Zondervan touts this book as a “follow up” to *When Helping Hurts*, the widely-influential 2014 best seller authored by Brian Fikkert and Steve Corbett, colleagues at Covenant College where Fikkert is President of the Chalmers Center for Economic Development. And that’s true, in a sense. Here economist Fikkert collaborates with another Covenant and Chalmers Center colleague, community development specialist Russell Mask, to offer a vision for church-based microfinance that serves as, at least, a partial answer to the question left hanging in the first book of how best to help when helping so often hurts.

But this book is actually much more than that. It is a book that had to be written. With or without *When Helping Hurts*, this book was necessary.

Microfinance burst onto the economic development scene with a splash in the 1980s and 1990s. In those go-go years it was the elixir that could do no wrong. Church, NGO, and college-student interest in microfinance seemed boundless. Ron Sider enthused that it was a model that should be multiplied 100-fold, and he was but one among many.1

That era has given way, in the 21st century, to a much more sober and even, at times, a jaundiced view of microfinance. The pioneering Grameen Bank got ensnared in a scandal about improperly reporting repayments rates—rates that were not nearly as rosy as the public had been told (Pearl, 2001). High quality empirical work emerged (such as Banerjee & Duflo, 2015) that was unable to find the benefits of microfinance for women’s empowerment, for health, and for education. A definitive survey by La Porta and Schleifer (2014) found that job creation in poor countries happens almost entirely in the formal sector and not in the small-scale informal sector populated by classic microenterprises—and argued that much of the work that can be done in such enterprises is basically “make-work.” Further, the now-crowded microfinance industry has led, in some places, to cut-throat practices, pressure on Christian agencies to scale back the discipleship and business training they pair with microfinance, and, perhaps most famously, to the Indian state of Andhra Pradesh essentially banning microfinance in 2010. Conditional
and unconditional cash transfers are now the hot poverty reduction policy, discussed eagerly by college students and promoted by online startups such as givedirectly.org.

If ever we needed a clear-eyed assessment of microfinance’s true strengths and weaknesses, and of its potential to serve the church and the poor, this is the time. And now we have the book that does it.

And, crucially, to really accomplish its task, the book rightly spends considerable effort addressing—theologically—the proper role of the church in society and the proper relationship between the world’s rich and poor Christians. This yields much seemingly jarring juxtaposition of economic and theological arguments. Who among us ever expected to see a mass-market Christian book address both randomized control trials and the finer points of the church’s integral mission, to have Esther Duflo and Leslie Newbiggin virtually speaking to each other?

The authors argue that, up to now, the dominant model for microfinance (particularly in supporters’ minds if not always in reality) has been the “microcredit for microenterprises” approach. In this vision, micro lending focuses on unlocking the latent entrepreneurial talent of the 1.6 billion people of working age living on less than $2 per day, whose successful businesses will carry them towards prosperity. Fikkert and Mask argue in some detail that this vision is not plausible, and their candid conclusion is worth seeing in full:

It is simply too much to expect that microenterprises operated by some of the world’s poorest people could be the primary engine for economic growth and for poverty alleviation, even in the limited material sense of raising people’s incomes above the poverty line. There are simply too few microentrepreneurs living on less than two dollar per day, MFIs cannot serve many of them, and the loans to them appear to have too limited an impact. (pp. 61–62)

Fikkert and Mask insist that poverty alleviation requires “rapid economic growth on a national level that is driven by increases in agricultural productivity and mass industrialization” and acknowledge that the job growth necessary for significant poverty reduction comes from “small-, medium-, and large-scale enterprises—not microenterprises” (p. 62).

The authors recommend that microfinance pivot towards a better mission: providing broad financial services to the poor. This would encompass lending, to be sure, but also savings and insurance vehicles, in
order to truly serve the actual financial needs of poor households for consumption smoothing, business investments, household investments, life-cycle needs, and emergencies. They make a detailed case for this “microfinance for households” approach. Case studies from Collins et al. *Portfolios of the Poor* (2009) richly illustrate the potential gains to be had from addressing the full constellation of financial services the poor need.

