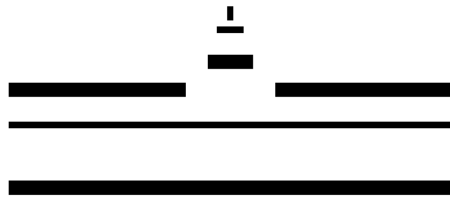

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A Microfinance Revolution?
– Microfinance and 1970s Development Banks Compared

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Table of Contents

Table of Contents 1

Introduction 3

What makes a revolution? 5

Development finance: A brief historical overview 5

Pre-1947 history of development finance 6

KAUL's three eras of development finance 6

1950s/1960s: Capital and growth 7

1970s: Targeted credit 8

1980s: The lost decade 9

The rise of microfinance 9

Conclusion: From development banks to microfinance 11

Practices in comparison: A methodological revolution? 11

Differences in outreach and repayment 12

Outreach and branch network 12

Repayment and debt recollection 13

'Innovations' adapted from informal finance 14

"Dual values", different priorities 15

The challenge of "dual values" in development banks and microfinance 16

Ownership and governance 16

State ownership and management goals 17

MFI ownership and management goals 19

Conclusion: A Methodological Revolution? 21

Ownership structure as a result of the political environment 21

Policy change, the demise of development banking and the rise of microfinance 22
Policy change and policy-learning 22
Washington Consensus as the ascension of a advocacy coalition 23
New policy goals in development finance 23
Conclusion: Microfinance as a 'policy revolution' 24
Microfinance as a scientific revolution 24
Scientific revolution: Definition and criteria 24
'Paradigms' in comparison: directed credit vs. financial market approach 25
Three major theoretical differences of development banking and microfinance ... 26
"Normal science": The example of "financial repression" 27
Structuralism 27
Capital fundamentalism 28
Big Push to tackle 'coordination failures' 28
Big Push and capital fundamentalism in development banking 29
Structuralism and microfinance 29
Findings: structuralism, development banking and microfinance 30
Modernization theory 30
Modernization by demonstration in early development finance 31
Modernization with targeted credit by development banks 31
Modernization with trainings and opportunities in microfinance 32
Modernization theory in both approaches 32
Findings: Microfinance as a scientific revolution 32
Remark: Microfinance as a capitalist revolution 33
Conclusion 33
References 36

Introduction

The rise of microfinance is one of the most significant phenomena in development policy in the recent years.

Microfinance is usually portrayed as a revolution, not only in the confined domain of development finance, but of development policy itself. Mainstream media was quick to catch up to the hype created by and around Muhammad Yunus,[1] founder of the now famous Grameen Bank, and to depict microfinance as fundamentally different from the traditional approaches of development aid that had, in the eyes of the broad public, consumed vast amounts of Western taxpayer's money and produced little, if any, impact.

However, the term 'microfinance revolution' is widespread in science, too. Dozens of scientific papers carry the words 'microfinance revolution' in their title,[2] heralding revolutionary changes in development thinking, practice or social impacts.

Seen in the tradition of development finance since the end of World War II, microfinance certainly is a special case. If only because its rapid growth and general popularity contrasts starkly with the meager successes and outright failures of its predecessors in the field of development finance.

A few authors even tried to coin a "second revolution in microfinance"[3], which was however rejected as displaying no "substantive break with the current approach"[4]. At the least, this recent discussion demands a critical examination of the inflationary use of the word 'revolution' in microfinance literature.

However, when is the use of the term 'revolution' justified? Is there, apart from spectacular growth, a radical difference between microfinance and its predecessors?

To give a qualified answer to this question, I first try to find a general definition of revolution to provide criteria for my assessment.

A short historical overview of the history of development finance since its beginnings in the late 1940s not only provides valuable orientation, but also highlights why development banking, especially the variety of the 1970s with its focus on small-scale target

[1] "the real revolution is credited to Mohammed Yunus", The Botswana Gazette, 30 June 2010
[2] A brief look into this paper's references sufficiently proves this point.
[3] see for example Cohen 2002, Meyer 2002, and Woller 2002a
[4] Weber 2004, p. 365ff

groups, serves well for a comparison with microfinance. If microfinance truly is revolutionary in any aspect, this should be visible in its differences to development banking.

Having established the usefulness of this comparison, I start out by examining the major differences in practice between development banks and microfinance institutions, with a focus on the so called 'methodological innovations' of microfinance.

Tracing the differences in practice to the political economy and further to the ownership structures of both approaches, I then examine the respective political environments of development banking and microfinance.

After laying down a definition of policy revolution in contrast to incremental policy learning, the change from development banking to microfinance is assessed within this framework.

As the concept of policy learning does not rule out the possibility of a scientific revolution, this is the final facet of a possible 'microfinance revolution' I inspect. Largely omitting middle-range theories like the MCKINNON-SHAW hypothesis of "financial repression", I concentrate on structuralism and modernization theory as paradigm-like complexes of theory. By scrutinizing their influence on development banks and microfinance, it should become apparent whether the two approaches really differ enough to justify the shift from one to the other as a 'revolution'.

At the end each chapter on the different facets of revolution, I will provide a short conclusion of my findings.

Finally, I will merge the findings from the single chapters in the final conclusion and try to give a differentiated answer to the research question.

What makes a revolution?

To discuss whether something can be rightfully called a revolution, a common definition has to be established:

There are many different opinions on what makes a revolution.[5] While most definitions are confined to the political sphere and stress the violent nature of revolutions,[6] KRAMNICK provides a definition which is well applicable to non-political and non-violent changes. Merging KUHN's definition of scientific revolution[7] with SCHRECKER's universal definition of revolution[8], he states:

> "Revolution refers to change which reaches the fundamental norms; and since it changes those norms which themselves give legitimacy, the revolutionary change is itself considered illegitimate from the perspective of the previous set of basic norms. Revolution is, in short, an illegal change in what are considered the fundamental principles of legality."[9]

If this definition is to be properly applied to a specific topic like microfinance, it is essential to consider the level of analysis. This point is well illustrated by SCHRECKER:

> "[T]he difference between evolution and revolution is reduced to a difference in degree: it depends on the extent of the field that we take in at a single view. [… I]n the same way evolution, apparently continuous in history, is articulated into an infinity of revolutions […] when the eye is only looking at an infinitesimally small section."[10]

It is helpful to keep this remark in mind in the following sections on the different possible dimensions of a microfinance revolution.

Development finance: A brief historical overview

To provide context and historical orientation for my analysis, I shortly outline the history of development finance since World War II.

