

# **A critical evaluation of international development and poverty: the case of microfinance and the Swedish International Development Cooperation Agency in Zambia**

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## **1. Introduction**

International development aid has been under increasing pressure and scrutiny for various reasons. Many scholars and policy makers have called into question its effectiveness to increase economic growth, alleviate poverty, or indeed promote social development in recipient countries (Crewe and Harrison, 1998; Easterly, 2002; Tsikata, 2008; Tuozzo (2009; Vetterlein, 2012; World Bank, 1998; Yusuf, 2008). Within an array of development aid, microfinance has risen to become one of the ‘most important policy and programme interventions in the international development community’ (Bateman, 2010: 1). The case in many parts of the developing world is that of microfinance being hyped and regarded as a best development strategy not only to help reduce poverty but also to empower women (Dichter, 2007; Geleta, 2013; Ito, 2003; Mayoux, 2001; Sharma and Nagarajan, 2011). Although microfinance is talked about so much, it hardly has one agreed meaning. However, it is believed in development literature that, it is aimed at helping the ‘active poor’ bring about own economic and social development-i.e ‘bottom-up’ and locally owned. It is promoted as a market based approach of giving the poor a ‘hand up’ and not a ‘hand-out’. It is also thought to make a significant contribution towards poverty reduction by enabling women become economically active through their participation in managing borrower groups and through exchange of information with each other (Dowla, 2006; Siwale and Ritchie, 2012). That microfinance gets around many of the political barriers that plagued government subsidised credit scheme and other forms of neo-liberal interventions into poverty reduction warrants critical attention.

This paper examines the dominant economic discourse at different stages of global capitalism regarding poverty and ‘helping the poor help themselves’ and the narratives behind ‘making markets work for the poor’ as articulated by the World Bank and other international institutions like the Swedish International Development Cooperation Agency (Sida) and Department for International development (DFID). It uses microfinance, viewed as an effective bottom-up development strategy to highlight the language of intervention and argue that much of international development has failed the poor, especially in Africa due to the top-down, input output approach inherent in economic models that eschewed local knowledge of recipients. The central argument that the paper makes is that, the donors’ top-

down approach to microcredit was synonymous with ‘subsidizing failure’ and flawed by design.

The paper draws on the author’s indigenous knowledge of the local context and research on microfinance development in Zambia, based on the field work conducted between 2003 and 2004 and later in 2010. It also reviews key World Bank publications on strategies to poverty reduction in Sub-Saharan Africa. Using SIDA’s policy on microfinance and its involvement with microfinance in Zambia as a case study, the paper examines the language through which support for microfinance is articulated and managed ‘top-down’ while being promoted as an empowering ‘bottom-up’ strategy. It further demonstrates how foreign aid can be self-defeating in practice while appearing to be for the good of the subjects of the development-the poor. The paper therefore aims at evaluating the discourse characterizing international development and its practice and not about blame allocation. The paper makes a contribution by challenging the practices and discourses on poverty reduction driven by the neo-liberal agenda that to a large extent have succeeded in ‘disabling’ local initiative to problem solving and localizing development.

The paper is structured as follows. Firstly, the paper begins with an overview of international organisations with a focus on the World Bank as a promoter of neo-liberal policies that have shaped the ‘what’, ‘how’ and ‘why’ of international development. Before focussing on Sida and its support for microfinance development in Zambia, the paper first dwells on international development policy and poverty reduction. It does this by examining the discourse around the structural adjustment programmes (SAPs) and Poverty reduction strategy papers (PRSPs) implemented under the neo-liberal agenda for economic growth and poverty reduction in Sub-Saharan Africa. This is then followed by the case study of Sida and a discussion on how the shifting paradigm has changed the focus and practice of microfinance. The paper ends with some concluding thoughts.

## **2. International organisations and Development**

The World Bank is one of the most important international organisations that shape policy and world politics. In Africa, the World Bank has been the major foreign donor and most powerful external force in economic policy making. Standing (2000), along with other scholars (Crewe and Harrison, 1998; Escobar, 1995; Harrison, 2001; Yusuf, 2008) argue that the World Bank’s self constructed image of being the ‘Knowledge Bank’ of development,

along with the role of defining and proposing the models and ideologies of ‘development best practice’ to borrower countries, has created a knowledge hegemony in developing countries. It also co-ordinates the so called donor clubs and persuades other funding agencies to participate in projects it sanctions. Yusuf in his review of 1998 to 2008 of World Development Reports (WDRs) notes how new arrangements of knowledge, new practices, theories and strategies have over the years been driven by the WB and Western donors as well as academics. On the other hand, Escobar (1995) points to the dominance of Western knowledge system that has subordinated the non-western.

