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# Magic Bullets in Development: Assumptions, Teleology and the Popularity of Three Solutions to End Poverty.

Gerben Nooteboom and Mario Rutten<sup>27</sup>

## Introduction

*Extreme poverty means walking long distances barefoot to collect safe drinking water. It's a hospital overflowing with patients dying from diseases that are treatable and preventable. More than 1 billion people face extreme poverty living on less than one dollar a day, and more than 22,000 people die every day from extreme poverty and preventable diseases – needlessly [...]. The facts are staggering - but there is hope. There is a now feasible plan to end extreme poverty in our lifetime, and Sauri, a cluster of villages in Western Kenya, helps to show the world how we can make that happen.<sup>28</sup> I therefore propose a business approach to end poverty and help people to climb the ladder of development.<sup>29</sup>*

The above statement – made at Jeffrey Sachs' and Angelina Jolie's web diary at MTV's *Think Pages* in 2008 – refers to Sachs' solution to solve extreme world poverty: the massive investment in African villages through a business approach which emphasises planning, Western business practices, and the use of science and technology.<sup>30</sup> Although *Think MTV* is oriented at a young audience, and the shocking figures are an attempt to appeal to social activism, the general message reflects an optimistic belief in being able to solve world poverty through economic means. The message is packed as a simple solution. By doing so, Sachs ranks among a series of neoliberal thinkers who see business development and the application of internationally accepted business principles as the solution to end world poverty. The claims made are embedded in implicit assumptions and are almost magical in their promises, as important problems remain unaddressed and the exact mechanisms remain obscure. Nevertheless, the idea of ending poverty through business development has gained strong momentum during the last decade and according to some authors this reflects the application of the new neoliberal development mantra in all corners of the world (Rankin 2001; 2006).

In this chapter we will take a closer look at three leading figures at the turn of the millennium who proclaimed the end of poverty through the application of business principles: Hernando de Soto, Muhammad Yunus, and Jeffrey Sachs. It is their optimistic, economic and rather simplistic solutions - which we call magic bullets – which will be studied in more detail in this chapter. We do this to unravel the implicit ideologies behind the application of apparently neutral, universally applicable solutions to end poverty.

The use of the term 'magic bullet' or 'golden bullet' we derive from Robert Cribb (1993), who talks of the belief in 'golden bullets' which marked development planning in the Dutch Indies during the Ethical Policy in the first two decades of the 20<sup>th</sup> century: 'In particular, we

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<sup>28</sup> Quote from *Think MTV*. Think MTV 'exist[s] to inspire young people to take action to improve their lives and communities by unleashing the shared power and voice of young people and MTV.' (Think-MTV 2008). (<http://think.mtv.com/profile/thinkMTV>).

<sup>29</sup> See the complete checklist of the integral diagnoses and entrepreneurial approach by business plans in Sachs (2005: 93 Dutch translation).

<sup>30</sup> Presented in Sachs (2005).

find amongst policy makers and practitioners of the Ethical Policy a belief in 'golden bullets', in carefully planned programmes pursued with enormous energy and enthusiasm and aimed at achieving rapid, qualitative change. The golden bullets of the last two decades – the Green Revolution, family planning, transmigration, and so on – have their pre-war counterparts in the Ethical Policy's sustained effort at providing irrigation, agricultural advice and favourable rural credit.' (Cribb 1993: 225).

In addition, in 2005 the Indian development and gender specialist Neila Kabeer used the term 'magic bullet' to critically assess the belief that microcredit will bring about empowerment for women in India. According to her, the benefits of micro credit for women have been exaggerated and extended into qualities of which the exact mechanisms and causal relationships are unproven and not clear. To expect these properties to emerge from simple interventions reflects rather wishful thinking. In the words of Kabeer: 'There are no magic bullets, no panaceas, no blueprints, no readymade formulas which bring about the radical structural transformation that the empowerment of the poor, and of poor women, implies' (Kabeer 2005: 4718).

Accordingly, we define a magic bullet as a belief in being able to end world poverty, or other worldwide social problems, by means of a simple recipe. Magic bullets proclaim single solutions to complex problems. Important is the faith in the solution, its hidden ideological content, its moral superiority, its selective use of history, the mobilising power of the message and the endorsement of celebrities, i.e. everybody needs to join in and critics are fought against. The solutions presented are often technical, contain an idea of outside intervention, are paternalistic, are blind to alternative solutions and local voices, and are perceived as intrinsically good and noble initiatives. Once implemented, magic bullets often produce unintended consequences.

The aim of our study is to take a deeper look at the basic ideas, arguments, historical roots, and assumptions of three influential, contemporary ideas to end poverty and critically evaluate their feasibility in order to explore the phenomenon of magic bullets itself: their almost magical or religious claims, their implicit ideology, and their mobilising power. Why are solutions presented in this way? To whom do they appeal? Why do they think business development will be the way to travel? How far does this reflect personal preoccupations and ideas of development? To shed light on these questions, we analyse three contemporary debates in development thinking: Jeffrey Sachs' road to the 'End of Poverty', Hernando de Soto's emphasis on the informal sector and the registration of private property, and the role of micro credit as propagated by Muhammad Yunus – all economic solutions to end poverty. We subsequently look at their definitions and analyses of the problem of world poverty, their proposed solutions, and the assumptions behind them in an attempt to understand the popularity of their ideas and their almost magical claims. We also evaluate the feasibility of their claims to end poverty and briefly discuss some of their historical roots. We argue that thinking in terms of magic bullets – or, to be less extreme – in singular solutions and stereotypical images of poor women and men as being creative, knowledgeable entrepreneurs is populist and blinds us to structural inequalities and to the much more complex and painful realities in the fight against poverty.<sup>31</sup> To a certain extent, the belief in magic bullets can be viewed as an – almost religious – alternative in developmental thinking in a post-modern, post-developmental, globalised world, replacing many of the ideological debates of the development era (1960s and 1990s) (Edelman and Haugerud 2006: 71).

