution, the Grameen Bank, had won the Nobel peace prize provides the ultimate imprimatur on the idea that microfinance works for the poor.

But is microfinance necessarily a sound proposition for poverty alleviation? Yes, microfinance is good, but that has more to do with social politics than economics.

Microfinance is often targeted at women, empowering them in societies with deeply entrenched views of gender roles. But don't expect economic indicators to improve, incomes to rise or poverty levels to fall substantially.

Dr Yunus began 30 years ago by distributing about \$27 (£15) worth of loans among 40 extremely poor Bangladeshis. Since Grameen formally opened in 1983, it has loaned \$5.7bn in microfinance and now has 6.6 million borrowers in Bangladesh.

Dr Yunus says the loans are entirely financed by borrowers' deposits, so the poor are truly funding the poor.

The phenomenon is now global: development experts and Wall Street banks want a piece of the action. As of December 2004, 3,100 microcredit institutions reported reaching 92m borrowers, most among the world's poorest.

One of the most thoughtful critiques of microfinance comes from Vijay Mahajan, the chief executive of Basix, an Indian rural finance institution. Mahajan has raised questions about microfinance's sustainability from a purely economic perspective.

He says that its proponents make five "fatal" assumptions about microcredit, which leads them to overlook its limitations.

The first assumption is that the poorest wish to be self-employed, when the majority actually want steady wage-employment.

The second is that credit is the main financial service the poor need. Mahajan argues instead for the importance of savings and insurance, to cushion the very poor through an unexpected crisis.

The third assumption is that credit access translates immediately into successful micro-enterprises. Microfinance is necessary, but other factors - identifying opportunities, training, establishing market linkages for inputs and outputs - are at least as important for success.

The fourth assumption is that those just above the poverty line do not need microcredit, and giving it to them amounts to mistargeting. But, in fact, microcredit benefits the slightly better-off more.

David Hulme and Paul Mosley have shown in their book *Finance Against Poverty* that the increase in income of microcredit borrowers is directly proportional to their starting income.

The "vast majority" of those starting below the poverty line "end up with less incremental income after getting a microloan", says Mahajan. He concludes that microcredit "seems to do more harm than good to the poorest".

Finally, it is assumed that microcredit institutions can all become financially self-sustaining. Mahajan contends they can't.

There are other social issues. The microcredit model depends on peer pressure to guarantee repayments, making the entire borrowing group accountable for each member's repayments. This has led to, in some cases, violence - endangering, in particular, the very women that microcredit is meant to empower.

Progress has come in sectors such as garments, fisheries and exports, where the loans required to build factories are far larger than microfinance can provide.

The very poor need higher wages and guaranteed employment, not further indebtedness.

They have no economic incentive to take loans in the longer term, because repayments would far exceed the principal. The primary impact of a microloan is to give the poor some money at hand to pay for their immediate needs.