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[5] Meyer 1976, p. 122
[6] Stone 1966
[7] Kuhn 1962, p. 91
[8] Schrecker 1967
[9] Kramnick 1972, p. 32
[10] Schrecker 1967, p. 49

Pre-1947 history of development finance

The history of development finance and development banking in general stretches back as far as the early nineteenth century, when the first financial corporations were established in Western Europe whose sole purpose was the provision of long-term finance for the promotion of industrialization and entrepreneurship.[11] Although interesting insights can be drawn from the comparison with earlier forms of development finance, for example the German Raiffeisen movement[12] or Swedish savings banks,[13] I restrict my analysis to development finance in developing countries as it presents a rather self-contained complex of thought and practice.

KAUL's three eras of development finance

KAUL divides the history of development finance since 1947 into three major eras:[14]

The first era, "financial planning", stretches from the 1950s to the 1970s. Its characteristics were a rather one-sided view of development finance as credit delivery and an integration of finance into development planning. This reflects the structuralist approach of state-led development adopted both by proponents of central planning and of free markets,[15] which I will elaborate on later. Development banks evidently belong to this era of development finance.

The demise of state-led development and gave way to the era of "financial liberalization" that began in the late 1970s[16] and is usually identified with the 1980s. Here, the deregulation of financial markets rather than institution building was the focus of development finance policy.

The third era came about in the 1990s when microfinance was embraced and supported by the international development agencies. KAUL calls this era "embedded financial liberalization" and points out that its policies try to "embed financial markets into a suppor-

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[11] Perera 1968, p. 161f
[12] Theurl 2008
[13] Fälting et al. 2006
[14] Kaul 1999
[15] Rapley 2007, p. 23f
[16] Schoombee 1998, p. 386

tive institutional framework. This means first and foremost the creation of synergies between the state and the market, public and private finance."[17]

Microfinance emerged in the second era but of course is also an integral part of the era of "embedded financial liberalization".

A noteworthy categorization of the eras of development finance is also provided by KRAHNEN & SCHMIDT, which is however largely in line with KAUL and would, due to its emphasis on the theoretical aspects of the different eras, confuse the line of argument in this paper.[18]

I now examine the decades of development finance in more detail:

1950s/1960s: Capital and growth

In the first two development decades, development was synonymous with economic growth and social development a non-issue since it was thought to be inherently linked to macro-economic growth through the "trickle-down"[19] effect.[20] At that time, the understanding of economic development was mainly derived from Western industrialization. Thus, the main barriers for economic growth were supposed to be capital shortage[21] and an insufficient level of technology, which both severely restrict productivity. This so called "capital fundamentalism"[22] is part of the complex of theories known as structuralism and treated in more detail later on in this paper.

With the rise of modernization theories, the 'education' of the population towards modern modes of production also became a central topic. Additionally, development finance in those days typically meant the direct transfer of foreign capital towards large-scale industrial or infrastructure projects that were thought to serve as starting points of the "take-off"[23] of backward economies towards the industrial age.

In the 1950s, these grants and loans were usually directly distributed through bilateral development agencies or via local government structures. During the 1960s however,

[17] Kaul 1999, p. 4
[18] Krahnen & Schmidt 1994, p. 10ff
[19] Arndt 1983
[20] Schmidt & Zeitinger 1996, p. 243
[21] Nuscheler 2006, p. 195ff
[22] King & Levine 1994
[23] Rostow

development banks came into fashion as vehicles for the disbursement of development loans. PERERA cites two inventories that reveal an increase from 125 development banks in the less-developed countries in 1964 to more than 300 institutions in 1968.[24] Their advantage in comparison to direct capital transfers was thought to be the intimate knowledge of local markets,[25] a degree of efficiency superior to public administration and the adherence to economic principles,[26] even though policy goals were pursued with subsidized interest rates for certain purposes and selection criteria for certain kinds of loans.[27]

Public development plans also became a favored tool for the implementation of national development plans,[28] because the targeted disbursement of cheap credit towards certain sectors or economic activities seemed like an elegant alternative to direct state intervention.

1970s: Targeted credit

In the early 1970s, the mixed results of a development policy purely focused on economic growth led to the "end of trickle-down",[29] which in turn made social development a center of attention. McNamara's famous speech in Nairobi in 1973 not only gave rise to the "basic needs" strategy in development policy in general but also heralded a change in World Bank lending policy.[30]

Development banks, after their mushrooming in the 1960s now the main channel for development finance, shifted their targeted and subsidized credit programs from industrial and infrastructure development towards small farmers and businesses and similar target groups. Thus, they became an integral part of the Green Revolution by providing capital for the mechanized agricultural production, high-yield seeds, and chemical fertilizer to individual small farmers and agricultural cooperatives at low interest.[31]

However, few of these development banks achieved financial sustainability and most suffered from high borrower default rates. "Most eventually became insolvent, many of

[24] Perera 1968, p. 150f
[25] Krahnen & Schmidt 1994, p. 12
[26] Kane 1975, p. 19
[27] Perera 1968, p. 150
[28] Yaron 2004, p. 7
[29] Krahnen & Schmidt 1994, p. 13
[30] Nuscheler 2006, p. 79
[31] Bouman & Hospes 1994, p. 4

them several times over the years, and required additional capitalizations […] in order to be able to continue their operations."[32] In 1975, the World Bank reported that from a sample of 44 development banks, more than half of the banks had arrears rate above 50 percent,[33] foreshadowing their subsequent demise in the 1980s.

Apart from constant financial losses, the development impact of these banks was increasingly questioned. At the front rank of these critics was the so-called Ohio State school[34] that blamed the practice of subsidized credit for causing "financial repression", i.e. cementing the underdeveloped state of the financial market. They argued for financial liberalization to end the distorting effects that cheap and targeted credit has on the financial market.

1980s: The lost decade

In development policy in general, the 1980s marked a turn towards financial austerity and economic liberalization.[35] Thus, the arguments of the Ohio State school for an end of subsidized development and more liberalization of local financial markets fell on fertile ground. Public development banks not only stood in the way of financial stabilization because they constantly lost tax money, but also contradicted the ruling Washington Consensus which disapproved of state intervention in the market in general.

So, international and national funding for state-owned development banks was drastically reduced and they were consequentially dissolved, restructured or privatized.[36]

The rise of microfinance

The decline of state-owned development banks in the early 1980s coincides with the rise of microfinance as we know it today.[37] While there is no consent about the exact origins of microfinance,[38] its emergence in its modern form can be placed around the late 1970s (when, for example, Grameen Bank's Muhammad Yunus and Opportunity Internation-

[32] Gonzalez-Vega & Graham 1995, p. 10
[33] World Bank 1975, Annex 12
[34] Hulme & Mosley 1996, p. 2
[35] Nuscheler 2006, p. 81ff
[36] Gonzalez-Vega & Graham 1995, p. 10
[37] Sengupta & Aubuchon 2008, p. 9
[38] Seibel 2003

al[39] started) and the early 1980s (when, among others, Bank Rakyat Indonesia transformed from development bank to microfinance institution[40]).

The policy shift towards poor target groups that took place in the 1970s and new trends in development finance theory (such as an emphasis on financial intermediation[41]) certainly played a role in the ascension of microfinance.