<sup>31</sup> See Olivier de Sardan (2005: 8) on populism.

## The bullets

Before we present our analyses of the three magic bullets in the following sections, we start with a brief description of each of them, including their ideas on poverty and the proposed solutions.

### *The Informal Sector by Hernando De Soto*

The core of Hernando de Soto's ideas on poverty and development are his postulate that the poor possess much wealth, but have no capital (De Soto 2000: 5). The problem, however, is that the wealth possessed by the poor does not have any value. Most of their possessions are in the so-called informal sector of the economy, where there is a lack of formal registration and legal protection. In these circumstances, the poor do have actual possession of property, but have no legal representation of their property. As a result their assets are dead capital (ibid.: 6).

The solution proposed by De Soto is deregulation, de-bureaucratisation, recognition of ownership rights, and privatisation in order to make it possible for the poor to transfer their wealth into productive capital. By changing possessions such as land and buildings into legal property, the poor will have capital that can be used as collateral to obtain loans and investments. This new access to capital will enable the poor to pull themselves out of poverty by their own means (De Soto 2000).

Hernando de Soto is the President of the Institute for Liberty and Democracy in Lima, Peru. His work has been received with great admiration in policy circles. The World Bank provided substantial funds to his institute, while Time magazine called him in 2004 one of the most prominent Latin American thinkers of the twentieth century. His ideas have been praised by a large number of dignitaries such as Francis Fukuyama, Bill Clinton and Margaret Thatcher.

### *Microcredit by Muhammad Yunus*

The success story of microcredit starts in the 1970s with Muhammad Yunus' small-scale initiative to lend money to groups of women in Bangladesh, which finally led to the billion dollar Grameenbank enterprise. Within this perspective, the poor are creditworthy and poverty can be erased by providing small loans through regular group-lending. Yunus and other microcredit protagonists believe that if credit can be supplied at fair market prices in small quantities, and if that credit reaches local poor people and especially women, the poor will be able to find economic opportunities themselves. They will be able to repay the debts with interest that are competitive at market prices, making programmes financially sustainable (Yunus 2001; 2003). Microcredit is seen by many as a panacea which eradicates poverty, improves health and education standards, reduces gender inequality, improves women's empowerment and, according to some, even enhances democracy though the political empowerment of women (Kabeer 2005: 4709; Mayoux 1999; 2001).

Over the years microcredit has received much support from policy makers, politicians and celebrities. This culminated in 2005 being selected by the UN as the international year of microcredit, and in 2006 with the awarding of the Nobel peace prize to Muhammad Yunus and 'his' Grameenbank. Nowadays, microcredit has become a worldwide business involving numerous NGOs, banks and investment companies both in the North and the South.

### *The End of Poverty by Jeffrey Sachs*

The core of Sachs' message is the current possibility to make extreme poverty history. According to him this is a realistic goal which can be achieved within this generation. The road to the 'End of Poverty' runs via economic reform, massive foreign aid and a better way of development planning. Important in the argumentation of Sachs is (1) a sense of urgency – the world has *now* the opportunity to end extreme poverty within one generation; (2) enlightened self-interest – we can increase our security and make the world a better and safer place; (3) his mobilisatory power – everybody needs to be engaged and contribute to this goal; and (4) his business approach of planned development (Sachs 2005).

Sachs is a macro-economist by training, director of the Earth Institute, Columbia University, and leader of the Millennium Development Goals (the MGDs). He acquired most of his fame in the 1990s when he was a spin-doctor for transitional economies such as Bolivia, Poland and Russia. In the latter two he led - in collaboration with the IMF and the World Bank - the privatisation of government companies and the transition from socialist to market-oriented economies by a kind of shock therapy. In 2005 the UN secretary general Kofi Annan asked Sachs to design the Millennium project. In 2004 and 2005 Time magazine named Sachs as one of the 100 most influential people of this planet.

#### Assumptions and critical remarks

The three proposed ideas to end poverty presented above offer simple solutions to complex problems. Simple, but very popular among large development organisations, politicians, NGOs, bankers, investors, rock stars, movie idols, and the wider public. Is their optimism justified? Or are these *magic bullets* just another invitation to failure? Why have the claimed solutions been able to influence so powerfully the narratives and policies of development? In this section we present some of the points critics have raised against the three magic bullets and the assumptions underlying their analyses. We discuss four interrelated types of critical remarks: those dealing with empirical reality; those that unravel the underlying assumptions of parallel development and the homogeneity of the poor; those that criticise the vagueness of the concepts employed; and those that point at the fact that all three approaches avoid the sensitive issue of existing power differences. Finally, we briefly look into some of the historical legacies of these magic bullets. Is there anything new to them?

