

The Myth of Microloans

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The committee that gave Henry Kissinger the Nobel Peace Prize has given it this year to Muhammad Yunus, the economist who put the word “microloan” on the map with the *Grameen Bank* in his native land of Bangladesh. That’s progress of a sort. But in terms of hot air, any sentences linking “peace” with “Henry Kissinger” aren’t immeasurably more vacuous than the notion that microloans can help—to use the language of the Nobel Committee’s citation—“large population groups find ways in which to break out of poverty.”

Throughout the late 1980s and ’90s, in the verbal currency of First World do-gooders, “microloans” became one of those magically fungible words, embedded in a thousand foundation and NGO annual reports, like “sustainable.” What could be more virtuous in terms of prudent philanthropy than giving very small loans to very poor women? Microloans breathe healthful uplift, as divorced from the sordid world of megaloads as are microbrews from Budweiser.

The trouble is that microloans don’t make any sort of a macro-difference. They have helped some poor women, no doubt about it. But in their own way they’re a *register of defeat*. Back in the early 1970s there were huge plans afoot to change the entire relationship of the Third to the First World, to speed Third World economies toward decent living standards for the many, not just the few. At the United Nations radical economists were hard at work drafting plans for a New World Economic Order. All that went out the window, and here are the caring classes thirty years later, hailing microloans.

Microloans are micro-Band-Aids in a scale of things where— to take the example of India—well over 100,000 farmers, including a large number of women, have killed themselves because their federal and state governments, plus large international institutions, have promoted the savage priorities of neoliberalism.

As economist Robert Pollin of UMass-Amherst put it pithily when I asked him what he thought of the award to Yunus, “Bangladesh and Bolivia are two countries widely recognized for having the most successful microcredit programs in the world. They also remain two of the poorest countries in the world.”

In the 2005 development stats Bangladesh ranked 139th, worse than India, with 49.8 percent of its population of 137 million below the official poverty line. In the homeland of the *Grameen Bank*, about 80 percent of the people live on less than \$2 a day. A UN Development Program study in the early 1990s showed that the total microcredits in Bangladesh constituted 0.6 percent of total credit in the country. Hardly a transformation.

Against this backdrop, what have microloans achieved, I asked P Sainath, India's widely acknowledged journalist on rural destitution and the consequences of economic policy. Yes, he said, micro-loans can be a legitimate tool in certain conditions, as long as you don't elevate the tool into a gigantic weapon. No one was ever liberated by being placed in debt. That said, a lot of poor women have eased their lives by using microloans, bypassing bank bureaucracies and moneylenders.

But today the World Bank and the IMF, along with state-owned and commercial banks, are diving into microfinance. The microloan business is fast becoming a gigantic empire, bringing back into control the very banks and bureaucracies women have been trying to bypass. Sainath points out that the interest rates micro-indebted women are paying in India are far higher than commercial bank lending rates. "They are paying between 24 and 36 percent on loans for productive expenditures, while an upper-class person can finance the purchase of a Mercedes at 6 to 8 percent from the banking system."

The average loan of the *Grameen Bank* is \$130 in Bangladesh, less in India. Now, the basic problem of the poor in both countries is landlessness, lack of assets. In the Indian province of Andhra Pradesh, where there are thousands of microloan groups, land costs 100,000 rupees an acre, poor land maybe 60,000 rupees—more than \$2,000. So \$130 doesn't buy you the ranch, not even a good cow or buffalo. How many poor women have escaped the poverty trap in AP, Sainath asks. "Try getting an answer." After recent floods in AP, journalists came to a village where everything had been washed away. The first people back in were the microcreditors "demanding monthly installments from women who had lost everything." Governments like microloans because they allow them to abdicate their most basic responsibilities to poor citizens. Microloans make the market a god.

Let's suppose USAID or some kindred agency decides to put \$10 million into microloans. What used to be an initiative of a group of women at the village level has become a high-profile international funding activity. Long before the first rupee is seen by women in a village, NGOs, consultants, bank managers and their relatives have all taken their cut. By the time the loan gets to the women in the village the cost is prohibitive, with the very poor and women of low caste often excluded. On top of this, some revolving-fund models require each woman to put in a rupee a day. But often women don't have a rupee a day, so they go to the local moneylender to be able to repay the microloan.

As Sainath says, microlending can be a useful tool, but it should not be romanticized as some sort of transformational activity. On that plane it's useless. By contrast, as Bob Pollin stresses, "the East Asian Tigers, like South Korea and Taiwan, relied for a generation on massive, publicly subsidized credit programs to support manufacturing and exports. They are now approaching West European living standards. Poor countries need to adapt the East Asian macrocredit model to promote not simply exports but land reform, marketing cooperatives, a functioning infrastructure and, most of all, decent jobs."

The trouble with publicly subsidized credit programs is that they're public and they're large and they run contrary to the neoliberal creed. That's why Yunus got his Nobel Prize, whereas radical land reformers get a bullet in the back of the head. ~~██████~~

—[Courtesy: *The Nation*]