Editorial

This quarter's journal begins on a most sobering note with discussions – both a Crossfire exchange between Tom Sanderson and Shubhankar Sengupta and a Taking Stock commentary by Malcolm Harper – centring on farmer suicides in India, and the impact of microcredit on people's lives. This debate is reflective of a larger dialogue that stretches beyond India, taking place not only among microenterprise practitioners but in academia and the media, about the good versus harm created by microfinance.

Headlines in newspapers over the past few months read, for example, 'Microcredit "death trap" for Bangladesh's poor' (BBC World Service, 2 November 2010), 'Big trouble for microfinance' (*The Economist*, 2 December 2010), 'Sewa founder worried over rural lenders' excesses' (the *Times of India*, 14 October 2010), and 'The Myths behind Microfinance'(*Forbes*, 9 December 2010). Despite these often sensational headlines, many of the articles are thoughtful, providing a nuanced view of the industry and reminding us that microfinance is dependent on the people that enter the system and the rules of the game. Indeed, *The Economist* article cited above notes that the Andhra Pradesh situation:

> …raises a lot of questions about what we can or should expect from microfinance and what the right way to regulate what is now a pretty big market, with a whole lot of poor borrowers…it would also be eminently sensible to think about how to change the microcredit model to make it more useful for those who really can use it to get out of poverty by starting businesses.

As James Copestake describes in his Microfinance Impact and Innovation conference report included in this issue, development economists, such as Abhijit Banerjee and Esther Duflo, continue to question the ultimate value of microcredit. However, they and others who presented at the conference are pushing the boundaries on the rigour employed in assessing the impact of microfinance through the use of randomized control trials, and other quantitative and qualitative tools. To date, this body of research suggests that access to formal microfinance of all types does lead to change, but it is still unclear what the long-term poverty outcomes are, and how non-financial factors – such as psychological, social, political, external shocks – affect these outcomes.

Moving from impact to outreach, Amrik Heyer and Ignacio Mas explore the potential for mobile phones to revolutionize access to financial services in developing countries. Drawing on the experience

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of M-Pesa in Kenya, and similar attempts in neighbouring countries, they demonstrate that as well as the existence of strong business strategies and models, the growth of mobile financial services is dependent on the socio-economic and political environments, and the potential for market penetration (for example through mobile agents who sell airtime). Unlike debates around microcredit, there appears to be no dispute that M-Pesa has served poor communities, offering users a facility to store money, make payments and receive funds (even salary payments as with Roshan's M-Paisa in Afghanistan).

Outreach has also been tackled by Bank Rakyat Indonesia (BRI) but with a focus on human resource management and the challenging rural sector. Caleb Kwong describes how this successful minimalist microbanking institution, with 3,600 units serving 2.7 million borrowers and 26 million depositors, transformed its rural operations. While urban units performed strongly, rural branches were subsidized entities that management and staff viewed as 'projects' rather than business operations. When faced with the probability of closing their rural offices, BRI instead launched an ambitious plan to professionalize and commercialize this line of business, resulting in its ability to weather the recent financial crisis better than its urban counterpart. Although the transformation of BRI was initiated some years ago, the role of human resource management in effecting these changes is less well known, and the article brings us up to date on how BRI is still managing these policies.

Expanding reach to small and medium businesses (SME) has been a struggle for microfinance institutions and mainstream banks alike. Clifton Kellogg and co-authors Phil Beavers, Aurica Balmus and Anna Fogel compare the experiences of four small business banks (SBBs) and benchmark these against the SME banking value chain that has been set out in the IFC's *SME Banking Knowledge Guide*. They conclude that the presence of three overarching drivers of success not included in the IFC guide must also be considered: 1) commitment of management to SME customers; 2) loan officers' skills in outreach to customers and in preparation of credit memos; and 3) the creation of efficiencies in lending.

Impact and outreach for microfinance will continue to be a subject for debate – with successes and failures trumpeted and questioned. Even with randomized control trials, we will have evidence but we are unlikely ever to have proof. This means that each of us must try to be aware of the outcomes of our work in microenterprise promotion and unflinchingly consider whether or not we have 'done good'.

Opening on a sober note, but closing on a very positive one: congratulations to Stuart Rutherford for receiving a prestigious OBE award in the United Kingdom for service in the field of microfinance!

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