#### *a. On empirical reality*

All three approaches are selective in their descriptions of empirical reality and ignore certain findings that do not fit their line of reasoning. In some cases, empirical proof that shows the potential negative impact of the interventions is systematically downplayed or simply ignored.

#### *The Informal Sector by Hernando De Soto*

One of the important aspects overlooked in De Soto's approach is the fact that '...there is plenty of evidence that settlers improve their homes even when they do not possess anything resembling a title deed' (Gilbert 2002: 7). De Soto's approach is not built on a systematic and empirical study of the issue of informality. Empirical evidence indicates that there are other ways to gain security over ownership than formal rights. The perception of security is often much more important and relevant for the economic behaviour of the poor than the formal registration of property *per se*. The fact that poor people already borrow through informal channels to improve their houses and to invest in their property is often neglected by De Soto (see Gilbert 2002). Moreover, De Soto does not provide any empirical proof that housing and

real estate markets will function better after the formalisation of property has taken place. History shows that the regulation of property rights for the poor does not lead to more loans being provided by formal banks. Banks usually do not want to lend to poor people and poor people do not want to borrow from formal banks. Even when they have access to legal property rights, they would rather make use of personal loans and savings for their investments (Gilbert 2002).

#### *Microcredit by Muhammad Yunus*

Despite positive claims on the financial benefit of microcredit and its impact on the economic development of the poor, its long-term financial advantages are not clear and the overly positive claims cannot be proven. Critical studies show that microcredit programmes do not yield the expected results or have negative side effects which are trivialised or not mentioned at all in the studies of microcredit protagonists.<sup>32</sup> Some authors argue microcredit to be counter productive as it reduces the social fabric in society and opportunities for social development (Mayoux 2001). It makes women dependent on loans, increases the stress and pressure on women (Brett 2006; Rankin 2001; 2006) and, in some cases, increases – instead of reduces – domestic violence (Goetz and Gupta 1996). Also the effects on the empowerment of women is highly debatable and not empirically proven (Goetz and Gupta 1996; Kabeer 2005; Rankin 2001). Microcredit can be harmful to some of the poorest and weakest people in society as it bears the risk of social exclusion and stigmatisation. The success of microcredit seems to be empirically proven only in the case of entrepreneurial people who see business initiatives and who are ready to carry out a project with the potency of growth (Khandker 1998: 152), and more generally in the case of men and women who have the 'potential' for meaningful investments (Brett 2006).

#### *The End of Poverty by Jeffrey Sachs*<sup>33</sup>

The key factor that influences a rise in GNP depends, according to Sachs and the neoclassical-economy approach to which he pays tribute, on four mainly economic sources: saving and capital accumulation, increasing specialisation and trade, raising productivity as a result of technological advancement, and the availability of natural resources. The causes for stagnation lie primarily in the lack of one or more of these foregoing factors: savings or the ability to save, trade, technological advancement, tax income, the sustainable use of natural resources, the control of calamities and population growth and the capacity to overcome cultural barriers. Once these barriers are broken and the poverty, fiscal and population traps are broken and sound investments in the economy and infrastructure are realised, the economy will take off. Historically, however, economic growth is not related to a big push and the concept of poverty traps can definitively not be applied to the whole of rural Africa (Easterly 2006: 9). Moreover, in his ideas on historical development of the West, there is a lack of awareness about the role of market protectionism in the growth of American and European economies and about the implications of the different types of roles states have in societies by either promoting but also hindering economic and social development (Easterly 2006: 7).

<sup>32</sup> See, for example, Eversole (2004); Goetz and Gupta (1996); Kabeer 2005; Lont 2000; Mayoux 1999; 2001; Murdoch 2000; Shakya and Rankin 2008).

<sup>33</sup> Our gratitude goes to Wouter Rijneveld for his suggestions on the assumptions and practical implications of Sachs' approach.

### *b. On core assumptions and the idea of parallel development*

All of the solutions seem to start from specific notions about trajectories of development that are often based on assumptions about developments in the West and about the homogenous character of the poor. These assumptions are often highly questionable.

#### *The Informal Sector by Hernando De Soto*

According to De Soto, formalisation and the registration of property took place in the development process in the West and thus serves as an example to developing countries. The example given by De Soto relates to the settlers in the US in the middle of the 19<sup>th</sup> century, who registered their newly obtained land consciously, after which these regions prospered. This attempt to compare this large-scale land grabbing by settlers in the sparsely populated US with migrants in densely populated suburban areas in Third World countries today is, however, highly questionable (Bremans 2003).

Another important claim by De Soto relates to the idea that the development process in the West took place through a reduction in bureaucracy and a withdrawal of the state. According to De Soto, during the crucial period 1870-1914 mercantilism collapsed, the market economies in Western societies emerged, and small companies flourished as a result of deregulation. In reality, however, the period 1870-1914 was marked by a concentration of large companies and conglomerates and a collapse of many smaller companies in the West. And even today in Western countries and successful economies high levels of bureaucracy and state regulation is still an important factor. Finally, De Soto assumes that the informal sector is homogeneous and consists only of small, independent entrepreneurs. These small entrepreneurs, however, are often tied by multiple bonds of dependency to larger bosses, landowners, suppliers of tools, machinery, inputs and buyers or providers of marketing services.

