

FADING MYTH

“Demystifying Micro-Credit”

[Sonja Ernst spoke with Farooque Chowdhury, editor, ‘Micro Credit Myth Manufactured, Unveiling appropriation of surplus value and an icon’ about micro finance. Excerpts:]

Sonja Ernst: The Bangladeshi economist Muhammad Yunus invented microcredits in the 1970s. Poor people who do not normally qualify for traditional banking credits get offered small loans to spur entrepreneurship. Microcredits got very popular—not only in Bangladesh—as an instrument to reduce poverty. In 2006 the Grameen Bank and its founder Yunus received the Nobel Peace Prize. Was there too much hope and hype about microloans?

Farooque Chowdhury: Yes. There was too much hoopla with microcredit. Mainstream made the hype.

The present system is failing to resolve the problem of poverty, which is, rather, widening. The poverty situation is a threat to status quo. Microcredit, in this perspective, appeared to the mainstream a safety valve, a mechanism to restrain poor from questioning the status quo that fails to address the problem of poverty.

At the same time, with microcredit, a section of capital found a way to invest capital in an area once beyond its reach, a new market for reaping profit, a modus operandi to appropriate surplus value. The microcredit activities that we now see are actually an experiment for a section of capital. A number of the biggest and wealthiest banks, it was reported, were “dipping their toes into the water.”

But microcredit activities need reliable answers to many questions before the banks step in the market. For example, amount of operating cost, competition between microcredit operators, viability with debtors’ declining capacity, risk of a credit bubble, and many similar questions are there that require reliable answer. It was primarily assumed by a section that microcredit was working. Moreover, the neoliberal idea of shaking off state’s responsibility, especially throwing away the responsibility of providing employment, carries the risk of taking away legitimacy of status quo. Microcredit stepped in in these problem areas.

But fundamental questions related to microcredit are not asked by mainstream. The root of poverty, the source of money that a microcredit (MC) debtor pays back, an MC debtor’s length of working day for making repayment, the related intensity, labor-power of his family that are needed to generate repayment amount, negotiating capacity and bargaining space of an MC debtor as the debtor enters into a contract with an MC creditor, MC debtor’s rights, of household-based production or service units competing with each other in a macro market with macro competitors in an environment of so-called “free” market, and similar other basic questions are not attended by mainstream. The hype is the shroud to hide these questions.

There are people, many in this world, who are in pain as they come across the cruel face of poverty. Microcredit appeared to them as a hope. That was not their fault. Rather, the hope was the reflection of their urge to get rid of the curse of poverty.

But now, it is turning difficult to hide facts. The hype is fading away.

SE: In Bangladesh more than 20 million people borrow microloans, the average credit is 114 \$. Could you please describe us the “standard borrower” in Bangladesh and for what he/she is usually using the loan.

FC: The “standard borrower” is the poor, the assetless. On the basis of different studies it can also be said that it is the poor who resort to microcredit. A section of microcredit operators, however, are moving up to that segment, which is not poor. It should be mentioned that Grameen Bank, BRAC, ASA are not the only microcredit operators in Bangladesh. There are many MC operators, different in size and capacity. With a growing number of microcredit operators the size of lending increased as well. There are cases where rural rich tap microcredit. It was found by studies that microcredit goes to those who are not destitute. But still it is the poor who are the “standard borrower”.

With about a hundred dollars what else can be done other than initiating a petty production unit or a petty service unit? For example, a small sewing room or a shop. A number of studies have found that the borrowed money is used to attend to immediate need that is buy food, pay dowry, repay an old debt, etc. It is a contradiction: a poor fellow is being asked to invest borrowed money in a microenterprise while the fellow needs money to procure food immediately or to pay for medical treatment. An article in the Harvard Business Review stated in 2007 that “Many heads of microfinance programs now privately acknowledge what John Hatch, the founder of FINCA International (one of the largest microfinance institutions), has said publicly: 90 percent of micro-loans are used to finance current consumption rather than to fuel enterprise.”

SE: In Bangladesh most of the microcredits are given to women. Microcredits are considered to empower women. Would you agree?

