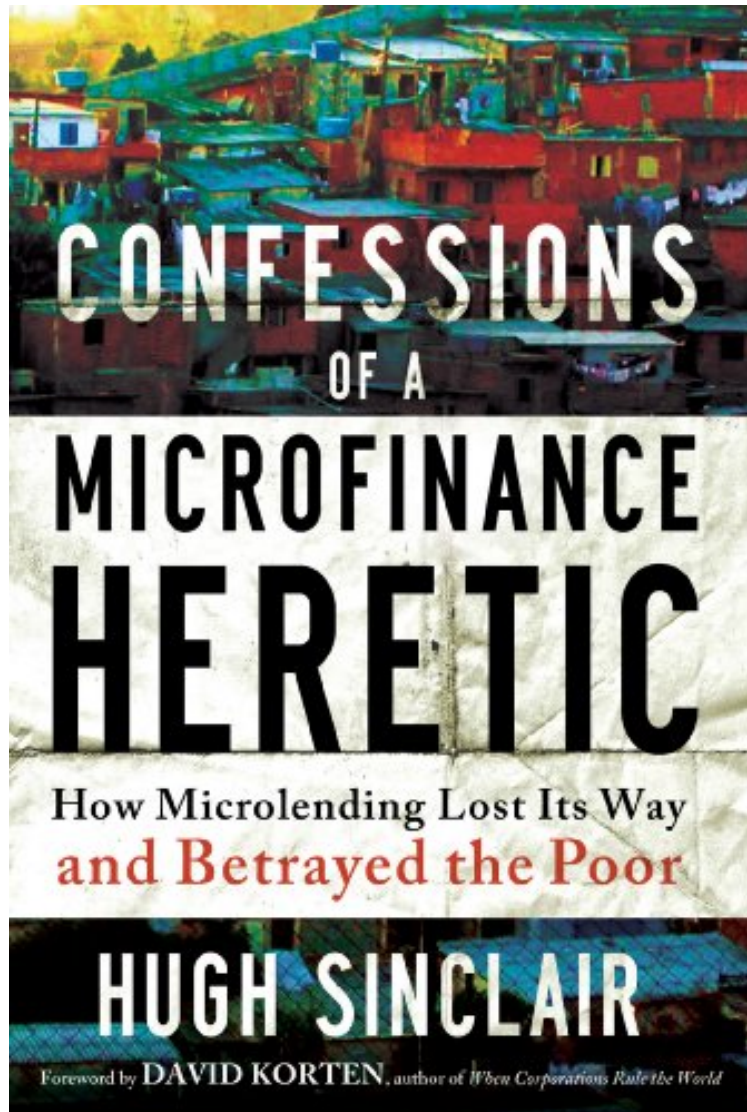


(Read ebook) Confessions of a Microfinance Heretic: How Microlending Lost Its Way and Betrayed the Poor

Confessions of a Microfinance Heretic: How Microlending Lost Its Way and Betrayed the Poor

Hugh Sinclair

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Hugh Sinclair : Confessions of a Microfinance Heretic: How Microlending Lost Its Way and Betrayed the Poor before purchasing it in order to gauge whether or not it would be worth my time, and all praised Confessions of a Microfinance Heretic: How Microlending Lost Its Way and Betrayed the Poor:

1 of 1 people found the following review helpful. A gripping story if you are interested in investing in microfinance. It will cause you to make an about-face reconsideration of By Mark LaPointe I have been doing research for a short 50 page treatise on microfinance. I have read two other books--a combined total of 700+ pages, and probably an even greater number of pages within various individually smaller PDF files scattered throughout the web. Further, because I

am writing from the perspective of a retail investor hoping to invest in microfinance, I was also writing to dozens of advisors and Microfinance Investment Vehicles (mutual / hedge funds) asking various questions. I was beginning to notice that not only was no one able to answer a direct question about usury, but that almost no one cared. I was confused--isn't the point of microfinance to help the poor? Then I read this book by Hugh Sinclair. Now I understand! This IS a big, ongoing scandal within the industry. I am completely revising the viewpoint from which I had already written a rough draft. This book was eye-opening, and I already thought I knew what I was talking about! Now, I have also perused the 6 bad reviews this book currently has on . Half are worthless themselves--giving no relevant information. The other half gave me pause. I now realize that, had I not already been familiar with the workings of microfinance and the many names the author references, I too might have been lost and had trouble finishing the book. Thus, I can only advise other readers to attempt this book after doing other research, to discover for yourselves how the industry promotes itself. But for my purposes, this work has been worth its weight in gold--for my benefit and that of the others who will read what I write.