#### *Microcredit by Muhammad Yunus*

Microcredit programmes are based on an almost universal introduction of a model characterised by group lending. The idea that poor people basically share similar problems – lack of access to credit – and know how to invest and take opportunities combined with a strong belief in the entrepreneurial gifts of the poor and especially women, enforces the idea that a single remedy will suffice in all contexts and societies. The idea of poor people being entrepreneurs but facing a lack of credit is flawed to being harmful. Microcredit schemes assume homogeneity and reduce complex socio-economic problems to simple solutions such as small loan provision. Moreover, after success in basically one place (Bangladesh), credit schemes were easily but wrongly taken as applicable to other areas of the world, neglecting relevant social, cultural, and political contexts, as early studies had already asserted (Bouman 1992; Bouman and Hospes 1994; Rowlands 1995).

#### *The End of Poverty by Jeffrey Sachs*

In the analysis of Sachs, development countries will follow and should follow paths of development similar to those once followed by western countries. In his book *The End of Poverty* (2005), Sachs regularly refers to historical examples such as colonial England and more recent examples of Bolivia, Poland and Russia, countries in which he worked as an economic advisor. In this way he severely over-simplifies the social, political and cultural realities which have shaped historical processes of development, trade and domination among countries. In his analysis Sachs not only works from the assumption of parallel development,

he also lacks a social science perspective, which would attend to differences in the orientations and perceptions of people and the embeddedness of this logic (Olivier de Sardan 2005). His positivistic and evolutionary thinking is a big step back in development thinking, as he largely ignores the bankruptcy of the development models of the past (Easterly 2006). He largely neglects the complexity and embeddedness of people in social, cultural, and political frameworks.

### *c. On the vagueness of concepts*

The three solutions often use vague concepts and reason in terms of dichotomies as representing reality.

#### *The Informal Sector by Hernando De Soto*

In the understanding of De Soto, the formal and the informal sector are unrelated and operate according to different principles. In reality, however, there are large grey and overlapping areas between the formal and informal part of the economy. Moreover, various economic activities take place in both sectors simultaneously, while very strong relations exist between the two sectors. The formal sector often benefits and depends on the existence of the informal sector and has an interest in its continuity. Moreover, De Soto uses the term informal sector to plead for the abolition of government support and a reduction of state influence. Initially, however, debates among scholars and policy makers on the informal sector were oriented on a sector which should receive government support to achieve development (Bromley 1990: 338). As a result, the terminology and debate on the informal sector gets increasingly blurred. It is exactly the vagueness of the concept that makes it popular to various different interest groups.

#### *Microcredit by Muhammad Yunus*

Microcredit has lost most of its original meaning. Originally it was oriented to the poor and needy in development countries. Now banks and governments in richer countries also launch their own micro credit schemes to reach urban poor or minority groups. The assumed causal relationship between micro credit and political empowerment, however, remains vague (Kabeer 2005; Mayoux 2001; Mayoux and Anand 1995). Goetz and Gupta claim that empowerment is possible only through additional specific training and gender-oriented programmes (Goetz and Gupta 1996). Others, like Brook Akerly (1997), claim that credit programmes work in a social, political and economic environment that is biased against and even harmful to women. Credit programmes do not change these contextual barriers and purposes and practices can be controversial and harmful to the empowerment of women (Goetz and Gupta 1996). These examples show the complexities related to the microcredit programmes.

#### *The End of Poverty by Jeffrey Sachs*

Sachs' analysis deals mostly with countries, while many of his examples deal with individual people. Positive changes on a national level do not necessarily imply positive changes for individual people, while changes at village level do not automatically change countries. Sachs assumes that solutions which work at the macro level also work at the micro level. On the one hand he implicitly accepts the notion of 'trickle down', while at the same time he undertakes direct action to aid the individual poor (Easterly 2006). This simplicity blurs any social analysis but makes his ideas extremely popular.

#### *d. On ignoring certain (politically) sensitive issues*

The three solutions ignore the issues of power relations, the dependence of the poor on other groups, and the need for structural changes and political reforms.

##### *The Informal Sector by Hernando De Soto*

De Soto's approach ignores elements of power and dependency. Informality is not simply a juridical problem that needs to be addressed. The informal sector is not the result of an incomplete penetration of global capitalism, but it is the result of capitalism as it has developed worldwide. Different groups, especially employers and sections within the state apparatus, have an interest in the continuation of the informal sector. Sections within the state bureaucracy profit from illegality, bribes, corruption, and the very low wages and lack of protection of the sector which attracts investments and stimulates exports-generating income by means of tariffs. Historically, the process of formalisation in Europe did not occur as a result of top-down policies but was the end result of a social struggle from below, following the emancipation of labour unions during the late 19<sup>th</sup> and early 20<sup>th</sup> century. The process of informalisation in developing countries today is due to the fact that processes related to globalisation have weakened the position and power of labouring and the lower classes worldwide. Such a realisation, however, would imply the need for changes in power relations, something which is inconceivable within the De Soto's approach.

##### *Microcredit by Muhammad Yunus*

Microcredit programmes do not deal adequately with the problem of social exclusion. They tend to increase the gap between the productive poor and the utmost poor, such as the elderly without resources or those without a fixed and permanent residential location (Mosley and Hulme 1998). Moreover, power differences within societies are hardly ever taken into account except for scape-goating money-lenders. People operate within intricate webs of power and inequality, but this seems to be forgotten in the analyses. The emphasis on microfinance seems to be made perhaps unconsciously in the interest of the financially strong (Eversole 2004; Shakya and Rankin 2008).

