

Guest editorial

Thomas W. Dichter

Thirty years ago in this journal's first issue, Vijay Mahajan and I published an article on a contingency approach to enterprise development (March 1990). The main message was that everything we do in this field ought to depend on context. It's disturbing, to say the least, that three decades later such a self-evident message seems not to have penetrated as much as it should have. In the arena covered by *EDM*, those practitioners whose primary concern is an impact on poverty still tend to lose sight of the contextual big picture. Day-to-day operations concentrate on a general orthodoxy of best practices and a relatively two-dimensional view of success and failure. In the first of the two areas the journal covers, *enterprise development*, enterprise success remains wedded to the standard triad of talent, markets, and financial services. The enabling environment – politics, social structure, culture, and especially the formal and informal arrangements they engender in the political economy – is acknowledged, but it is neither deeply delved into nor rarely seen as conceptually central. Project interventions consist of training, business services, loans, and help in sourcing equipment, organizing networks, and the like. As for explaining enterprise failure (and everyone acknowledges how dodgy it is to sustain a small enterprise whether in the developing or in the so-called 'developed' world) we tend to stick to a menu of poor management, poor planning, under-capitalization, poor location, too rapid growth, lack of experience, over-investment in fixed assets, and so on.

In the second of the journal's areas of interest, *microfinance*, we see similar orthodoxies, beginning with the universally accepted view that the world needs financial inclusion (whether those who *we* think need to be included want to be or not). Microfinance institutions, especially those concerned with the double bottom line, have now spent close to five decades tweaking and refining techniques designed to increase outreach while overcoming a myriad of operational obstacles on both the service provider and client side. And here too context is acknowledged, but having been so, is often then put aside. A good summary of the state of the art in thinking about the variegated nature of contexts is the June 2018 journal article on growth, over-indebtedness and crises by Guérin et al. They raise important points about short-, medium-, and long-term effects and in general put forward a much broader view of sustainability. But still a genuine contingency approach to what and how we do things, AND to what constitutes success, is missing in much of enterprise development and microfinance.

It is a natural human tendency (and perhaps even more an organizational tendency) to focus on those things one can control and put to the side those things one can't do much about or that are inconvenient to current practice (the Coronavirus shock we've been experiencing is a perfect example of an externality that was knowable but which the world did not build into its plans). Besides being complicated and often muddled, a full contextual view can be inconvenient if it suggests that what we do or want to do does not make much sense, or that we need to rethink fundamental premises.

Besides thinking about enterprise development and microfinance as contingent upon cultural, social structural, and political economic contexts, a true contingency approach to both enterprise development and microfinance should go even further to include ourselves, who we are as an industry; our motivations, our biases, our cognitive gaps, our stakes. Let's begin with the evidence, growing since 2009 (when we had the first randomized control trials of microfinance projects) that there is no positive economic impact of microcredit; it does not reduce poverty. If we were selling a drug that promised to reduce heart attacks, and then found that studies proved conclusively that this drug had no effect on heart attacks, we'd be out of business. But in the world of microfinance we take refuge from this harsh conclusion by saying that no economic impact does not mean there is no impact at all. And so we go back to consumption smoothing and various positive social effects (this is a bit like admitting we haven't solved the heart attack problem, but we offer the hope that maybe people will sneeze less). And we continue to insist that financial inclusion is absolutely essential in order to achieve a better world, despite the evidence (some of it admittedly anecdotal) that the demand for financial inclusion is rather soft in many places and cultures.

EDM could serve our field better if the laudable connection of practice and research was at least occasionally placed against the canvas of a number of bold contextual questions. For example, a deeper interrogation of the meaning of debt in different cultures and different subgroups; or asking how slippery is the slope that goes from credit to consumer debt. In the US last year credit card debt alone topped US\$1 trillion for the first time. Is 'consumption smoothing' a step in that direction? Or we could be asking why it is that money is often the intervention of choice in many of our enterprise development or microfinance programmes. The 'finance gap' is widely accepted as a key obstacle in the micro, small, and medium enterprise (MSME) world (some estimates saying that the tens of millions of MSME firms have an unmet need of \$5 trillion every year). Is there something self-serving about such a broadly accepted need? And finally it may be worth asking, once in a while, why are we doing what we do?

This journal is not like any in the pure sciences. It would make little sense to ask whether it is worth reporting on *peanut IgE emergence* in a journal of immunology, or looking into the *functionalization of quinolines* in an organic chemistry journal. Our faith that advances in science are a good in themselves is a justified one. But in enterprise development and microfinance the ultimate goal is to reduce poverty and that project remains still more of an art than a science. Therefore, everything we do or say must be contingent on seeing that goal in particular contexts and subject to question.

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Reference

Guérin, I., Labie, M. and Morvant-Roux, S. (2018) 'Inadequate growth, over-indebtedness, and crises in microcredit: what have we learned?' *Enterprise Development and Microfinance* 29(2) <<https://doi.org/10.3362/1755-1986.17-00013>>.