Because international development relies on an interventionist mode (Quarles van Ufford et al., 2003), institutions of development such as the UN agencies, the WB, bilateral donors, and international NGOs are all part of the development establishment. They control resources and can wield monopoly of policy and project initiation. Accordingly, Tuozzo (2009) notes that, “World Bank operations tend to rely on applications of general policy models that are implemented in a variety of countries with the expectation that they will produce similar results” (p. 470). These models universally known as ‘blueprints’ (Canmmack, 2004) tend to characterise not only World Bank operations, but influence how other donors engage with developing countries. Examples abound of how the WB in the past has designed and imposed such blueprints and the ‘appropriate’ language to transmit them. Cases in point are the infamous SAPs and (PRSPs) implemented across different countries without taking local context-specific factors into account. Interestingly, the replication of the Grameen Bank microcredit group based lending methodology in Africa followed the same one-size-fits all approach, and donors expected similar results as in South Asia. To a great degree these international organisations tend to standardise local knowledge in order to make developing countries legible (Kothari and Minogue 2002; Vetterlein, 2012).

## **2.1. International development -Policy and Poverty**

Mainstream international development discourse has long heralded the importance of home grown solutions and national ownership of development policies. In practice, nonetheless, development assistance has operated on the presumption that international organisations like the WB and bilateral donors should take the lead in designing and implementing programs and projects (Escobar, 1995; Chambers, 1997). Harrison (2001), commenting on the Bank’s administrative reform in sub-Saharan Africa, notes that the ownership of a programme by the

weaker partner will extend only as far as is required by the more powerful party. And by the early 1990s, several aid critics pointed to the heavy donor voice in the planning of development assistance as key in explaining aid ineffectiveness in addressing poverty. They argued that heavy donor dominance deprived recipients of “ownership” over the programs designed for their benefit (Kothari, 2005; Stiglitz, 2002). So, ownership was seen as the missing link between the significant development aid inflows from the North (developed countries) and poverty reduction outcomes in the South (developing countries). But as Datta and Young (2011), observe, this goes counter to the fact that much of development knowledge - the theories, policies, and practices of economic and social development - is dominated by the North, mainly by international institutions that are largely controlled by the North, and by donor agencies which exercise considerable influence on Southern governments, particularly the poorer ones. In addition, how could these countries and their people *own* what they were not paying for? A quick scan of the SAPs and PRSPs reveal the slippery character of the language and the contradictions of ‘partnership’ and what Mercer (2003) calls ‘the poverty of participation’ (p.741).

The 1970s were associated with top-down planning, an approach that led to failure of development to reach the poor through official aid projects. These were implemented through government machinery (e.g. ODA country programmes in India, Integrated Rural Development Programs in Zambia and other SSA countries). According to Shahid Yusuf (2008), the 1970s were a decade of creeping disillusionment - not development. Therefore to bring development back, the 1980 WDR “Poverty and Human Development” called for more public and private investment to create income earning opportunities for the poor as a way of dealing with poverty. There was a realisation that better education, health, fertility and nutrition were long considered important ends of development. It was however acknowledged that, human development alone cannot overcome absolute poverty; but an essential complement to other steps to raise the productivity and incomes of the poor. In this report there was no mention of access to credit nor was poverty reduction emphasised. The decade that followed (1980s), saw the incidence of poverty increase in Sub-Saharan Africa and Latin America. At the same time, many developing countries had to cope with macroeconomic crises. To help affected countries back on the path to economic growth, the WB stepped in with its neo-liberal policies.

### **3.0 The Washington consensus**

In early development economics, the interventionist state was assigned a key role in correcting market failures and ensuring economic efficiency, growth, macroeconomic stability and social development. However, the neoliberal paradigm brought a dramatic shift, as the state came to be seen as a barrier rather than a driving force in the development process (Toye cited in Mohan and Stokke, 2000, p. 248; WDR, 1990). The World Bank's Berg Report claimed that many of Africa's economic problems were as a result of excessive and inefficient state intervention in the economy (WB, 1981). In response the market overtook the role of the state in development discourse and practice. Neoliberals strongly promoted market liberalism and argued that development and growth would be greatest where markets were unimpeded by government interference (Crewe and Harrison, 1998; Kothari, 2005; Sinha, 1995). African governments in particular, were advised to make domestic markets more open to international trade and capital flows. These reforms reflected the principles of the so-called Washington consensus –some which include: trade liberalization, openness to foreign direct investment, privatization of state enterprises and deregulation (Tuozzo, 2009; Yusuf, 2008). Kothari observes, 'the neoliberal agenda prospered in response to the impasse, most notably through the structural adjustment programmes promoted by the World Bank and IMF' (p.438). With the rise of neo-liberal, all institutions were subjected to the market-based criteria of profitability, cost benefit and return on investment.