##### *The End of Poverty by Jeffrey Sachs*

Despite his macro-economic analysis, Sachs neglects parts of the intricate political dimensions of international relations. Sachs strongly denounces Western imperialism, but does not depict the intricate and subtle ways in which this imperialism has formed itself in the new world order. He refuses to take sides in the debate on the role of government in development. Politically painful decisions on welfare investments versus economic development, or infrastructural investments versus investments in health, education or social security are largely bypassed or neglected. Sachs does briefly criticise some aspects of market protection in the West, but does not refer to the billions of dollars in subsidies that western countries spend on farmers or to the practice of dumping. As a result, there is little chance for developing countries to market their products.

#### *e. On historical legacies*

Topics like the formalisation of property rights, microcredit, poverty traps and stages of development are not new, although authors claim otherwise. In the 1950s already 'poverty targeted credit programmes' existed in Africa (Zimbabwe, Cameroon) and missionaries set up savings and credit unions (Mayoux 1999: 958). Leo Schmit (1994; 1999) describes the history of microcredit in the Dutch Indies between 1895 and 1935. In this period two understandings

of microcredit dominated the debate: microcredit as a means of social protection for the poor and as a development instrument promoting economic growth. In 1962 Clifford Geertz wrote about the Javanese *arisan* as a 'middle rung' in development. According to him microcredit marked an intermediate stage in the transition from traditional societies to modernity with its rational economic markets. The attention recently paid to offering credit to groups neglects discussions on these earlier programmes.<sup>34</sup>

In a similar way, the ideas of De Soto and Sachs echo solutions that have been proposed before without considering the old debates properly. De Soto's emphasis on the informal sector as a solution and not as a problem has been the focus of discussion in academic and policy circles for quite some time already (see e.g. Gilbert 2002: 4; and Breman 2003). In many instances, De Soto '...(re)invent(s) the wheel without acknowledgement (...)' by developing new labels for old phenomena' (Bromley 1990: 334). In Sachs' proposed approach we recognise the old ideas of planned intervention along the lines of Rostow's stages of development of the big push and take-off phases, that were dominant in development thinking during the 1960s and 1970s (Easterly 2006). His idea of a development ladder or path is important, as is his strong belief that '(i)f conditions are right, development will come about almost automatically'. In this line of thinking, large investments in infrastructure, energy and human resources are needed to make each transition possible. Technology is optimistically presented as the solution to poverty. History shows, however, that such large-scale external interventions have never yielded spectacular results, and over time these ideas have been powerfully criticised (Unwin 2007: 951).<sup>35</sup>

#### Reasons for their popularity

The previous section provided a short overview of the various forms of criticism that have been raised against the three solutions to poverty. Together they show the serious flaws in the proposed solutions in terms of their lack of empirical reality, their misplaced assumptions about parallel developments and the homogeneity of the poor, their use of vague concepts and their neglect of power differences in society. Moreover, all three solutions can be partly characterised as 'old wine in new bottles', although these historical legacies are often ignored. Despite these criticisms, the three solutions to poverty have become very popular and have almost acquired the status of 'magic bullets' among the circles of policy makers, development workers and the general public. How do we explain their popularity? In this section we discuss three interrelated explanations for the popularity of the three magic bullets: their (a) optimistic content, (b) their suggestions of political neutrality, and (c) their celebrity endorsement.

##### *a. Teleology: the optimistic content of the message*

The content of the messages of all three of the magic bullets provides hope after many years of pessimism and despair about the possibility of putting an end to poverty (see Leys 2006; Schuurman 2000). All three development solutions claim to end poverty once and for all, to be policy relevant (i.e. to be applicable in almost all settings), to fit into the implicit but dominant neoliberal climate, and to have a proven capacity to mobilise mass support.

<sup>34</sup> See e.g. (Ardener 1964; 1995; Bouman 1983; Cope and Kurtz 1980; Kurtz and Showman 1978; Swift 1964; Velez-Ibanez 1983; Wu 1974).

<sup>35</sup> See also Norman Long (2001) for criticism of and for an alternative, actor-oriented approach to development. See also Olivier de Sardan's (2005) *Anthropology and Development* and James Scott's (1998) *Seeing Like a State*.

### *The Informal Sector by Hernando De Soto*

Over the past few decades, the informal sector has been viewed as one of the main instances and causes of poverty in developing countries. De Soto provides an alternative to the doom scenario of the informal sector. He proposes a solution that requires changes within the existing informal sector itself. He claims that the legalisation of property will result in productive capital, which will result in a productive informal sector and thereby will result in the alleviation of poverty.

In order for De Soto's proposed solution to work, there is no need for extra, outside capital or additional development aid. According to him, in most developmental policies the poor and poor societies are implicitly blamed for their supposed culture of spending and their lack of entrepreneurship. Some theories and policies emphasise internal and cultural factors as being the major problem, while others stress external and structural causes and focus on aspects of economic relations and trade imbalances. De Soto's approach indicates that we can solve the problem by combining the two approaches, by focussing on the internal but structural factors of the issue. According to him, the poor are not the problem but are the solution to the alleviation of poverty. That message gives hope and bears the promise of a sustainable solution.