Microfinance's goal of market extension instead of state intervention, with market-based interest rates as one distinguishing mark in this context, fit the general market orientation of the Washington Consensus. Additionally, the politics of deregulation that were characteristic of 1980s development policy[42] proved crucial for the swift growth of microfinance: "…regulatory frameworks […are] why the microfinance revolution did not happen before. For a long time, *repressive* regulation stunted innovation in microfinance."[43]

Deregulation of financial markets and the gap in financial services to the poor that the decline of development banks had opened up in many countries created a niche that was populated by credit-granting NGOs and other MFIs.[44]

Since then, the successful design of Grameen Bank and other pioneers has been replicated thousands of times all over the world. In addition to newly established MFIs, charitable NGOs added microfinance services to their portfolio and existing credit cooperatives as well as surviving development banks remodeled their languishing business on microfinance.

The fact that there are also commercial microfinance providers (like the much debated Compartamos in Mexico[45]) hints at one major reason for this virulent success: Microfinance provides a service to poor people that they are willing to pay for. This and the sophisticated design of incentives usually render a MFI's savings and loan business by itself financially sustainable. So, subsidies and donations are not only spent on trainings and

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[39] http://www.opportunity.org/about/our-story (23 July 2010)
[40] Robinson 2002
[41] Krahnen & Schmidt 1994, p. 16
[42] Rist 2002, p. 173
[43] Gonzalez-Vega 1998, p. 5
[44] Schoombee 1998, p. 387
[45] Cull et al. 2009

other parts of a MFI's social mission, but can be used to increase the capital stock and thus expand the volume and outreach of lending.

In short, the growth of microfinance is driven by market forces, with spectacular results:

In 2008, the Microfinance Information Exchange (MIX) comprised about 1,400 MFIs that served almost 100 million customers in all parts of the developing world. With thousands of smaller NGOs and self-help groups that do not have the level of sophistication to report to MIX, it becomes apparent why it is tempting to call this rapid growth from a handful of pioneers in the early 1980s a "revolution".

Since the 1990s, the international development establishment fosters microfinance with capacity building for MFIs and the promotion of favorable financial regulation rather than with subsidies, an approach in line with the so called post-Washington consensus.[46] This and efforts to expand mere microcredit to full-fledged financial services to the poor with savings, insurance and transfer can be identified as KAUL's "emdedded financial liberalization", the latest era of development finance.

Conclusion: From development banks to microfinance

Apart from providing historical orientation in the field of development finance, this brief overview also shows why it is sensible to compare microfinance to the 1970s development banks: Those development banks were the last dominant form of institutional development finance before the rise of microfinance. Thus, if microfinance indeed is a revolution, it should become most apparent in contrast to its last predecessor.

So, which major differences are there?

Practices in comparison: A methodological revolution?

At a first glance at the 1970s development banks in comparison to microfinance, the differences in methodology are most striking. Accordingly, the revolutionary nature of microfinance is often located in the supposedly innovative methods that allow for a performance superior to previous approaches to development finance.[47]

[46] Aybar & Lapavitsas 2001, p. 28
[47] Kono & Takahashi 2009

Following the reorientation of the World Bank's policy in 1973, most development banks channeled their credit towards small-scale farmers, artisans and businessmen.[48] However, development banks had trouble reaching their designated clientele and when they did, repayment rates were dismal.[49] In contrast, outreach and repayment rates are exactly those measures that microfinance excels at. Which respective methodological features produce these different outcomes in outreach and repayment?

Differences in outreach and repayment

The differences in performance can be traced to a set of "key methodological innovations"[50] that are supposed to set microfinance apart from previous practices of development finance and are regularly considered the 'revolutionary' aspect of microfinance.

Outreach and branch network

Microfinance institutions typically evolved from local NGOs and only serve a limited geographical area.[51] Therefore, their loan officers generally have an intimate knowledge of and close ties to the communities they serve. This setup, while costly due to a lack in economies of scale (and even more so because of small loan sizes), allows MFIs to successfully reach out to their target group of small-scale entrepreneurs.

Development banks, on the other hand, were originally established to provide credit for large- to medium-scale enterprises and operated on a national or at least regional level. When they reoriented towards their new target groups, they did neither have the branch network nor the knowledge of local conditions to effectively reach them.

However, it has to be noticed that there was a number of development banks (mostly specialized agricultural development banks) that possessed a broad branch network. While some of them were able to utilize these branches to reach their new target groups (like BRI in Indonesia which later became a pioneer of microfinance), many failed de-

[48] Bouman & Hospes 1994, p. 4
[49] Schmidt & Kropp 1987, p. 77
[50] Woller 2002, p. 301
[51] Otero 1994, p. 94ff

spite this favorable networks.[52] This points towards a lack of effort that can be explained by the political economy of development banks, which I will elaborate on later.

Repayment and debt recollection

MFIs today almost universally boast repayment rates above 90 percent. They key to this is skilful incentive design and methods to overcome the information problems that lending to the poor entails.

In absence of physical collateral, lending to the poor is a high-risk business. In traditional banking, the use of collateral moves the risk of an investment is ultimately to the borrower. However, when lending to someone without sufficient physical capital, there is no way to compensate for the lender's losses from liquidation of securities. Hence, all the risk is borne by the lender. Even worse, this distribution of risk is an incentive for the borrower to take on riskier projects, an effect known as 'moral hazard'.

Microfinance has quite successfully solved this problem with the practice of group solidarity lending (and collective guarantees in village banks),[53] where group members vouch for each other. This has a twofold effect: Borrowers are put under social pressure by their peers to repay and must expect retaliation in the social sphere in case of default, thus the idea of 'social collateral'. Second, in most schemes, the group will select new borrowers based on their personal knowledge of the applicant's creditworthiness. This supplements borrower selection with a thorough individual assessment without additional cost for the MFI.

Development banks did not put much emphasis on borrower selection or any form of collateral: "Target clientele were chosen independently of repayment capacity and without reasonable guarantee of loan recovery."[54]

Also, the expertise of development banks in assessing business plans[55] did not translate well to small-scale farmers and businessmen, as the "lack of separation between house-

[52] Schmidt & Kropp 1987, p. 77
[53] Ledgerwood 2000, p. 82ff
[54] Gonzalez-Vega & Graham 1995, p. 19
[55] Armendáriz de Aghion 1999, p. 87

hold and business"[56] requires information about the client that exceeds a mere business plan and a more holistic approach.

Another factor that strongly improves repayment rates with microfinance is the model of frequent repayments. The loan officers of the Grameen Bank for example typically visit their clients once a week to monitor the development of their business and collect repayments. This not only creates a stronger relationship between lender and borrower and thus raises inhibitions to default on purpose, but short intervals between repayments prevent borrowers from accumulating larger amounts of capital which, while virtually property of the MFI, are most tempting to spend for consumption or to reinvest into the business. Further, the micromanagement of borrowers by local loan officers leads to greater and more flexible efforts at debt recollection that are also crucial in increasing repayment rates. This methodology even renders individual lending (without social collateral) feasible for MFIs.