### **3.1 The Neo-liberal prescription: SAPs and PRSPs**

In response to the dismal economic performance by the developing world and in particular, sub-Saharan Africa, the World Bank prescribed Structural Adjustment Programmes (SAPs). Economic growth through trade liberalisation was going to be the main route for development. These alternative policies were designed to encourage the structural adjustment of an economy by, for example, removing "excess" government controls and promoting private sector operations through privatization and liberalization - as part of the neo-liberal agenda. Consequently, SAPs were common place across Africa (especially Sub-Saharan Africa) from the early 1980s. However, one of the impacts of SAPs was that they encouraged more people to enter the informal economy as a result of reduction of public expenditure, downsizing of civil service and state owned enterprises (Cammack, 2004; Rizzo, 2011; Tsikata, 2008). Agricultural deregulation made the rural areas unattractive feeding into

migration to cities. Effectively, SAPs contributed to the creation of urban poverty and the informal economy which later became an attractive market for urban-based microcredit. Implicitly, the poor became exposed to the market culture, individualism spirit and self – discipline and expected to do something about their poverty.

Many Critics point out that, SAPs did not, however, deliver the promised economic growth, export revenues, and freedom from debt and poverty was illusive (Stiglitz, 2002). Instead, they led to economic stagnation and increased unemployment, income poverty, economic vulnerability, and environmental destruction (Datta and Young, 2011; Maseland and Peil, 2008; Shalmali Guttal, 2010; Yusuf, 2008). Borrowing countries became more indebted than before and fell into debt traps whereby they used new loans to repay existing debts. SAPs were often criticized for being top-down as well lacking direct involvement from the country. To counter the criticism, rhetoric language of local participation was embedded in drawing up Poverty Reduction Strategy Papers (PRSPs). PRSP was designed to place poverty reduction at the centre of government planning and was to be seen as a ‘home-grown’ initiative (Mercer, 2003:752). As failure to tackle deepening poverty and crippling debt caused by SAPs became prominent, the WB and IMF together ‘created’ the ‘Heavily Indebted Poor Countries (HIPC) initiative. With this in place, countries seeking support from the WB or debt relief were required to draw up ‘Poverty Reduction Strategy Papers’ (PRSPs). But who were the ‘key’ participants of these papers? Why were the PRSPs almost similar across affected countries?

Poverty eradication became the focus of the 1990 WDR –“Poverty”. The opening statement read:

“This Report is about poverty in the developing world - in other words, it is concerned with the poorest of the world’s poor. It is thus about the fundamental issue in economic development: the eradication of poverty from the world” (WDR 1990, Summary report, p.1).

The discourse of increasing the participation of the poor in growth was acknowledged as crucial for poverty reduction. And within this report, aid was going to be made a more effective instrument for reducing poverty. The Bank claimed that those countries that receive substantial volumes of aid should generally be those which are attempting to pursue policies that generate income-earning opportunities and efficiently provide social services for the poor. The report argued that where developing countries are committed to reducing poverty,

the industrial countries should respond with increased assistance. Interesting, the Bank noted that ‘Poverty presents many different faces in different countries’ (1990), but why in practice did the PRSPs have the same face?

### **Poverty Reduction Strategy Papers**

PRSPs are a professedly comprehensive, “country driven” approach to poverty. Building on its 1990 report, ten years later, the Bank made a very interesting statement which signalled a shift towards ‘participation’ and ‘ownership’ of policies by developing countries and its poor.

“There is no simple, universal blueprint for implementing this [poverty] strategy. Developing countries need to prepare their own mix of policies to reduce poverty, reflecting national priorities and local realities” (WDR, 2000).

Developing countries were here being cast as *owners* and *agents* of their own development (Mercer, 2003). What is however, interesting is the striking sameness of PRSP documents addressing poverty in markedly different national contexts thereby confirming the one-size-fits-all blueprints syndrome. Here is an example of an attempt by the Bank playing to its ‘public representation’ by ‘letting go’, while its practice still displayed massive control of the process. In fact, PRSPs were the carrot for the HIPC initiative. Nevertheless, PRSPs quickly multiplied and travelled across countries and Non-governmental organizations (NGOs) and civil society groups were routinely involved as proxy representatives for the marginal (Porter, 2003). PRSPs were meant to be ‘inclusive’ in design and appear to be standing shoulder to shoulder with the poor, but in practice never did. Maxwell and Riddell (1998) suggest that, a ‘weak’ version of partnership is often preferred by donors, in which policy dialogue may exist, but decision-making is constantly under the review of donors and international financial institutions. Craig and Porter (2003) citing Levitas (1998), nonetheless, point out that these approaches are prone to accusations of being mere “spin and deceit” (p.54). Thus the poor became the target of more sophisticated practices, of a variety of programs made possible by the powers in the West and the WB. In addition, the World Bank made aid transfers conditional on the aid-recipient country adopting a Poverty Reduction Strategy Paper, a plan outlining national poverty-reduction policies (Toye, 2010). With PRSPs came the language of ‘partnership’, ‘gender’, ‘empowerment’ and ‘participation’. What is interesting about this shift is the manner in which power relations are disguised, in essence attempting to rebuild citizenship from ‘bottom up’ in a liberal market compatible manner