3 of 3 people found the following review helpful. The sorry state of microcredit laid bare by an industry veteran

By Mal Warwick

Some microfinance is extremely beneficial to the poor, but it is not the miracle cure that its publicists would have you believe. Microfinance has been hijacked by profiteers, and we need to reclaim it for the poor. The problem is not with a few rogue operators, alas, but with systemic flaws that permeate the sector.

Thus does Hugh Sinclair lay out the thesis he pursues in *Confessions of a Microfinance Heretic*. If you skip over this statement in the opening pages of the book, you could easily conclude that Sinclair can see no good at all in the \$70 billion industry that has grown up under the impetus of Muhammad Yunus, 2006 Nobel Peace Prize. After all, Sinclair writes at least twice that he would not invest a single dollar in microfinance today. Nonetheless, he insists that the debate is not whether microfinance works, but how the inherent conflicts of interest can be managed.

The systemic flaws Sinclair perceives are eye-opening:

- *** A majority of the money loaned to poor people goes not to help them launch or sustain microbusinesses to supplement family income but rather for current consumption, sometimes to buy food during a time when there's not enough money coming in, sometimes just to buy TV sets. "Estimates for consumption loans range from 50 percent to 90 percent of all microfinance loans, depending on the study. As Sinclair points out, citing numerous sources, the proportion of entrepreneurs among the poor is no bigger than it is among the rich. It's naive of us to expect otherwise."
- *** The interest rates charged for microloans are, far too often, prohibitively high. Muhammad Yunus' "benchmark" -- 10 to 15 percent above the cost of money -- is rarely observed. Though there are indeed many, mostly small, nonprofit MFIs (Microfinance Institutions, generally microloan lenders) that charge no more than 25 or 30 percent, the bigger institutions, and most of the for-profit banks in the industry, typically charge far more. In one notorious case, the effective interest rate runs as high as 195 percent, but there are many other instances in which the rate exceeds 100 percent.
- *** The amounts of money loaned by MFIs are far too small to permit businesses to grow to a size where they may employ workers outside the family. In fact, to the extent that businesses remain family-run, they frequently employ even the youngest children, sometimes withdrawn from school to work in the business. However, there's another side to this question, as Sinclair reveals in an exchange with one businesswoman: "We asked her about her future plans for the business, and whether she thought it could be built up further and be a useful business for her children to take over. 'You misunderstand me. I don't do this job because I like it or want to grow it into a big business. I do it so my children will never have to do work like this.'"
- *** In countries where local laws and a lack of government oversight give free rein to the MFIs, competition run wild among them has sometimes led to credit crises. In India's Andhra Pradesh state, for example, "There were more microloans than poor people." And in Nicaragua "total lending by MFIs was estimated at \$420 million in 2008, in a country of about 5.5 million, not all of whom were poor (and MFIs generally don't lend to children)." Microloan customers frequently borrowed from several of the country's 19 MFIs -- the nationwide average was four -- often to be able to pay back loans to other MFIs. "One particularly ambitious client in Jalapa had managed to rack up \$600,000 in micro-loans." As Sinclair disclosed in a talk he gave in Berkeley a few weeks ago, Nicaragua was only the first of several countries where the microcredit bubble is likely to burst. Stay tuned, he said.
- *** The profit motive appears to have become the central preoccupation of the microfinance funds, which function like private equity funds, gathering together investment dollars and placing them in selected MFIs. Even some of the biggest and most prestigious of these funds -- including the Grameen Foundation (USA), Calvert Foundation, Kiva.org, and BlueOrchard (the world's largest) -- have been tainted by longstanding investments in some of the most egregiously exploitive MFIs, brushing aside mountains of evidence that their investments were helping victimize poor people in Nigeria, Mexico, and other countries. Despite all this, there is NO documented evidence that microfinance has achieved any reduction at all in the level of poverty. As a 2007 article in the Harvard Business Review stated, referring to the country where microcredit first took hold on a broad scale and is most widespread, "In 1991, for example, Bangladesh ranked 136th on the UN Development Programme's Human Development Index (a measure of societal well-being); 15 years later it ranked 137th." And Sinclair writes, "In 2001, Nicaragua was the 106th poorest country in the world . . . Microfinance was almost unheard of in Nicaragua at this point, and there were no large microfinance funds throwing money around. By 2009, when the full Nicaraguan microfinance meltdown occurred, Nicaragua had