In contrast, development banks were originally intended to provide long-term credit and therefore did have less frequent repayment schedules. This leads to the phenomenon that borrowers spend available money instead of 'saving' it for the next repayment and then default because of a personal liquidity squeeze.

Again, although hampered by their lack of local infrastructure, the weak performance of development banks at debt recollection can be, for the most part, traced back to a lack of effort which can be explained by their specific political economy, especially the ready refunding of losses by the government.

'Innovations' adapted from informal finance

In the last two sections, I have pointed out the major differences between development banks and microfinance in outreach and repayment, the two most prominent areas of methodological innovation according to WOLLER.[57] I have hinted that the explanation for the weak performance of development banks in these two measures lies with their specific political economy.

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[56] Gonzalez-Vega 2003, p. 57
[57] Woller 2002, p. 301

However, arguing that development banks did not implement the techniques of microfinance because of an absence of incentives for efforts in outreach and repayment (as I will show in the next section) does not necessarily disprove the revolutionary nature of the "key methodological innovations" of microfinance.

But are these techniques really innovations?

Even during the heyday of development banks, the basic principles of the 'innovations' of microfinance were known from the practice of informal financial service providers:

> The operators are mostly individuals, and transactions are based on the confidence engendered by face-to-face relationships between creditor and debtor. There is thus usually no collateral involved; security on loans is contingent upon the borrower's past credit record, personal good faith and social pressure to sustain payments, while interest rate flexibility allows the lender to cover the opportunity cost of his funds and the risk of default.[58]

Evidently, the ideas of social collateral, close relationships between lender and borrower, even market-based interest rates (which I will elaborate on later) were already present in informal finance and, at least from observation, known to development finance experts. So, even though microfinance has refined these concepts a lot, it is not justified to call the methods of microfinance real 'innovations', much less a 'methodological revolution'.

In support of this point, SEIBEL even draws a straight line from traditional informal financial institutions to microfinance, a view backed by the fact that many MFIs evolved from traditionally arranged self-help groups.[59]

So, the question has to be raised: Why were these methods not adopted by the development banks at an earlier time, when their traditional methods proved unsustainable?

"Dual values", different priorities

As pointed out before, some differences in the practices of microfinance and development banks can be attributed to their specific political economies. The different rationale behind their behavior is most obvious in their respective management goals. These

[58] Germidis et al. 1991, p. 46
[59] Seibel 2001

goals help to explain why these methods were not adopted by the development banks although the basics of the 'innovative' methods of microfinance were already known.

The challenge of "dual values" in development banks and microfinance

Surprisingly, despite their differences in practice, the top goals of development banks and microfinance are congruent. The true difference is their prioritization, which has severe consequences for their respective organizational behavior. Further, both approaches to development finance experience similar problems due to the conflicting nature of the "dual values"[60].

For microfinance, these dual values are usually identified as financial sustainability[61] on the one end and the social mission (also known as transformation or development goal) on the other.[62] Development banks too were set up under the dual values of financial sustainability and development orientation[63] but in practice their incentive environment shifted their actual management goals closer to 'rent-seeking'.

To understand these dual values and their prioritization in microfinance and development banking, it is crucial to take a closer look at the ownership and governance structures of MFIs and development banks:

> The institutional design of organizations (ownership, control, governance) constrains individual behavior and creates the structures of incentives that guide the decisions that determine performance. The [development banks] have institutional designs that frequently do not promote outreach and sustainability.[64]

Ownership and governance

One obvious difference between MFIs and development banks is their ownership structure. While development banks were almost entirely state-owned,[65] MFIs display diverse ownership structures, among them non-profit organizations , "downscaled" commercial banks[66] and state-owned institutions.

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[60] Otero 1994, p. 103

[61] "In most discussions [financial] *sustainability* is taken to mean full cost recovery or profit making, and is associated with the aim of building microfinance institutions that can last into the future without continued reliance on government subsidies or donor funds."

[62] Otero 1994, p. 103

[63] Kane 1975, p. 15

[64] Gonzalez-Vega 2003a, p. 40

[65] Armendáriz de Aghion 1999, p. 87

[66] Valenzuela 2002

State ownership and management goals

State ownership of development banks guaranteed the supremacy of their long-term development orientation over profit motives or even financial viability[67] and offered a "privileged access to public sector and donor funds".[68]

Although KANE stresses that one reason for the establishment of development banks was their intrinsic adherence to economic principles in lending,[69] financial sustainability was by design always a lesser goal their development orientation: "Using government funds, [development finance institutions] extended subsidized credit to activities judged unprofitable or too risky by other lenders."[70]

However, "the political imperatives that often permeated their operations led to loan recovery problems that cascaded as programs matured."[71] This problem persisted as development banks were unable to emancipate from political control: For one, state-ownership cemented their strong relation to the government. But even within the leeway the bank management was given by the government, the banks opted for closer alignment with the government. Under pressure to compensate for previous losses and with political actors being their major source of capital, the recurrent readiness to follow political directives[72] to secure recapitalization has to be seen as a form of 'rent-seeking'.[73]

GONZALEZ-VEGA & GRAHAM point out that development banks had a tremendous potential for deposit mobilization as they were, in most cases, fully chartered banks and often possessed a monopoly in regional financial market.[74] Although this would have allowed them to refinance independent from government subsidies, few development banks collected deposits.[75] This supports the thesis of 'rent-seeking' development banks, as the process of securing new capital from the government evidently required less effort than tendering small-scale depositors.

[67] Yaron 2004, p.
[68] Gonzalez-Vega & Graham 1995, p. 16
[69] Kane 1975, p. 17
[70] World Bank 1989, p. 106
[71] Adams & von Pischke 1992, p. 1466
[72] Adams & von Pischke 1992, p. 1465
[73] Tollison 2003
[74] Gonzalez-Vega & Graham 1995, p. 17
[75] Adams & von Pischke 1992, p. 1464

Additionally, the existence of development banks was usually considered temporary.[76] Resonating the idea of a Big Push, they were to be abolished as soon as enough capital had been infused into the economy to launch ROSTOW's 'take-off' and their functions were taken over by private financial institutions. In this light, the low priority of financial sustainability and even operational efficiency is comprehensible.