(Carroll, 2009). But the absence of critical contextual knowledge in most of the Bank's ready-made blueprints meant that projects were either unviable or chance of producing transferable outputs were significantly diminished (Golooba-Mutebi, 2005; Green, 2000; Matthews, 2008; Pieterse, 2000).

To be seen to be addressing poverty, "Attacking Poverty" was the title of the 2000 WDR. This time round markets were expected to work better for the poor having failed them in the first place. However, the contradiction between policy and practice and the language used in the representation of poverty and the poor is striking. Use of concepts or categories such as: 'community', 'indigenous and local knowledge' became buzz words. Social capital was another buzzword, signifying an attempt to change the neo-liberal development agenda from within (Carroll, 2009). Peoples' participation was being used as response to the Bank's top-down technocratic approaches to unlocking development from bottom-up (Green, 2000; Porter, 2003). To support an inclusive and sensitive touch to poverty solutions, a critical eye turned on microcredit/finance which was labelled as participatory, bottom-up or even indigenous, while pretending to give the poor 'control of their own development' (Mosse, 2005). Projects were being tailored for grass roots application to incorporate strategies that take into account group dynamics, sociological and cultural institutions, knowledge transfer, and other context-sensitive characteristics (Stiglitz, 2002). But Elyachar (2005) writing on microcredit and microenterprises in Egypt, refers to neo-liberal policies as 'markets of dispossessions' - attempting to build a future through the markets and debt. What is however interesting to note is the shifting language concerning the fight of global poverty. First, it was 'poverty eradication', then, 'poverty alleviation and to simply 'poverty reduction'. Microfinance therefore viewed as a powerful tool for reducing poverty through access to financial services. The preceding discussion provided the context with which to evaluate the discourse underpinning donor support for microfinance.

#### **4. Micro-credit/finance and Poverty reduction**

Growth that creates opportunities for the poor will have a greater impact on the poor if they have access to land, *credit*, and public infrastructure and services. Many countries have adopted programs to this end (WDR, 1990: 3).

Poverty alleviation topped the official international development agenda in the 1990's with claims that appropriate credit can end poverty. To boost world microcredit/finance initiatives,

the UN General Assembly designated the year 2005 as the International Year of Microcredit<sup>1</sup>. The importance of microfinance was also raised in the 2004 G8 Summit in Sea Island, the Commission for Africa Report, 2005 and later at the G8 Gleneagles Summit, 2005 in Scotland. The World Bank also embraced it as part of their strategy for poverty alleviation.

“Microfinance is a powerful tool for reducing poverty. It enables people to increase their incomes, to save and to manage risk. It reduces vulnerability and it allows poor households to move from everyday survival to planning for the future” (Paul Wolfowitz, World Bank President, November, 2005).

As a result, development policy increasingly took recourse to microcredit to improve access to financial services for poor households (Morduch, 2000). It is claimed that, by devolving control and decision-making to the poor, participation and access to credit ‘empowers them directly. Consequently, the global renowned Grameen Bank group based Microcredit lending model<sup>2</sup> was seen as an attempt to rebuild economic citizenship from the ‘bottom-up’ (Siwale, 2006; Elyachar, 2005), using the provision of debt. Put it differently, microcredit attracted global attention because it was perceived to be an effective solution to poverty reduction (Guttal, 2010). There was an expectation that the poor would ‘self-organize’ rather than be organized and managed externally. The poor would also utilize their own internal resources such as social capital to make this work for them. These models of microfinance for instance, reconstituted the social networks and cultural practices of the poor through social capital (Ito, 2003; Mayer and Rankin, 2002) as part of the free market, the very practices that had earlier been seen as barriers to advancing the market.