slipped to 124th place."Hugh Sinclair is no cranky, slapdash journalist taking on a controversial subject for the sake of selling books. He is a ten-year veteran of the microfinance industry and has been involved as either an employee or a consultant in dozens of MFIs around the world and in several microfinance funds. He clearly knows whereof he writes, his citation of sources is extensive, and his publisher, Berrett-Koehler, is a highly respected source of books on business and current affairs. Confessions of a Microfinance Heretic is an important book that should be must reading for anyone involved in international development.[...]0 of 0 people found the following review helpful. Mission DriftBy CustomerI started the first best practice micro finance agency in Sri Lanka named SEEDS and has also consulted and assisted setting up many others in over 10 countries. Initially micro finance was started to alleviate poverty and women's empowerment. It has now deteriorated into a commercial money making machine for the rich in West and their agents in 3rd World. Countries like Myanmar which is just embarking on this sector should learn from what happened in Latin America due to mission drift. However poor do need capital as much as the rich but at an acceptable rate of interest and not at rates now offered by commercial MFI's.

Very little solid evidence exists that microloans make a dent in long-term poverty. Sadly, evidence does exist for negligence, corruption, and methods that border on extortion. Part exposeacute;, part memoir, and part financial detective story, this is the account of a one-time true believer whose decade in the industry turned him into a heretic. Hugh Sinclair worked with several microfinance institutions around the world. He couldnrsquo;t help but notice that even with a booming \$70 billion industry on their side, the poor didnrsquo;t seem any better off. Exorbitant interest rates led borrowers into never-ending debt spirals, and aggressive collection practices resulted in cases of forced prostitution, child labor, suicide, and nationwide revolts against the microfinance community. Sinclair weaves a shocking tale of a system increasingly focused on maximizing profitsmdash;particularly once large banks got involved. He details his discovery of several scandals, one of the most disturbing involving a large African microfinance institution of questionable legality that charged interest rates in excess of 100 percent per year and whose investors and supporters included some of the most celebrated leaders of the microfinance sector. Sinclairrsquo;s objections were first met with silence, then threats, attempted bribery, and a court case, and eventually led him to become a principal whistleblower in a sector that had lost its soul. Microfinance can workmdash;Sinclair describes moving experiences with several ethical and effective organizations and explains what made them different. But without the fundamental reforms that Sinclair recommends here, microfinance will remain an ldquo;investment opportunityrdquo; that will leave the poor with hollow promises and empty pockets.

ldquo;Confessions of a Microfinance Heretic is essential reading for anyone interested in development economics, a disturbing and yet ultimately hopeful exposeacute;,"rdquo;mdash;John Perkins, New York Times bestselling author of Confessions of an Economic Hitmanldquo;"This is a very important and courageous book. Hugh Sinclair tells a gripping story of idealism, naiveteacute;, callousness, greed, and corruption in the microfinance industry to show how it has been overrun by a new breed of loan sharks who make us believe they are helping the poor when they are actually exploiting them. This sobering tale should be a valuable guide to a reform program that will save what is still good in microfinance and help it make the contribution it can make without the absurd hype that has characterized the industry."rdquo;mdash;Ha-Joon Chang, Reader in the Political Economy of Development, University of Cambridge, and author of Bad Samaritans and 23 Things They Donrsquo;t Tell You About Capitalism ldquo;"An intriguing book that cuts to the core of microfinance. If you are looking to understand and invest in effective microfinance, this book provides an overview and helps you select the vehicle that suits your needs. Good microfinance is undoubtedly possiblehellip;structure, dedication, and full transparency is the way forward."rdquo;mdash;Mads Kjaer and Tim Vang, cofounders, MYC4.comldquo;"In often shocking but sometimes hilarious detail, Sinclair describes how he was sucked into the global feeding frenzy created by the microfinance industryrsquo;s determined search for profit, and he angrily exposes how microfinance ended up destroying the lives of the very people it was supposed to be helping. For anyone who still labors under the illusion that microfinance is all about helping the poor, Sinclairrsquo;s passionate, lively, and eye-opening exposeacute; of the inner workings of the microfinance industry is an absolute must-read."rdquo;mdash;Milford Bateman, freelance consultant, Visiting Professor of Economics, University of Juraj Dobrila at Pula, Croatia, and author of Why Doesnrsquo;t Microfinance Work?ldquo;"Provides a devastating, insightful, and well-documented look into the tragic reality of how a good idea was derailed by the Wall Street greed syndrome. It is essential reading not only for anyone involved in microcredit but also for all who seek an end to global poverty and injustice."rdquo;mdash;David Korten, Board Chair, Yes! Magazine, and author of Agenda for a New Economy and When Corporations Rule the World