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Small change

The Boston Globe

Billions of dollars and a Nobel Prize later, it looks like 'microlending' doesn't actually do much to fight poverty



By Drake Bennett
Globe Staff / September 20, 2009

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In the world of international aid, microcredit is a rock star. The practice of giving very poor people very small loans to start very small businesses has been hailed as one of the very few unambiguous success stories in the long, frustrating fight against Third World poverty. The pioneer of the practice, Bangladesh's Grameen Bank, has disbursed more than \$8 billion in unsecured loans, usually in amounts under \$100, to people traditional banks ignore. Along with a 98 percent repayment rate, Grameen has accrued an inspiring collection of stories about its overwhelmingly female borrowers, whose microloans allowed them to start up an embroidery or pottery business, or a snack cart or a stand selling cell phone cards, and through such petty entrepreneurship lift themselves out of poverty. "Small Loans, Big Gains," a 2002 Globe editorial on microcredit was titled.

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Microlending institutions have sprung up all over the developing world, from India to Bolivia to Serbia; by one estimate, over 150 million people worldwide have taken out a microloan.

Government aid groups and NGOs have rushed to fund them, and so have Wall Street banks and hedge funds, enticed by the promise of an anti-poverty program that can do so much while paying for itself - and even turning a nice profit. Grameen Bank and its founder, Mohammad Yunus, were awarded the Nobel Peace Prize in 2006, and Yunus is fond of saying that, thanks to microcredit, his grandchildren will have to go to museums to know what poverty looks like.

But two new research papers suggest that microcredit is not nearly the powerful tool it has been made out to be. The papers, by leading development economists affiliated with MIT's Jameel Poverty Action Lab, have not yet been published, but they are already being called the most thorough, careful studies yet done on the topic. What they find is that, by most measures, microcredit does not offer a way out of poverty. It helps a few of the more entrepreneurial poor to start up

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