### *Microcredit by Muhammad Yunus*

After many years of unsuccessful top-down development planning and state intervention, the microcredit programme claims to be a truly bottom-up approach in which the poor will help themselves by establishing small credit groups. It seems to be a cure for all ills, a true magic bullet as it has everything to alleviate poverty: it offers credit to the utmost poor and liberates them from moneylenders, structural unfairness and exploitation, it provides employment and stimulates entrepreneurship, and contributes to improvements in the social and educational sphere of life (Cheston and Kuhn 2002; Hashemi *et al.* 1996; Jain and Moore 2003; Khandker 1998; Littlefield *et al.* 2003; Schuler *et al.* 1997; Schuler *et al.* 1996; Yunus 2001; 2003).

The popularity of the Grameen Bank model can be further explained by the promise that the model of group-lending can be easily reproduced and copied in other contexts (Jain and Moore 2003). The failure of large schemes of subsidised credit and cheap loan programmes in the 1970s and 1980s and the widespread belief in the market as a result of neoliberal winds during the late 1980s and 1990s has contributed to the unification of parties previously opposed and ideologically divided. Microcredit promises that the endless, bottomless pit of ongoing support to poor people can finally be filled. Its popularity thus strongly depends on the promise of a win-win situation; microcredit programmes promise to be cost-neutral and investments will be returned to be invested elsewhere, making development aid a revolving fund generating money without further investments. After a period of lending, poor people are expected to become financially independent. This is good news for the poor and good for the donors and largely explains the popularity of microfinance.<sup>36</sup>

### *'We can make it happen...' – The End of Poverty by Jeffrey Sachs*

After a decade of rising distrust in development thinking – some even speak of a crisis or breakdown (Allan and Thomas 2000; Escobar 1995; Leys 2006; Schuurman 2000) – Sachs

<sup>36</sup> A parallel can be seen to the popular 'bottom of the pyramid' initiatives, which claim similar win-win solutions to the problems of both poor people and companies (see: Prahalad 2005). This double blessing forms one of the roots of its popularity; improvements are offered to the poor while investments are commercially sound and beneficial to the investors themselves. Social support is offered without sacrifice.

appeals to two sentiments: he appeals to the frustration of previous failures by criticising powerfully the ineffectiveness and inefficiency of the development industry, while simultaneously appealing morally for more help and for taking more responsibility to promote genuine development practices by more effective means and global coalitions. Sachs's approach to ending extreme poverty almost completely overlaps with the millennium development goals as formulated by the international community (Sachs 2005: 35). Countries should give more aid, but not more than has been promised already at donor conferences and in international treaties. To make a start and demonstrate his approach in practice, he established a dozen millennium villages and proposes very practical and down-to-earth solutions (Sachs 2005).<sup>37</sup> With this analysis he light-heartedly surpasses the complex political and ideological debates on the historical causes of poverty, international trade and colonial dominance. Instead, aid and technology are optimistically presented as the solutions to end poverty – the poor can relatively cleanly and easily be helped out of their stagnation by the transfer of knowledge and technology (Sachs 2005: 42, 52). Development, or an increase in the welfare of the poor in major parts of the world, will not necessarily affect the wellbeing of others.

### *b. Politics: Acceptable to both 'left' and 'right'*

All three solutions are presented as non-ideological and combine typical 'right-wing' and 'left-wing' solutions, i.e. pro-capitalist views and views that are very critical of capitalism. As a result, they appeal both to people who propagate a neo-liberal agenda and to those who are more attracted to anti-globalisation.

### *The Informal Sector by Hernando De Soto*

De Soto's ideas are in line with those who warn against the negative effects of liberalisation and globalisation and emphasise the importance of state regulation in economic development. He states that globalisation has not resulted in less poverty and more equality and criticises the World Bank and IMF for promoting liberalisation measures in unconditional ways. He explicitly acknowledges that his analysis accords partly with that of Karl Marx by arguing that the lack of the formalisation of property causes class differentiation within and between societies (De Soto 2000: 212-215). At the same time his ideas accord with those who propagate pro-globalisation policies and who argue for less state influence in global development. The poor, according to Hernando de Soto, are suffering not from too much but from too little capitalist globalisation. Because of these contradictory views, De Soto's analysis of the problem of poverty and its solution is attractive to and supported by those who are in favour of globalisation as well by those who belong to the anti-globalisation movement.

### *Microcredit by Muhammad Yunus*

The microcredit approach fits neatly into the neoliberal agenda of state withdrawal and private sector development (Eversole 2004), while at the same time it puts poor people first and appeals to the philosophy of bottom-up participation-oriented movements (Olivier de Sardan 2005). Microcredit approaches replace and react against the dominant top-down approaches of development planning and the ideas on developmental states dominant till the early 1980s. Microcredit approaches bring together hardcore economists and financial people for whom the market is seen as a creator and efficient distributor of wealth, and those hands-on development workers in non-government organisations who strongly support the practice of small-scale activities and believe in the creative agency of the poor themselves. According to

<sup>37</sup> See millennium villages at: <http://www.unmillenniumproject.org/mv/index.htm>

Shakya and Rankin (2008), for the first time in history the neo-liberal agenda of the market could enter the backwaters of the global economy. Along with Hernando De Soto, Muhammad Yunus is seen as one of the 'Third world champions of the small entrepreneur' (ibid: 50). His ideas are heralded by the private sector and the international donor community, as well as by those who work in the NGO sector and grassroots organisations.