This market-led narrative attributed poverty to lack of capital, which must then be addressed by creating access to it. Escobar (1995) observes that, the advance of the poor countries was seen from the outset as depending on ample supplies of capital to modernise society. Similarly, the poor within these countries have also been viewed as needing ample credit to kick-start their journey out of poverty through enterprise. Soon international organizations

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<sup>1</sup> Microcredit” involves the provision of collateral-free small loans to jointly liable people for purposes of income generation and self-employment. “Microfinance” is a more recent concept than “microcredit”. It is the provision of a range of financial services in addition to credit, such as options for money transfers payments, insurance schemes or opportunities to save. Microcredit programmes are increasingly complemented with microfinancial services. ‘Microfinance’ has now become established as the popular terminology to reflect this complementarity.

<sup>2</sup> Group lending is one approach for reaching poor people. Typically, under such schemes one member’s failure to repay jeopardizes the group’s access to future credit. Joint liability among a group of borrowers reduces the risk of default and makes it cheaper to reach dispersed clients. The best-known example of this approach is the Grameen Bank in Bangladesh.

like DFID, SIDA and many others, stood ready to ‘throw’ money at them. For income-poor families, this access is created through loans from micro-credit projects and institutions. Most of the micro-credit schemes were initially aimed at poor women organised in solidarity groups, village banks or self-help groups (SHGs). However, though in theory the language of participation and bottom-up signified a shift in discourse, in practice the approach was supply-driven rather than demand driven, thereby defeating its purpose of putting the poor in charge of their decision making. The initial excitement with microcredit did not last as several studies in South Asia and Latin America began doubting its ability to reach the poor and empower them (Ahmad, 2000; Bateman, 2010; Goetz, 2001, 1997; Fernando, 2006; Rahman, 1999). Others would soon label it as the ‘dis-empowering debt’.

Then came microfinance with a claim that the poor needed more than just credit—they need other financial services such as savings, insurance and money transfer payments. These added services contribute to expanding poor people’s choices and improves their ability to respond to opportunities. With Mohammad Yunus, founder of Grammen Bank awarded the Nobel peace prize in 2005, key global institutions and actors, such as the World Bank, the IMF, bilateral development agencies and a broad range of NGOs all adopted microfinance as a targeted strategy for unresolved grassroots poverty reduction. It was the long awaited panacea to help remedy poverty in a financially sustainable way. Hence, it is understandable that after the outreach success of microfinance institutions (MFIs) in South Asia, they were soon to be spotted in other regions, including Africa. In Zambia, as in many SSA countries, many of the MFIs were initially foreign funded and in some cases ‘owned’ as well. Donors’ intention was for the loans to relieve the poverty of the borrowers-especially women. Evidence shows that, microfinance by its very nature supported the most basic, least productive and lowest growth potential activities and in already saturated informal markets (Bateman, 2010; Chiumya, 2006; Siwale and Ritchie, 2012). The espoused input - output economic model created an incentive to focus more on loan repayment rather than clients’ business enterprise growth. Mayer and Rankin (2002), however, argue that the microfinance models advocated by mainstream donors like the World Bank ‘respond more to lenders’ concerns with financial sustainability than the borrower’s, and may not be fully inclusive because the very poor cannot access microfinance services. This marked the beginning of the paradigm shift within microfinance, a bias for ‘results-oriented management’ opened the way to what can be labelled as ‘microfinance-by-numbers’.

## **5.0 The Zambian Microfinance Context**

Microcredit in Zambia started, not as a ‘business’, but as ‘charity’ to alleviating poverty and helping the poor create sustainable livelihoods for themselves (Siwale, 2006). The sector emerged in the 1990s through NGOs whose primary orientation was more social than commercial (AMIZ, 2002; Dixon, et al., 2007; Musona and Coetzee, 2002). Most present day MFIs began as unregulated credit NGOs, operating on a non-profit basis and with an unusually urban concentration. The sector has been largely external donor- driven and therefore lacked local “ownership” and legitimacy. It evolved with ingrained subsidy dependence, thereby creating a local perception of microcredit resources as originating in distant lands, from donors- interpreted to mean ‘free money’ donated to the poor. On the ground, these NGOs were managed in such a way that their alignment was more often upwards or (outward) to justify further allocation of resources, than downwards to clients they served (Dixon et al., 2006). Continued donor-dependence would question how independent and/or ‘Zambian’ these MFIs really are. As a result, many had an ambiguous ownership status. Gina Porter (2003) in her research in Ghana finds a similar pattern and argues that development NGOs (of which microfinance NGOs are a part) are largely a donor-created and donor-led system. Citing Tvedt (1998), she argues that these NGOs have become ‘a transmission belt of a powerful language and of Western concepts of development, imposing similar policies on different poverties [and countries] (p.141). Sida and Dfid were among the main donors behind the development of microfinance in Zambia. And with this background, the discussion now turns to Sida in order to appreciate the slippery character of language within the neo-liberal discourse and how words can signify different things in different places and also call for different relations. How does this play out on the ‘why’ and ‘how’ Sida in practice supported microfinance in Zambia?