Further, the political direction of lending shifted the responsibility for bank decisions from bank staff to those setting the political guidelines. This situation created a 'moral hazard' that not only encouraged lax risk management, but of course also lessened any possible efforts at improved financial performance by bank staff.[77]

Another unfortunate effect of the strong influence of political actors was the entanglement of development banks in favoritism.[78] Issuing credit based on the relation of the client to the bank's political patron instead of profitability or development impact serves neither of the 'dual values' and entails a number of negative consequences.[79]

This kind of favoritism was made even easier as the 'development impact' of a bank was usually only measured by disbursed credit volume.[80] This monitoring practice, although theoretically in line with the theories of "supply-led finance" and Big Push, dominant at that time, is another factor that explains why outreach to the actual target group was not a high priority for development banks: Administrative cost of delivering the same credit volume to one medium-sized farmer or business once is of course lower than dividing it among many small-scale entrepreneurs, especially if the only monitored measure is the total credit volume issued.

Nonetheless, I have shown how state ownership of development banks determines the prioritization of their management goals and their disregard for financial sustainability. Hence, it can be stated that the non-implementation of the practices of informal financial institutions, the precursors of the methodological innovations of today's microfinance was largely due to the ownership structure of development banks.

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[76] A belief even held for the World Bank by its second president, John McCloy (Gavin & Rodrik 1995, p. 331)
[77] von Pischke 1991
[78] Gonzalez-Vega & Graham 1995, p. 17
[79] Batabyal & Nijkamp 2004
[80] Adams & von Pischke

However, to consolidate this thesis, I now examine whether the emphasis of microfinance on outreach and repayment, which caused the implementation of the said innovations, can also be explained by ownership structure.

MFI ownership and management goals

The question of MFI ownership has many answers: Some are state-owned, some are NGOs or banks in private ownership, others are member-owned or owned by external agents.[81] However, a principal-agent relation similar to that between state and state-owned development banks can be found looking at a MFI's sources of capital of and its management.[82]

For MFIs, the preservation of their capital stock is tantamount to organizational survival. As private actors, they cannot rely on government bail-outs as development banks did.[83] From this goal of capital preservation, financial sustainability could be derived as the central management principle of MFIs.

Indeed, the "microfinance promise"[84] of self-sustainable financial institutions that cater to the poor and thence drive development has been called the "holy grail"[85] of contemporary development finance and is a major selling point for MFIs looking for donors.

However, MORDUCH estimates that only about 1 percent of all MFIs are truly financially sustainable and that most are dependent on subsidies from governmental bodies or donations from foreign charities to cover their operational cost.[86]

So if MFIs are similarly dependent on funding from government and donors, how come they are not similarly unconcerned with financial sustainability?

In contrast to development banks, MFIs are not monopolists. They compete with a multitude of other NGOs for subsidies and donations.[87] This competition is about deli-

[81] Rock et. al 1998, p. 2
[82] Rock et al. 1998, p. 1ff
[83] Adams & von Pischke 1992, p. 1463
[84] Morduch 1999a
[85] Dunford 2000
[86] Morduch 1999a, p. 1587
[87] Smillie 1997, p. 564f

vering the highest development impact at the lowest cost, unlike the times of the Big Push when efficiency was only secondary.[88]

So, while financial sustainability may be the ultimate goal, it is in fact rather optimization of operational efficiency that MFIs strive for.

However, in this market for development NGOs, not only lowest cost matter, but also the quality of the development impact that donors 'buy' with grants, donations or subsidies for a certain MFI. These impacts are of great interest for the financiers because they are in turn used to legitimize the subsidy to their constituencies or attract further donations.

The typical measures for these impacts used to be outreach (to prove that money flows to the right target group) and repayment rate (as a proxy for profitable investments and thus economic advancement of the clients),[89] which explains why these are so strongly emphasized by MFIs. In recent years, measurement of development impact of microfinance has become more complex and multidimensional,[90] widening the range of intermediate goals that MFIs have to pursue to persist in the NGO market.

However, the switch to non-profit and non-government organizations as the dominant legal form of development finance after the end of development banks does not present a direct program design reaction to the drawbacks of state ownership. The constitution as NGOs might remove the problematic direct influence of the political class from development finance institutions but the lack of a permanent principal also opens up the possibility of mission drift to a more commercial orientation away from the initial poor target group to more profitable customer segments.[91]

In sum, the prioritization of management goals in MFIs can very well be attributed to their situation as free agents in a market for NGOs.

[88] Gore 2000, p. 795
[89] Hulme 2000, p. 82
[90] Hulme 2000
[91] Copestake 2007, p. 1725

Conclusion: A Methodological Revolution?

Applying the general definition of a revolution taken from KRAMNIK to the supposed 'methodological revolution' of microfinance, one might well see something akin to a Kuhnian paradigm shift in the "microfinance promise" of delivering development impact with market-based, self-sustaining organizations.

However, even if restricting the scope of analysis only to the field of development finance to avoid the fallacy pointed out by SCHRECKER, I have shown that the methods themselves are not innovations but that there was a deliberate decision not to implement them earlier. Further, I have traced the causes for this deliberate decision to organizational structures and the political environment, especially the question of ownership.

So, with the scope limited to development finance only, the notion of a 'methodological revolution' has to be rejected. However, my findings lead to the question: Why did the dominant organizational setup in development finance change? Did the 'microfinance revolution' possibly take place on a more general level?

Ownership structure as a result of the political environment

The difference in ownership structure has to be seen rather as a by-product of the more general paradigm shift in development finance as a whole from state-led development to the Washington Consensus than as the result of a deliberate learning process within development finance.

As CHANDHOKE argues, "the emergence and the growing power of NGOs […] has been actively facilitated by the Washington consensus"[92] through the withdrawal of the state from the social sector and, for the special case of MFIs, also the reduction of regulatory standards for the provision of financial services. This general trend is mirrored by the forced retreat of development banks since the end of the 1970s and subsequent occupation of their niche in the financial market by social NGOs since the early 1980s.

So, is the supposed microfinance revolution merely a manifestation of a paradigm shift in development policy as a whole?

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[92] Chandhoke 2002, p. 43

Policy change, the demise of development banking and the rise of microfinance

YOUNG suggests that the shift from state-owned development banking to privately organized microfinance that integrates the poor into the market directly reflects the paradigm shift from state-led development to the market-oriented Washington Consensus.[93]

So is the true nature of the 'microfinance revolution' a paradigm shift in development policy or development finance?

To answer this question consistently with my pedantic approach to the term 'revolution', a definition of policy change or policy 'revolution' has to be given first.

Policy change and policy-learning

In their comparison of five theories of policy change and policy learning, BENNETT & HOWLETT offer a differentiated picture of the causes and processes of paradigm shifts in public policy.[94] In essence, policy changes (or policy paradigm shifts or 'policy revolutions') closely resemble the Kuhnian concept of scientific paradigm shift as 'Deep Core beliefs'[95] of policy, i.e. the perception of fundamental policy goals and challenges, radically change. This usually happens either because members of an "advocacy coalition", i.e. people sharing a certain "Deep Core", rise to decisive positions in a sufficient number of state and non-state actors to bring about a turnaround in policy or because external conditions, for example "system-wide governing coalitions", have changed in favor of a new policy core.[96]

Opposed to policy changes with their fundamentally different "Deep Core beliefs" are the concepts of policy-learning, which emphasize the incremental improvement and fine-tuning of programs and instruments through experience and new theoretical insights.[97] So a scientific revolution does not necessarily lead to a policy paradigm shift as it might alter program design but not necessarily the overarching policy goals.

