Confessions of a Microfinance Heretic.

Hugh Sinclair; San Francisco: Berrett-Koehler Publishers, 2012, 268 pp. $17.00 hb.

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What does it mean to cast oneself as a "heretic" against microfinance? A heretic is an insider dissenting against particular tenets of a faith, thereby challenging the institution built around that faith. But heresy is neither blasphemy – intentional irreverence or insult – nor apostasy – outright renunciation. In this sense, Hugh Sinclair's self-depiction as a "microfinance heretic" is correct: first, because he was once a full believer, but dissented from essential dogmas of microfinance; second, because his dissent aims to reform, not abolish, microfinance; and third, his dissent confronts the microfinance industry, the institution built around the microfinance idea. The book resulting from these acts of heresy, *Confessions of a Microfinance Heretic*, is eminently valuable for the challenge it brings to the multi-billion dollar microfinance industry, but somewhat disappointing – in traditional heretical style – for its ultimate adherence to the basic faith in microfinance. The dogma challenged by Hugh Sinclair is the claim that the global for-profit microfinance industry serves poor people instead of exploiting them; his own claim is that most of the industry is actually built on exploitation (though he says it must not necessarily be so) of poor people. Sinclair thus confronts one of the main received wisdoms of present development orthodoxy.

The author was a banker before starting work for a number of microfinance institutions (MFIs) in the early 2000s, and a few years later moving up into the microfinance investment sector. In the first third of this autobiographically narrated exposé, Sinclair tells how he first noticed the divergence between microfinance rhetoric and reality on the ground, observing that many clients were not poor at all; most clients' microenterprises failed; and the poor rarely saw improvements in their lives, while those providing the loans enjoyed affluent lifestyles. But Sinclair's real story of disillusionment and dissent begins at a microfinance investment fund in the Netherlands, where he believed that his field knowledge about shoddy and exploitative MFIs would help him steer investments away from "bad" MFIs to "good" ones: "Oh, how naïve I was back then," he notes sardonically (67).

The realization, as Sinclair describes it, that corrupt and exploitative (instead of efficient and ethical) lenders attracted microfinance investor capital far more, was a turning point. At a Nigerian MFI which his fund had invested in, Sinclair uncovered interest rate deception, illegal confiscation of client savings, abuse of clients, and overall exploitative lending (up to 144 percent annual interest); when he reported these findings he was shocked that his employer responded by pumping more money in. After a succession of damning rating reports exposed the MFI's odious methods publicly, to his even greater astonishment, a number of major commercial investors poured in further capital. Only a devastating article in the *New York Times* finally made some investors withdraw their funds, for reputational reasons.

Since it took this encounter with (socially) adverse selection for him to begin doubting the microfinance industry, the author of *Confessions* may rightly be accused of excessive naïveté. Journalists, academics, and even former microfinanciers have critically analyzed microfinance for years, even before Malcolm Harper and Thomas Dichter (2007) bundled such voices in a 2007 volume; Heloise Weber's (2002, 2004) pioneering political-economic studies on Bolivian microfinance offered profound early critiques. Milford Bateman's (2010) widely-discussed publications challenged microfinance's flawed economics, and business scholars questioned the notion that entrepreneurialism is innate to poor people (Karnani 2007). Particularly feminist scholarship has long doubted that women would find empowerment through debt (Kabeer 2000; Isserles 2003). More recently, Ananya Roy (2010) showed how microfinance was actively instituted by the World Bank to further its own goals, and Lamia Karim (2011) exposed the oppressive social forces underlying microfinance among women in South Asia.

His prior naïveté notwithstanding, Sinclair now enters the fray as a persuasive narrator with extensive real-life experience and street credibility, a fascinating story to tell, and a knack for writing. The product of his travails is non-academic, neither textbook nor dry critique, and as devastating as entertaining. What the book lacks in analytical depth it makes up in argumentative force. After the introduction, 9 out of 13 chapters are largely a memoir with insider observations from different locations in the microfinance industry (and a range of tangents), chronicling the protagonist's progress from belief to disillusionment to heresy. The 11th and 12th chapters paint a bigger picture, connecting Sinclair's story to the broader problems of global microfinance. The last chapter finally strikes home, tying the bits and pieces together to show how the profit-maximizing microfinance industry, as promoted and molded by the institutions of the Washington Consensus, actually feeds on poverty rather than reduce it. Here Sinclair compares microfinance with a slum: "The idea of a *favela* is to get out of it as soon as possible. The idea of microfinance is to keep people in it as long as possible" (216). Like a *favela*, microfinance promises hope to many, but is a trap for most.

The people believing in and promoting the promise of universal uplift through microfinance Sinclair derides as a "cult" (218), whose members' blindness has allowed corrupt, profiteering, and exploitative actors to infiltrate them. "The microfinance sector was hijacked. What began as an interesting idea soon attracted the vultures. It was too easy to make money" (216). The "hijackers" in Sinclair's story are the MFIs and the investment funds supplying them with capital, who transformed the sector to serve their own interests. His heresy therefore targets the institutions built around the faith (the microfinance industry) and not the faith itself, and his argument is strongest where it attacks these institutions, but weakest where it seeks to paper over the problems with the faith itself.