### **5.1 The Swedish International Development Agency (Sida) and Poverty reduction**

Sida is a government agency of the country of Sweden that channels its resources through NGOs, multilateral cooperation, and the EU, among others and is interested in promoting the idea of “international development cooperation” to replace the one-sided giving indicated by the term “assistance.” Supporting over 2,000 projects in over 100 countries, Sida’s geographic focus is on countries in Africa, Asia, Latin America, and Central and Eastern Europe (Sida official website). The overall goal of the Swedish development cooperation is

poverty reduction. They claim that access to financial services by the poor is important to achieve this goal, hence their commitment to supporting microfinance (Sida, 2004). Sida is therefore an appropriate case to use to demonstrate how donors' top-down approach to microcredit was synonymous with 'subsidizing failure' and flawed by design.

Sida supported the establishment of Promotion of Rural Initiatives and Development Enterprises (PRIDE Zambia) in February 2000 following an agreement between PRIDE Africa and SIDA. PRIDE started as an NGO, (and was perceived as such by locals) with no clear legal status. At the time PRIDE Zambia (PZ) was founded its main stated goal was to be no less than the premier financial services provider to Zambia's projected ('underserved') personal and micro and small and medium sized enterprise markets. Although Sida viewed PRIDE as an independent institution with a local management in charge, in practice, Sida still exerted control by emphasising and expecting upward accountability over use of funds. However, for reasons detailed elsewhere in the paper on PRIDE Zambia's failure (Siwale and Ritchie, forthcoming), five years after its establishment, PZ had all the signs of an organisation in distress. In 2006 Sida raised concerns over its long term sustainability and went on to pledged 240,000SEK equivalent to USD 29560 for a consulting firm to explore ways of transforming PZ into a limited company by shares. Overtime, its portfolio at risk was estimated at 7.38% at mid-2004, and reached 26.28% in 2005 and 50.08% by 2006 (MIX, 2008), before a final all-time high of 65% as 2007 ended. Under the watch of a local board of directors, of which Sida was represented, PRIDE had continuously recorded losses for seven years.

It was Sida's belief that the transformation into a limited company by shares and subsequent takeover of PRIDE Zambia would represent an opportunity for the company to turn around and also would justify Sida's *investment* (emphasis mine) in microfinance in Zambia. However records obtained from the Sida office Zambia in August 2010, under the freedom of information act reveal the unexpected. Due to continued PZ's poor performance, on 18 September 2008, there was a memorandum from Sida stating:

"Sida has supported PRIDE Zambia since its establishment in 1999, with grants (15.4 MSEK) and loan (8.8 MSEK). The idea behind the support was to make a show case; microfinance for the poor is viable in Zambia. After 9 years of operations, we can conclude that PRIDE Zambia has not been able to become financially viable".

Were the notions of *investment* and *financial viability* made clear by Sida to PZ management and its frontline workers-the loan officers? How do you in practice reconcile a charity mentality with investment? A Sida officer with direct experience of its dealings with PZ not wanting to play the blame game was of the view that:

“The way in which SIDA supported the creation and growth of PZ did in fact in many ways contradict our own microfinance policy, as well as general “best practice”. Still, Sida tried to get something going to “make a positive impact” in microfinance in Zambia and also in other countries. One main problem was the setup, and the view from PZ that Sida would always come to the rescue. In real terms, it was an independent organization but considered as ‘Sida property’.

When asked what Sida could have done differently his response was:

“I think that the massive support from Sida helped a lot in creating an organisation that was not really efficient and responsible. In addition, there were too many Sida programme officers involved, not all with microfinance expertise. About as many as seven different programme officers were involved in decisions regarding PZ in seven years! This probably did contribute to some lack of consistency in the advice given and also complicated relations with PZ. Needless to say, SIDA would not support a similar setup today”.