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[93] Young 2009
[94] Bennett & Howlett 1992
[95] Sabatier 1988, p. 144
[96] Sabatier 1988, p. 134
[97] Bennett & Howlett 1992

Washington Consensus as the ascension of a advocacy coalition

The rise of the Washington Consensus and its policies can certainly be seen as a policy change as described. The election of governments enthusiastic about free market in most developed countries[98] provided external conditions favorable to a market-oriented development policy whose advocacy coalition was ascending in the World Bank.[99]

Further, the "Deep Core" beliefs of the Washington Consensus and the preceding paradigm of state-led development differ substantially.[100]

But does this policy change, apart from creating an environment adverse to development banks and favorable to microfinance, have a more direct effect on the field of development finance?

New policy goals in development finance

The paradigm shift to the Washington consensus entailed a number of policy goals that had a rather indirect influence on development banking. As shown before, the emphasis on limited government and financial austerity conflicted with the existence of state-owned development banks and fostered the role of NGOs. A new focus on performance and efficiency of development instruments favored microfinance due to the high cost-efficiency MFIs reach even when only partially sustainable.

In development finance, SCHMIDT also identifies a shift in goals: In contrast to the previous single goal of capital transfer, the development of working financial systems ('financial system approach') becomes an important topic, stressing the role of financial intermediation over the function of capital infusion.[101]

As the Ohio State school of development finance has to be considered part of the market-oriented advocacy coalition that implemented the Washington Consensus, it is hardly surprising that their ideas about development finance were implemented after this coalition rose to power in the early 1980s.[102]

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[98] Rapley 2007, p. 63
[99] Pieper & Taylor 1998, p. 6
[100] Gore 2000
[101] Schmidt 2000
[102] Hulme & Mosley 1996, p. 2

However, as this shift reflects the larger paradigm change from state-led to market-oriented development, this 'new' goal of financial market development does not constitute a "Deep Core" belief but rather a secondary policy goal – a result of the overall paradigm shift and a sign of policy learning as the result of new scientific findings, some of which I will point out in the next chapter.

Conclusion: Microfinance as a 'policy revolution'

There certainly was a paradigm shift in development policy from national developmentalism to the Washington Consensus, which set important conditions for the demise of development banking and the rise of microfinance. However, if the 'microfinance revolution' is merely one facet of this larger paradigm shift, the idea of a separate 'microfinance revolution' is not justified. Even though a distinct overarching new policy goal can be identified within development finance, a large part of it has to be attributed to the rise of the Washington Consensus, thus representing only a derived policy change, not a revolution in its own right.

However, the new "paradigm"[103] of financial system development does incorporate a number of new scientific findings that may not qualify the rise of microfinance as a policy revolution, but possibly point towards a paradigm shift in science: a scientific revolution.

Microfinance as a scientific revolution

A number of authors portray microfinance as the result of a scientific revolution: "[Microfinance is] a revolution in thinking about poverty reduction and social change."[104]

However, how exactly can a scientific revolution be defined?

Scientific revolution: Definition and criteria

The most widely-used definition of scientific revolution is KUHN's "paradigm shift".[105] Yet, this definition was designed with natural science in mind and its transfer to the so-

[103] Coffey 1998, p. 54
[104] Armendáriz de Aghion & Morduch 2007, p. ix; see also Hallberg 2000, p. 9/14
[105] Kuhn 1962

cial sciences is problematic.[106] BAUMBERGER even argues quite convincingly that scientific revolutions are in principle impossible in the social sciences because different paradigms are not mutually exclusive.[107] In line with this view, FOSTER-CARTER is able to classify modernization theory and dependency theory as distinct paradigms in his careful application of Kuhnian thought to development theory, but fails to identify a revolution in the sense that one paradigm renders the other obsolete.[108]

Therefore, I will not try to find a scientific paradigm shift signaled by the rise of microfinance, but instead settle for the assessment of microfinance as a manifestation of a new paradigm (at least in the field of development finance)[109]. As defined by KUHN (and rephrased by FOSTER-CARTER):

> "the new paradigm is by no means merely additive, i.e. it does not enable the scientist to explain more things as well as what he already knew. On the contrary, it involves a change of total world view: as such, while hopefully it does better explain [anomalies] of the old paradigm, it simultaneously also reinterprets previously 'known' phenomena, leading to a whole new set of puzzles."[110]

If microfinance represents a new scientific paradigm, at least in the limited sphere of development finance, it should not be founded on the same theories as its predecessors, the development banks. In case this allocation to distinct paradigms is found to be unjustified, the notion of microfinance as a 'scientific revolution', even by the watered-down criteria for social science, has to be rejected.

'Paradigms' in comparison: directed credit vs. financial market approach

COFFEY provides a comparative matrix of the two major approaches of development finance which she calls "directed credit paradigm" and "financial market paradigm":

Elements	Directed Credit Paradigm	Financial Market Paradigm
Primary Problem	market imperfections	high transaction cost
Role of Financial Markets	– help the poor – stimulate production – offset distortions	financial intermediation

[106] Shapere 1964; see also Blaug & Rothschild 2001, p. 221f
[107] Baumberger 1977
[108] Foster Carter 1976
[109] With consideration for SCHRECKER's remark about the level of analysis.
[110] Foster-Carter 1976,p. 169

	– implement plans	
Users	beneficiaries (borrowers)	valued clients (borrowers and depositors)
Sources of funds	governments and donors	mainly depositors
Subsidies and taxes	many (persistent)	few (transitory)
Information systems and evaluation	dense, mainly for planners, focus on credit impact	less dense, mainly for managers. Focus on performance of financial intermediary and system

"The difference between the directed credit paradigm and the financial market paradigm", COFFEY 1998, p. 54

As shown in the chapter on the practices of development banking and microfinance, the "financial market paradigm" as portrayed by COFFEY is in many ways still an ideal, as the actual practice of microfinance, for example in the area of subsidies and sources of funds, does not live up to the characteristics of the ideal type.