#### *The End of Poverty by Jeffrey Sachs*

Ideologically Jeffrey Sachs' ideas appeal to formerly left-wing development activists who claim more solidarity and aid for the South, as well as to conservative politicians and economists who believe in individual freedom, a business approach to development, and the existence of universal management principles. As a neoclassical economist, Sachs argues against central planning, protectionism, self-reliance, and autarchy. At the same time he emphasises the need for more top-down intervention by investing in poor countries and the poor themselves. At the heart of this approach are investment plans made per country, along with a financial plan and management strategy to strengthen the intervention strategy of the donors and local government. The analysis, investment, and management approach to development has proven to be attractive to conservative policy makers and politicians, as well as to entrepreneurs and managers. The integrative characteristic of the approach, the emphasis on the poor themselves, and the strong belief in interventionist strategies appeal to more progressive thinkers, to those who work in NGOs and other grassroots organisations, and to the wider business community. As a result Sach's message, like those of De Soto and Yunus, avoids taking sides in the sharp ideological debates on the causes of poverty and has become popular within a wide diversity of political streams and policy circles.

#### *c. Celebrity endorsement and the marketing of ideas*

The presentation and packaging of the messages contribute in a significant way to the popularity of the three approaches. All three of them provide straightforward solutions packed in a populist style. The way in which the key players operate and make use of publicity, the way they are able to get political backing and engage in alliances with celebrities who appeal to a wider and younger public by emphasising social justice and responsibility help to increase the popularity and impression of reliability of their ideas (Agrawal and Kamakura 1995; Lahusen 1996).

#### *The Informal Sector by Hernando De Soto*

In his writings and speeches De Soto uses clear and concrete examples that are understandable even to those without an economic background. His main examples deal with the consequences of excessive governmental bureaucracy, an issue to which most people in the world can relate. He personalises these examples by explaining in detail how he and his colleagues went about collecting the information on the basis of which they came up with their solution to end poverty. Moreover, he ventures to speak from experience and is able to interweave his own personal history with his message. He presents himself as somebody from the Third World, whose international upbringing has not uprooted him but given him the opportunity to bridge the gap between the poor majority in developing countries and those working in grassroots organisations as well as those who belong to the international policy and political elite who deal with development issues.

His Institute for Liberty and Democracy (ILD) has received support from USAID, the Inter-American Foundation, and various right-wing international sources. His ideas were taken over

by the World Bank and the ILO in their policy documents (Breman 2003: 203). He has been able to draw support from politicians adhering to different ideologies, from liberal politicians such as Bill Clinton to conservative ones such as George Bush sr., while at the same time his views appeal to those policy makers and grass-root development workers who have been in favour of promoting the role of the informal sector through bottom-up approaches.

#### *Microcredit by Muhammad Yunus*

The use of common sense and clear-cut stories partly explains why Yunus' ideas were so easily adopted. Even ordinary people could understand the principle of microcredit through offering group loans. They can even get in on the act themselves at sites like Kiva.org, where they can offer a small loan to a Southern entrepreneur themselves. The ideas and activities of Yunus attracted many who were interested in charity but had become frustrated by the intricacies and inefficiency of the foreign aid sector.

The implicit ideology of the 'rational economic woman' is a strong determinant in many microcredit programmes (Mayoux 1999). Women in microfinance are assumed to be more reliable than men in repayment and better in saving, earning and spending money for household needs. During the 1980s and 1990s NGOs and the gender and development movement promoted microcredit in development programmes as part of a larger gender and emancipation project enabling women to get access to and control over crucial resources such as money, credit, and savings. When microcredit schemes and gender issues became part of mainstream development thinking, microcredit was widely taken to be a feasible development strategy by the larger organisations. The support of politically 'neutral' persons helped to further increase the popularity and legitimacy of the microcredit programmes. In the UK Princess Diana and in the Netherlands crown princess Maxima became major protagonists of microcredit.<sup>38</sup>

#### *The End of Poverty by Jeffrey Sachs*

The argumentation used by Jeffrey Sachs is appealing and attractive. Sachs appeals to the conscience of his audience by presenting a message people *want* to believe in: the end of poverty is really possible and it does not cost more than already promised. Poverty can be solved without the public in the West having to sacrifice their wealth, privileges, and welfare. Of importance is the massive mobilisation of celebrities, which helped Sachs to spread his message to reach people formerly not interested. For celebrities, the cooperation with 'Professor' Sachs and his non-ideological, practical approach offers them the opportunity to buy social prestige and to be philanthropic in an acceptable, intellectual and genuinely alternative way. Sachs is especially popular among charity circles in the American business sector that made money in a globalised market, professionals with an economic or technical background, and also by a larger audience. The Millennium Promise and The Earth Institute at the Columbia University worked together at the millennium villages project to attract donors.<sup>39</sup> He has been most influential due to his close relation with rock star Bono and movie star Angelina Jolie, which made some commentators talk of 'rock star economics' and 'sensational economics for the masses'.

<sup>38</sup> For alliances between celebrities and microcredit or humanitarian work in general see 'Karolina Kurkova, Shakira Honored for Humanitarian Work' *Red Carpet Confidential* 2008.

<sup>39</sup> [http://www.glamour.com.hr/news/index.php?option=com\\_content&task=view&id=69&Itemid=26](http://www.glamour.com.hr/news/index.php?option=com_content&task=view&id=69&Itemid=26), accessed April 18, 2008).  
<sup>39</sup> [www.millenniumvillages.org](http://www.millenniumvillages.org). Previous U.K. Prime Minister Tony Blair, too, proposed a master-plan for Africa in 2005.