In hindsight, the officer concluded that, “Sida was probably too dominating. Due to perception issues, Sida’s advice or any consultants hired by Sida were sometimes given too much weight by PZ staff. Similarly, Mosse, (2005) and Gibson et al., (2005), are of the view that the practice has been that donors take the lead in designing and implementing programs and projects while their dominant voice deprives recipients of “ownership” over processes. Although Sida places ownership at the centre of its expressed philosophy of donor assistance (Sida, 2004), its own official documents are unclear about what ownership means. This ambiguity becomes even murkier when confronted with the reality of ownership in the field. Thus in this case Sida’s role in providing ‘expert’ advice could be seen as not only having weakened capacity to self-manage but also stifled initiative. For the poor, self-reliance gave way to dependency and an NGO mentality for a microfinance institution proved to be detrimental. In trying to rationalise PZ’s failure, an official at Sida was of the view that, most projects (not just microfinance) in Zambia are donor-driven and that there is little local initiative in the design and development of aid projects. Elsewhere, Gibson, et al., (2005) categorize Zambia as a high aid dependent country. Therefore, in the case of microfinance, donors were perceived by borrowing clients (the poor) and local employees to be the de facto main owners of MFIs. Ownership was here found to be too ambiguous for many local actors

to be really sure about what boundaries to uphold. As PZ finally failed, it was almost ‘ownerless’, while Sida desired to protect its own public “representation”.

## 5.2 So what were Sida’s guiding principles?

In a document “A review: Sida’s experience in Microfinance” (2004), Sida’s approach to microfinance is reviewed in light of the current understanding [then] of “sound donor practice” as reflected in the so-called Pink Book, published by the Consultative Group to Assist the Poor<sup>3</sup> (CGAP). In that document Lars-Erik Birgegard (2004), points to the dilemmas resulting from ‘best practice’ principles. He posits that “Best practice” promoters – CGAP - tend to emphasise that donors should see themselves as *investors* in microfinance business development. However, he further reflects, “This may not be a fully appropriate argument because if microfinance were a business proposition, it would not need substantial subsidies” (p.4). The second dilemma is on unresolved distributive problems. Sida’s programmes of support entail a transfer of funds, either in the form of a loan or, more generally, a grant involving very substantial amounts (as was the case with PRIDE Zambia). The issue is who will become the owners of such funds and who will control them? In that report, legitimate questions were also raised about whom these NGOs represent and to whom their management is accountable<sup>4</sup>. Implication of adhering to best practices would lead to transforming microfinance NGOs into regulated MFIs (private profit-seeking business), with a risk for mission drift (weakening the gender and poverty focus). These dilemmas have policy implications and the key question is; Are the “best practice” principles the preferred approach to microfinance development globally?

CGAP’s influence on Sida is very explicit in a document “Making Financial Markets Work for the Poor, Guidelines for Microfinance” (2004). These Guidelines were intended to define and communicate Sida’s position on microfinance, both in-house and to external stakeholders and also clarify and argue why Sida should support microfinance, how Sida can better align its support with international consensus in the field (Sida, 2004). The aim was to help improve the overall quality of Sida’s microfinance project portfolio and thereby poor people’s access to viable financial services. What is striking and interesting with this

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<sup>3</sup> CGAP is an international donor consortium in Microfinance, established in 1995 is heavily supported and influenced by the World Bank. It promotes a financial systems approach to microfinance and sets the guidelines for other donors in the sector.

<sup>4</sup> Interestingly, PRIDE Zambia (that failed four years later after the review) was one of the 15 microfinance projects reviewed in this document to represent Sida’s microfinance portfolio.

document is the language both the project supervisor and leader use in commending the team: "...hardworking colleagues of the Financial Systems Team never lost faith in the process and in the possibility of finding yet new words and images [italics mine] to help convey the message of "why and how" microfinance" (p. 3). This sounds like a rebranding exercise and this time round the focus was now going to be on 'commercial viability', 'sound governance' and 'local ownership'. The review concluded: "it is critical that donor support is designed in such a way that it encourages commercial pricing (i.e. full cost recovery), efficient operations and sound market development, allowing the phasing out of subsidies (grants, technical assistance and soft loans) in a predictable manner" (Sida 2004, p.8). Was the phasing out of PRIDE Zambia predictable?

### **5.3 'Best practice'-implications for Microfinance: The neo-liberal disguised**

From the year 2000 to date, donor policies (but less so donor practice) on microfinance have converged in support of what are often referred to as the "best practice" principles. The focus is on the development of regulated financially sustainable MFIs. Under the 'Best Practice', microfinance is advanced as a commercial, business proposition and regulated by financial authorities. These commercially viable microfinance institutions would provide a range of demand-driven services and operate without subsidies. Institutional sustainability is priority. The turnaround provided a definite shift of paradigm for the development of microfinance to 'business' and "investment" from earlier 'assistance'. For example Sida's guidelines on microfinance states thus: "A basic premise of a market-oriented financial system is that financial service providers, whether specialised microfinance institutions, banks, credit unions or NGOs, strive to become commercially viable" (p.17). However, as 'best practice' principles have travelled, questions about how these would be reconciled with the original social mission of microcredit/finance have been raised. Would these principles force most MFIs to 'scale-up' up the market, further excluding the very poor they intended to serve? As a result of this paradigm shift, repayment performance and client numbers reached became particularly key variables for the donors and international funding agencies on which many microfinance institutions (especially in SSA) depended for their survival (Godquin, 2004).