Three major theoretical differences of development banking and microfinance

LLANTO calls the hallmarks of development banking: "mandatory credit allocation, loan targeting, below-market interest rates and credit subsidies to target sectors".[111]

From this and other descriptions, three major theoretical features can be identified:

1. credit targeted to specific sectors
2. subsidized credit
3. below-market interest rates

In direct comparison, microfinance shows the following features:

1. target strata, not sectors
2. partially subsidized
3. market-based interest rates

[111] Llanto 2003, p. 1

"Normal science": The example of "financial repression"

Parts of the changes pointed out above can be attributed to learning effects, "normal science" in KUHN's terminology. For example, the shift to market-based interest rates has certainly been fostered by empirical and theoretical work on "financial repression", an adaptation of the crowding-out effect on financial markets where artificially low interest rates keep formal commercial financial intermediaries from entering markets.[112] Instead, the financial service needs that are not covered by state-sponsored banks are then catered by unregulated informal financial institutions. Thus the MCKINNON-SHAW hypothesis on financial liberalization argues that less government intervention actually leads to better and more financial services.[113]

This turn away from "supply-led finance" theory which essentially states that even when there is no demand for credit in a market, the offer of credit causes businesses to make use of that credit and expand, hence boosting the economy,[114] has been triggered by practical experiences and empirical findings, typical characteristics of "normal science".

However, as elaborated on in the definition of scientific revolutions, the incremental progress of "normal science" does not constitute a revolution.

So, what is the scientific basis for the different approaches on a more general level of "fundamental norms"?

Structuralism

The three major features of development banking are logical results of a school of development thought that is summarized as 'structuralism' because it concentrates on the structure of developing economies for explanations of and solutions to 'underdevelopment'.[115] Structuralism is the economic concept behind the paradigm of state-led development in development policy.

The emphasis on the active role of the state, at least in the area of development finance, is derived from two cumulative arguments:

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[112] Buffie 1982
[113] McKinnon 1973, p. 55ff
[114] Patrick 1966, p. 176
[115] Sanchez-Ancochea 2007, p. 210

Capital fundamentalism

In an influential paper, LEWIS showed in 1954 on the basis of neoclassical growth models that the distinctive feature of developing economies is a lack of capital in contrast to an almost unlimited supply of (unskilled) labor. His first conclusion was that "the central fact of development is rapid capital accumulation".[116] However, 'underdevelopment' was not only a result of a lack of capital, but also the reason for it:

> On the supply side, there is a small capacity to save, resulting from the low level of real income. The low real income is a reflection of low productivity, which in turn is due largely to the lack of capital. A lack of capital is the result of a small capacity to save, and so the circle is complete.[117]

The obvious answer to this dilemma was the infusion of investment capital by the state and international development agencies that dominated the first three decades of development finance.

Big Push to tackle 'coordination failures'

If this push of investment capital is to launch self-sustaining growth, its distribution has to be well-directed. ROSENSTEIN-RODAN showed in 1943 that: "Complementarity of different industries provides the most important set of arguments in favour of a large-scale planned industrialisation."[118] His argument rests on the idea of "demand minima"[119] where industrial sector B cannot develop because of the absence of the upstream industrial sector A which has, in a market environment, no incentive to grow as long as there is no demand (from industry B). This vicious circle is one major facet of the "poverty trap".[120]

Thus, the market, left to itself, creates a 'coordination failure' that hampers economic development. To tackle this failure, the state intervenes with a Big Push of incentives to drive demand above said 'demand minima', at which point development becomes self-sustainable and 'take-off' is launched.

[116] Lewis 1954, p. 155
[117] Nurske 1953, p. 5
[118] Rosenstein-Rodan 1943, p. 205
[119] Asche 2006, p. 21
[120] Easterly 2006a, p. 292

From the debate about 'balanced' and 'unbalanced growth' emerged the idea of "lead sectors" whose promotion also triggers growth in linked markets.[121] As the market fails to do so, it is the task of the state to identify these "lead sectors" and foster them.

Big Push and capital fundamentalism in development banking

So while the 'coordination failure' obviously leads to the practice of targeted credit, capital fundamentalism and the perceived need for a Big Push justify credit subsidies and low interest rates, as a larger capital transfer into the economy clearly leads to a stronger development impact.

Structuralism and microfinance

To some extent, structuralism is also reflected in microfinance. The targeted provision of capital and subsidies for financial intermediaries is a traditional structuralist approach, this time identifying the financial industry as a "lead sector". The basic idea of correcting market failures (in the case of microfinance the omission of poorer strata from the provision of financial services by commercial actors) always carries a slight notion of structuralism. As with the Big Push, this is only seen as transitory support[122] until "take-off" takes place and inclusive financial services become self-sustainable.

However, microfinance itself is not supposed to pick "lead sectors" or subsidize credit. Although I have shown that subsidization of MFIs is common which in turn means that their interest rates are subsidized, this is seen as a part of a trial-and-error process until viable ways of achieving financial self-sustainability have been found.

A central point of microfinance is the belief in the superiority of market forces in efficiency and solution-finding. In line with the models of neoclassical economics, policy-makers believe that rational actors in free markets were able to identify more efficient solutions than development planners could. EASTERLY pointedly contrasts the two approaches by stereotyping "Searchers", whose familiarity with the local conditions enable them to find more efficient solutions than "Planners" who base their decisions on reports and abstract models of development.[123]

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[121] Asche 2006, p. 21

[122] See the comparative matrix by Coffey at the beginning of this chapter.

[123] Easterly 2006

This emphasis on creating working markets is well visible in microfinance because of the stress on market-based interest rates. Thus, microfinance falls into the “paradigm”[124] of financial market development which strives to markets in which rational actors can realize their full potential without state intervention.

Findings: structuralism, development banking and microfinance

With regard to structuralism, which is the major theoretical foundation of development banking, microfinance clearly belongs to a different school of thought. This might hint at an entirely new paradigm that is the basis of microfinance.

However, there are also fundamental theoretical overlaps between development banking and microfinance:

Modernization theory

‘Modernization theory’ is a label attached to an early approach that emphasized complex interaction between social change and economic development. At its core was the idea that certain social norms and values were central to Western industrialization:

> There is a sense in which rapid economic progress is impossible without painful adjustments. Ancient philosophies have to be scrapped; old social institutions have to disintegrate; bonds of caste, creed and race have to burst; and large numbers of persons who cannot keep up with progress have to have their expectations of a comfortable life frustrated. Very few communities are willing to pay the full price of economic progress.[125]

The most prominent representative of this approach is ROSTOW, who describes five stages of development from “traditional society” to “mass-consumption”,[126] in many ways a capitalist analog to Marx’s historical materialism.[127] His main point is the departure from traditional society with stagnant low productivity to a stage he calls “take-off” where forces of economic and social progress drive catch-up development that inevitably leads to the stage of “mass-consumption”[128].

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[124] Coffey 1998, p. 54
[125] UN Department for Social and Economic Affairs 1951; cited after Escobar 1995
[126] Rostow 1960
[127] Rist 2002, p. 101
[128] The case of the socialist countries was portrayed as an anomaly.