The book concludes with a sustained argument about the best way for Christian donors, churches, and Christian MFIs to structure their mutual relationships to achieve “microfinance for households.” The authors make a strong case for what they call the “Promotion Model,” but do so carefully and the long way around, by first offering a detailed and essential “primer” on microfinance in chapters 8 and 9.

In this primer, they analyze the key features of financial intermediation and the provision of financial services, features with which economists are familiar—the need for collateral, the need to insure against runs, the need for trust and credibility amongst suppliers and demanders of financial services, and others—but which are here explained in strikingly accessible language without ever mentioning the terms “market failure” or “adverse selection.” These chapters also include a detailed description of how ROSCAs (rotating savings and credit associations) and ASCAs (accumulating savings and credit associations) work. ROSCAs and ASCAs serve the poor well, Fikkert and Mask argue, because they can be self-organized in, and leverage savings directly from, poor communities, with little or no outside funding—but they only work if they obey crucial best practice elements of financial system management (such as enforcement of social collateral rules).

The primer matters because in its light the different models for structuring microfinance activities can be seen to have very different likelihoods of delivering best practice financial services to poor households. In the “Provider Model,” external donors supply funds which churches use to provide microlending. Fikkert and Mask are blunt: “We recommend that churches, missionaries, and ministries not utilize the Provider Model” (p. 212). It’s hard with this model to really implement, long term, consistent character judgment, transparency, discipline, and all the other features of best financial practice: “Churches, missionaries, and ministries are not good lenders of money, while Christian MFIs often struggle to do much beyond lend money” (p. 226). Again, they convey all of this clearly without once using the phrase “principle-agent problem.”
The “Partnership Model” involves donor funding of microlending and other financial services through an MFI, with a partner church or parachurch group offering non-financial services. In theory, this can work; in practice, the authors argue, it’s hard: it requires that churches and MFIs have holistic views of ministry that deeply value what the partner does (p. 249).

The “Promotion Model,” Fikkert and Mask’s favored model, involves churches promoting the formation of savings and credit associations (SCAs): the church provides SCA training and non-financial services, while the SCAs, owned by the people they serve, generate the necessary capital from the savings they promote (p. 252). Fikkert and Mask find this model’s advantages in cost, flexibility, scalability, and inherent participatory and savings-oriented character, particularly compelling.

The authors, wisely in my view, insist throughout the book that microfinance take place in a manner that affirms the central role of the local church. They make a compelling case for this “integral church model” in which the local church is the primary locus of witness and transformation. Further, they argue that Christians working in development need to get their anthropology right before anything else—that is, we need to properly understand our human condition as a precondition for “doing no harm.”

This insistence bears good fruit. For instance, the authors have a high view of work, creativity, and human agency. That has big implications in ongoing development debates about conditional and unconditional cash transfers, to pick simply one policy example. This is speculation on my part, but Fikkert and Mask’s theological anthropology would likely tilt them towards preferring micro-financial services for the poor rather than relying too heavily on transfers.

All this excellent and timely content does not mean the book has no shortcomings. It sprawls and repeats itself. It repeats graphs and figures, as if the authors perhaps expect readers to read a single chapter only. It reads at times like a training manual (and it is indeed used for Chalmers Center training). It does not address the consequences for microfinance of the burgeoning use of cellphone technology in financial services.

Further, some readers may disagree with the extent to which Fikkert and Mask take their theological anthropology. They write, “poverty reduction must be designed in light of the truth of our need for God…” (p. 84). All of poverty reduction policies? Are there no aspects of develop-
ment and human flourishing that can draw from shared, natural-law type knowledge across cultures and religions?

But one book can’t do everything. This book does many things well, and anyone interested in microfinance should read it.

Endnotes

1 See Sider et al. (1995).
2 It’s sobering that the Provider Model has persisted as long as it has, as these problems were forecast literally decades ago by economists such as ACE’s own Kurt Schaefer (1996).

References