## Conclusion

In the previous sections we have shown how the three approaches to poverty alleviation – Microcredit by Muhammad Yunus, Informal Sector by Hernando De Soto, and End of Poverty by Jeffrey Sachs – are to be characterised as ‘magic bullets’ in development that seem to twist empirical reality and ignore certain findings that do not fit their line of reasoning. All of them start from specific assumptions about trajectories of development that are often based on earlier assumptions about how the West developed. These assumptions are often highly questionable, while the bullets also work with outdated notions of development and concepts of reality. They use vague concepts; they reason in terms of dichotomies as representing reality and/or assume the homogeneity of the group of poor. In general, the three bullets ignore the issue of power relations, an issue that has to do with the dependence of the poor on other groups and the need for structural changes, political reforms and an decrease of inequality in society.

The three solutions to poverty presented in this chapter can be traced back partly to earlier theoretical debates on development, having gained popularity as a result of favourable political conditions. Are the magic bullets discussed in this chapter more than old wine in new bottles? Why do topics like the formalisation of property rights, microcredit, poverty traps and stages of development return on the development agenda again? Is this time-span of 20 – 25 years the length of a cycle of ideas and the maximum capacity of development policy memory? If we are inclined to forget previous studies on subjects popular today, how are we able to learn from past mistakes and failures? A sound historical approach towards development and the formation of historical lessons prevents us from too much optimism and helps to avoid disappointments which are in the end more harmful to the poor and to the social commitment of the international community. Viewing the popularity of the three approaches makes one wonder to what extent the belief in magic bullets in development can be seen as an almost religiously-charged alternative towards developmental thinking in a post-modern, post-development, globalized world?

### Teleology

Framed in religious terms, we have studied the worldviews of these magic bullets of development, their articles of faith (their ideological assumptions), their proposed routes to salvation (their solutions), their preachers and missionaries (their key players and protagonists), and the signs of the times (the socio-political climate) which help to make people ready to receive the gospel of salvation from world poverty. Underlying the approaches by De Soto, Yunus and Sachs are basically the same central and basic assumptions, which can probably best be characterised by the following quote of Muhammad Yunus: ‘...the poor [...] are the most determined fighters in the battle to solve the population problem; end illiteracy; and live healthier, better lives. When policy makers finally realise that the poor are their partners, rather than bystanders or enemies, we will progress much faster that we do today.’<sup>40</sup>

All three authors describe the poor as capable agents able to end poverty by themselves, a key assumption behind many entrepreneurial solutions to development. Their optimism is sometimes enlarged to pure populism in statements such as: ‘we need to take the poor seriously’ and ‘they know best’. Although their sympathy for the poor is attractive and positive, it might blind us to the harsh reality poor people live in. This reality is marked by

<sup>40</sup> A quotation of Yunus at cover text *Banker to the Poor* (2003), Amazon.com, retrieved March 3, 2008.

structural inequalities, power differences and a general lack of access to crucial resources. Their problems are not simply to be solved by more market, more empowerment and just being positive about the capacities of the poor, but need unpopular structural solutions. The debates presented on ending poverty thus share a central moral proposition which divides the world into good guys and bad guys; those who believe in the strengths of the poor and those who do not.

Although presented as neutral or non-ideological, the solutions of the three authors adhere essentially to neoliberal solutions to poverty. Shakyia and Rankin (2008) call these the attempts of the neoliberal project to enter the backwaters of the world economy. The ideas of Yunus, De Soto and Sachs grew in popularity during the heydays of Neoliberalism, which superseded the dominant Marxist and top-down approaches of the 1970s and 1980s. The neoliberal ethos of our times needed new deities and rituals to foster its belief in the market, in capitalism and in the entrepreneurial spirit of humanity. These three men were perfect preachers, able to spread the gospel of capitalism to the ends of the world, that more capital, more credit, and more investments will make this world a better place for all of us. It is likely that new preachers and new magic bullets will emerge in the future, when political minds change as a result of the food, credit and energy crises of the early 2000s.

### Popularity

Three interrelated types of reasons make the magic bullets popular and influential: their optimistic content, their political acceptability, and their engagement in new and (un)holy alliances through celebrity endorsement and public-private partnerships. The content of the messages of all three of the magic bullets offers hope rather than pessimism and despair. Their claims to end poverty once and for all are powerful and universalistic, their recipes adhere to common sense ideas, are easy to understand and able to mobilise mass support. Moreover, by combining ‘left’ and ‘right’ political views into their systems they do not alienate anybody for political reasons. They combine pro-capitalist views and views that are critical of the aid industry and some of the excesses of capitalism. In this way – paradoxically – they are able to attract the attention of major propagandists of the free market as well as of those who are more critical of the neo-liberal agenda. As a result, these approaches appeal to people who propagate a neo-liberal agenda, who are business oriented, and to those who are more attracted to anti-globalised views.

Typical of the presentation of a magic bullet is a sense of crisis and urgency. ‘We must do it now, we can do it now’ – if everybody joins the fight, of course. Besides this moral appeal, all of the bullets claim in some way or another to propose a win-win solution and are cost-neutral. Costs, whether social, cultural or financial, are not mentioned, or are presented as within the capacity of current budget lines. We are able to do well and help others without having to make real sacrifices ourselves. That is true magic!

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