Sinclair's theoretical contribution to a critique of microfinance is to show how incentives in the microfinance industry are structured to drive a wedge between the social ambitions of (some) investors and those of poor borrowers; a newer issue among the reasons why microfinance cannot keep its promises of poverty reduction, but an increasingly central one since the microfinance mainstream transformed from an NGO operation into a fully-fledged for-profit financial sub-industry. Let us call the resulting issue the "problem of industry structure." Between microfinance investors and borrowers sits the microfinance industry, which controls the flows of both capital and information, and which (to simplify) consists of two actor types: MFIs and funds. For MFIs, their only source of revenue is the clients, who pay interest and (often deliberately-hidden) fees on their loans. Rather than engage in costly screening of clients, it is easier for MFIs to charge excessive interest rates to everyone, and thereby absorb losses on bad lending. Furthermore, instead of writing off failing loans, MFIs often indefinitely postpone defaults via replacement loans, feeding debt traps which borrowers become entangled in and "rewarding" the least-suitable borrowers with more loans. The second set of actors, the investment funds, needs MFIs to invest in which promise an assured return. For the funds' own fees and investors' tastes to be satisfied, this return need not be particularly high, but funds (like MFIs) also find it costly and difficult to adequately screen for the right partners. Therefore, their easiest and safest bet is to give money to the MFIs with the highest financial returns, preferably ones which other funds have already invested in (the herd instinct).

The losers in this scheme are of course the poor, who pay excessive interest rates – suffering business failure, overindebtedness, worsening poverty, and abusive lending – as well as the original investors and donors, who are duped. The industry, with its control over information about microfinance (from photos, essays, and client stories to pseudo "self-regulation" initiatives like the "SMART campaign"), keeps investors in the dark about the bizarre ground realities. Sinclair's book therefore mainly addresses small-time microfinance believers, challenging them to ask tough questions and check whether their money (aid dollars or private investments) is really doing any good. Yet herein lies the main shortcoming of Sinclair's framework: he never wonders whether a credit relationship between rich investors and poor borrowers can be expected to benefit the latter. Rather, he assumes that the twisted incentives of the microfinance industry, which he powerfully, originally, and convincingly reveals, are the main problem, and that the interests of rich and poor could theoretically be aligned in a hypothetical "proper" microfinance; a microfinance which would distribute adequate gains to all involved. The underlying issue of microfinance nurturing a delusion of poverty relief being best organized in a manner both palatable to and profitable for the wealthy remains unaddressed.

Unsurprisingly therefore – yet frustratingly after his scarring critique of the industry – the author maintains that "the debate is not whether microfinance works, but how the inherent conflicts of interest can be managed" (224). The final pages are dedicated to strategies for separating the wheat from the chaff, offering a motley list of suggestions ranging from sensible to bizarre; sometimes contradictory. In an orthodox take on the principal-agent problem, Sinclair suggests that owner-operated microfinance networks could solve the incentives problem, though – granted – not necessarily reduce harm to the poor. His main advice to investors is to "ask annoying questions" (226); the assumption again being that their motive is to uplift poor people, not earn high returns. Yet he also suggests that "simply throwing money out of the window of an airplane" (233) may have greater impact than microfinance investments. Above all, Sinclair proposes that most abuse and harm could be prevented via tight regulation of microfinance, based on tools like complaints procedures, transparency requirements, and credit bureaus, and also less-orthodox means like interest-rate caps. Yet whither these efforts to fix the broken promise? The reader is left hanging with the question of who, apart from the microfinance industry itself, actually needs it.

Others have launched more fundamental and principled critical investigations into microfinance before Sinclair, who remains heretic, not atheist. Nevertheless, his forceful and vivid exposition of the microfinance industry's exploitative inner structure is highly important for the support it lends to more radical criticism aimed at deconstructing the powerful narratives of a "panacea for poverty"; or failing that, as the World Bank (2012) now maintains, at least an indispensable tool for bringing "financial inclusion" to the poor (no doubt the most urgent need among families worried about their next meal). As a readable autobiographical tale, *Confessions* is the first book exposing mass audiences to the dark sides of microfinance, which is invaluable for prompting long-overdue public questioning of whether purveying debt via an extension of Wall Street-style finance into the slums and villages of the Global South really represents a solution to poverty.

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Offshore: Tax Havens and the Rule of Global Crime.

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From my personal experience when presenting conference papers on this topic, people often are familiar with tax havens only through the superficial descriptions provided in the popular media. As such, the publication of a new book on the subject offers the opportunity to correct misconceptions, clarify the inter-jurisdictional complexities, and suggest avenues toward a resolution for disagreements among sovereign states. While this text does not necessarily provide a corrective to popular misconceptions, it does offer a useful sociological perspective on the topic of tax havens and the offshore dimension of international politics. Alain Deneault, co-author of *Noir Canada: Pillage, Corruption et Criminalité en Afrique*, is Assistant Professor of Sociology at the University of Québec at Montréal and with this book attempts to highlight a need for critical thinkers to engage with what he names as the "offshore problem" (x). Unfortunately, in my view the author's enthusiasm to address and correct what he finds to be a fundamental problem in the global political economy is weakened by the structure and method used in its presentation. This book is only lightly referenced, which may frustrate the reader eager to pursue the subject further (in either the original French or in English). As an international relations scholar I am disappointed by the loose treatment of state sovereignty and its role in not only the production of the offshore dimension and tax havens, but also its role as a structural constraint for international financial regulation and any multilateral effort to address the problems they create. It simply may have been a matter of timing in the publishing cycle; however, the international political economy approach of Palan *et al.* (2010) may have provided the author with additional insight in the structural role of state sovereignty for the existence of tax havens and the offshore. And in the view of a number of observers of the offshore phenomenon in world politics today it is state sovereignty that presents a major barrier to effective international action against tax havens.

This text would benefit from an introductory overview to guide the reader through its argument and the path taken in subsequent chapters to develop that argument. In doing so the author also could have situated this argument in the literature on neoliberalism (e.g. Harvey 2007a, 2007b), the transnational capitalist class (e.g. van der Pijl 1998; Sklair 2001), and the concept of the corporation as a legal person (e.g. Picciotto 1999, 2007, 2011). The author's concern over the consequences from the existence of offshore and tax havens exists in the realm created in various ways