The catch phrase "best practice" is problematic. For instance, who decides what is? And according to Feek (2010), how do you decide what is 'best' when all practice takes place in different contexts, with different purposes, different population groups, and involving

challenges within widely varying cultural, political, and resource environments? (p.232). How can what is best practice in South Asia or indeed Latin America become 'best' for microfinance in Africa? So why should we question 'best practice' and its natural extensions of 'replication' in microfinance? Feek (2010) suggests the following reasons. Firstly, they imply uniformity, when we need greater diversity. Secondly, they have the strong possibility of disempowering people and organisations: those who are doing great stuff in their contexts see something rated as the best which they know will not work in their situations, and they wonder why they do not get the recognition they feel they deserve (p.232). Many employees of the MFIs in Zambia felt that way. Their view was that donors did not understand the local context but always pushed their agenda regardless of how microfinance actually worked. Lars-Erik Birgegard (2004) also finds "best practice" framework somewhat problematic. On the one hand, he argues, microfinance is advanced as a commercial business proposition and on the other hand, it is implicitly accepted (generally) not to be a viable business proposition therefore requiring subsidies. Regardless of the context the 'Best practice' key message of commercialisation became the industry norm without making a distinction (or a time scale for change) at the time, between emerging MFIs in regions like Africa and matured MFIs in South Asian or Latin America. To survive, MFIs have had to scale-up while being accused of mission drift, while others are now concentrating on the 'working poor'-the salaried employees in the public sector. Consequently, a new narrative has emerged in the name of 'financial access for all' and not microcredit/finance for the poor. The private sector is back in the driver's seat and the neo-liberal continues to present serving the poor as a viable and profitable business - making billions at the bottom of the pyramid! Where has the 'empowerment' disappeared to?

## **6.0 The practice of international development: concluding thoughts**

The paper has examined the self-contradictions and double binds that lie latent in the language and practice of major international institutions like the World Bank, as they engage with the developing world. As Quarles van Ufford et al., (2003) note, international development has increasingly been more about managing the representational world- it's about producing policy papers which explain, justify and make coherent and created meaning out of uncertainty while isolating itself from the local, the subjects of development. Through an evaluation of SAPs, PRSPs and microfinance, international development is found to have a familiar pattern. Interested donors or institutions constitute a team of expatriate consultants

who put together a project idea, a design and a convincing argument to justify investment of public money by the donor (of which they are part). They also craft words that read the same but have different meanings and performances in different contexts. And as Mosse (2005: 53) observes, the role of external consultants in what he calls ‘international development fashion’ is to ensure effective re-interpretation of project models in terms of shifting policy. As the microfinance development trail in Zambia suggests, these consultants [and donors] have without doubt been the dominant voice in the design and re-formulation of projects even though their power had to be veiled behind the rhetoric of collaboration and grassroots participation. The so called ‘self-organizing’ client groups in PRIDE and other MFIs were in many instances created and controlled by loan officers to ensure high repayment rates. Equally, decision making was top-down. In the case of Sida, the local participation it envisaged in the PRIDE Zambia project failed. Instead, it was a participation in the abuse of donor funds at all levels.

The dominant market - led discourse has reduced the enormous task of poverty reduction to just numbers. Poverty is defined by those that experience it the least. They also possess the knowledge to design methodologies of measuring, implementing and reporting on it. Accordingly, Mosse (2005) is critical of the practice of international development by highlighting the shift towards quantifying where it becomes a case of privileging policy over practice and framing models that link investment to outcomes. In the case of microfinance, success is mainly judged on numbers accessing loans and repayment rates and profitability of MFIs. A pertinent question to ask is: Why are there so many failures and disappointments in [international] development? Opinions vary but the paper has suggested through the discussion of the discourses guiding PRSPs and microfinance, that partly it’s the local cultures in some countries are at odds with ‘blueprints’ or ‘best practices’. In addition, these projects’ orientation continues to underline upward accountability that maximises the flow of resources from outside thereby perpetuating dependency. The neo-liberal agenda has to a large extent through its powerful allies –the World Bank, donors and other international institutions succeeded in perpetuating both financial and policy dependency and in that sense, ‘disabling’ local initiative to problem solving and localizing development. Hasty commercialization (sub-Saharan Africa, in particular) of microfinance has led to rapid rise of consumer finance while pulling the sector from its purpose of poverty reduction and financial

inclusion-especially for those in rural areas. Poverty continues to persist and talk about poverty reduction goes on.

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