This "take-off" can only take be initiated by an environment in which "the idea spreads not merely that economic progress is possible, but that economic progress is a necessary condition for some other purpose, judged to be good: be it national dignity, private profit, the general welfare or a better life for the children."[129]

In short, modernization theory can be understood as 'education towards capitalism': "Practically, the modernization theorists envisaged modern values being diffused through education and technology transfer…"[130]

Modernization by demonstration in early development finance

The large industrial and infrastructure facilities that were the focus of early development finance sought to deliver these lessons through demonstration. In a crude application of the Duesenberry and Veblen demonstration effect ('keeping up with the Joneses'), it was believed that, once exposed to modern modes of production, the work force acquires higher standards of productivity and quality that they want to achieve with their labor.[131]

Modernization with targeted credit by development banks

The targeted credit programs in the 1970s are a turn away from the largely unsuccessful demonstration effect. Instead, cheap credit was used to incentivize small farmers and business-owners to switch to certain economic activities which development planners had deemed beneficial, for example the Green Revolution.[132] By nature, there is an educational element to working with incentives and in this specific application, it is stressed further by explicitly targeting groups considered 'traditional' (read 'low productivity')[133] and extending credit preferentially for purposes that promote rationalization.

Further, this educational approach was among the central purposes of development banks: "The development bank is intended to help stimulate the emergence of the miss-

[129] Rostow 1960, p. 6
[130] Leys 2005, p. 111
[131] McCormick 1983
[132] Pincus 2001, p. 192
[133] Jorgensen 1967

ing ingredients necessary for development. These factors include in varying mixes: capital, entrepreneurship, technological and managerial capabilities…"[134]

Modernization with trainings and opportunities in microfinance

Unlike the targeted credit of the development banks, MFIs usually do not try to push their clientele towards pre-planned activities. Microfinance's educational function in the sense of modernization theory rather manifests in two different ways:

A very direct way of education towards modernity are the trainings that are provided (often obligatory) alongside the financial services offered by MFIs. With topics like financial literacy, accounting, marketing, or business strategy, these trainings equip microentrepreneurs with skills that can be seen as individual "preconditions of take-off"[135] towards modern production.

The second, rather indirect form of education towards modernity is the support of entrepreneurial and individualistic values by providing loans for every sound business investment regardless of family ties or social standing.[136] By providing this opportunity, the idea is spread that, in ROSTOW's words, "economic progress is possible".

Modernization theory in both approaches

In summary, the spirit of modernization theory, despite being generally considered obsolete today, is at the heart of both 1970s development banks and microfinance. Even though the means differ and the discrepancy between the underlying policies of state-centrism and market-orientation is apparent once again, both try to spread 'modern' values and ideas like entrepreneurialism and rationalization that are considered crucial for Western industrialization.

Findings: Microfinance as a scientific revolution

Undoubtedly, scientific progress has taken place from development banking to microfinance. However, as in the example of "financial repression", most of these advances are merely "normal science". Although microfinance clearly does not belong to the complex

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[134] Kane 1975, p. 15
[135] Rostow 1960
[136] corresponding to the „limitations of opportunity" pointed out by Beck & de la Torre 2006, p. 4

of theories, maybe even "paradigm", of structuralism, the strong foundation in modernization theory that both approaches share reject the idea of fundamentally different norms, as required by the definition of scientific revolution worked out at the beginning of this chapter.

Hence, it can be concluded that from development banking to microfinance, no 'scientific revolution' took place.

Remark: Microfinance as a capitalist revolution

Another possible meaning 'microfinance revolution' is that of a "capitalist revolution" which is regularly assigned to microfinance from both opponents and proponents of capitalism.[137] It refers to the integration of the 'working poor'[138] into the world market as active participants (and not only as cheap wage labor) and the spread of 'capitalist values'[139]. While this is undoubtedly true, as I have laid out in the above section on modernization theory, I have also shown that this idea is not new but was already a central issue of development banking. It is therefore not a 'revolutionary' new feature of microfinance and does certainly not satisfy the rigorous definition of revolution on which my analysis is based.

Conclusion

The goal of this paper was to assess whether the application of the term 'revolution' to microfinance is justified. For this purpose, I briefly elaborated a universal definition of revolution to provide my assessment with tangible criteria.

As shown in the short historical overview of development finance I provided, one sensible approach to my overall question is the comparison of microfinance with development banking. Not only because development banking was the last dominant manifestation of development finance before microfinance, but also because development banks originate from a different school of thought than microfinance.

[137] see for example Brill 1999, Harper 2009 or Lucarelli 2005

[138] Microfinance does not reach the "very poor" (Robinson 2002) or "core poor" (Hulme & Mosley 1996).

[139] Parmar 2003

Comparing the practices of development banks and microfinance, I find that the supposedly revolutionary methodological innovations of microfinance were already employed by informal financial service providers in the heyday of development banking and well known to experts of development finance. Rather, the non-implementation of these practices can be attributed to the specific political economy of development banks due to their state ownership. In turn, the political economy of microfinance institutions plays a vital role in their dual emphasis on financial self-sustainability and social mission, the essence of the "microfinance promise".

As the notion of a methodological revolution can be refuted because the methods were already known, but merely not implemented, I then turned to the idea of a policy paradigm shift or policy revolution as the cause of the changes in political environment that is the root of the differences in political economy for both approaches. As the different political economies are the explanations for the implementation of the methodological 'innovations' of microfinance, the interpretation of microfinance as a policy revolution seemed sensible.

Although the paradigm shift from state-led development to Washington consensus was the most important trigger for the rise of microfinance, this does not suffice to interpret the 'microfinance revolution' merely as a facet of this paradigm shift (which would anyway delegitimize the idea of a separate 'microfinance revolution').

Rather, the examination of which parts of the rise of microfinance can be attribute to a true policy paradigm shift and which are merely signs of policy learning, as defined in the beginning of the chapter, can only be answered by looking at the idea of microfinance as a scientific revolution.

Here, it is important to be distracted by the many differences in middle-range theories, as I have shown with the example of financial repression, but to focus on the bigger, paradigm-like complexes of thought that might be the "fundamental norms" required in the definition of scientific revolution as worked out in the beginning of the chapter.

While the examination of structuralism, the complex of theories closest to a paradigm development banking has, shows that microfinance certainly belongs to a different, more market-oriented school of thought, the subsequent analysis of development banks and

MFIs from the perspective of modernization theory rejected the notion of a scientific revolution. Both approaches of development finance are well founded in modernization theory and thus do not differ sufficiently in “fundamental norms” to constitute a scientific revolution.

In conclusion, it can be said that the term ‘microfinance revolution’, although a nice metaphor for the explosive growth of microfinance, does not withstand a rigorous examination with proper definitions of revolution. My comparison to development banking shows that although a lot of incremental progress has been made in terms of program design, research on financial development and impact assessment, all of this falls short of a true revolution. Much rather, greater shifts in the political environment are the reason not only for the change in approach from development banking to microfinance, but also for the rapid ascension of microfinance.

Considering the hype created around microfinance in the last few years, it is even striking how little has changed in the fundamental approach and understanding of development.

To answer the central research question shortly: Calling microfinance a revolution cannot be justified on the basis of a comparison with 1970s development banking.

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