FC: A number of studies have found the opposite. Here I refer only one: Lamia Karim in her study found: “In the majority of the cases, the husbands and male kin of the women [debtors] used the loans.” She writes: “[I]t is the husbands of the women and other male members who really use the loans....I found that men used 95 percent of the loans.” (“Demystifying Micro-Credit, The Grameen Bank, NGOs, and Neoliberalism in Bangladesh”, University of Oregon, USA) She quotes: “Now Grameen lends money to husbands, but only through the wives. The principal borrower remains the wives.” (Yunus, Muhammad and Alan Jolis, 1998, Banker to the Poor: Micro-Lending and the Battle Against World Poverty, University Press Ltd., Dhaka quoted in Karim) “In my research area,” Lamia writes, “rural men laughed when they were asked whether the money belonged to their wives. They pointedly remarked that ‘since their wives belong to them, the money rightfully belongs to them’”

SE: The media increasingly reports about borrowers which are overin-debted and cannot pay back their loans. What went wrong in these cases?

FC: There are a number of reasons, and there are fundamental reasons behind apparent reasons. Either the micro-production/service unit failed to compete in market or the debtor had to face natural calamity or a family crisis or the borrowed money was spent to buy food or pay dowry or the return was not enough to pay instalment of the loan; and so on.

The question is: why a family crisis or a natural disaster makes a poor debtor incapable of paying back debt and why a non-poor does not fail in similar situation? Or, why a micro-unit fails in a macro market? Similar questions will lead to an answer that will show that everyone is not entrepreneur, competing in market is not always the survival path of poor.

Is it logical to expect that the poor will have enough return from market after competing with macro-competitors while the entire existence of the poor is a vulnerable reality, a fragile reality?

SE: What happens if a family cannot pay back the loan?

FC: A number of studies have already mentioned the reality an MC debtor faces as the debtor fails to pay back debt. The debtor has either to borrow money again thus the debtor gets entrapped into a debt cycle or sale whatever the debtor finds saleable to pay back the earlier debt or the debtor has to face other consequences: pressure/threat/coercion/humiliation. Some desert or commit suicide as a number of studies found. There are press reports also that tell the reality.

You have to know that in Bangladesh many MCs are group-based. This has been noted by Lamia Karim in her study: "Women would march off together to scold the defaulting woman, shame her or her husband in a public place, and when she could not pay the full amount of the instalment, go through her possessions and take away whatever they could sell off to recover the defaulted sum.... This ranged from taking away her gold nose-ring (a symbol of marital status for rural women...) to cows and chicks to trees that had been planted to be sold as timber to collecting rice and grains that the family had accumulated as food, very often leaving the family with no food whatsoever." Aminur Rahman in his study *Women and Microcredit in Rural Bangladesh, Anthropological Study of the Rhetoric and Realities of Grameen Bank Lending* (Westview Press, Colorado and Oxford), David Hulme and Paul Mosley in their *Finance Against Poverty* (vol. I, Routledge, London and New York, 1996), Richard Montgomery in his paper "Disciplining or Protecting the Poor? Avoiding the Social Costs of Peer Pressure in Solidarity Group Microcredit Schemes" (1995) cited the harsh reality of failure to pay back loan.

SE: Bangladesh is the birthplace of the global microcredit movement. You contributed to and edited the book *Micro Credit – Myth Manufactured, Unveiling appropriation of surplus value and an Icon*. What kind of myth is behind microcredits?

FC: There are a number of myths that has been built around microcredit. It was told that it would make poverty archaic. It is being told that it is collateral free, it empowers women, it empowers poor, it pushes out moneylenders.

A number of studies now find different facts. In Senegal and Uganda, no clear evidence of poverty reduction by microcredit was found ("Microcredit, Social Capital and Politics", *Journal of Microfinance*, vol. VII, (1), 2005). Findings from other countries also are not positive. Findings by Jonathan Morduch ("Does Microfinance Really Help the Poor? New Evidence from Flagship Programs in Bangladesh", MacArthur Network, Princeton University, 1998), Anne Marrie Goetz and Rina Sen Gupta ("Who Takes the Credit? Gender, Power and Control over Loan Use in Rural Credit Programmes in Bangladesh", *World Development*, vol. 24(1), 1996), Blaine Stephens and Hind Tazi ("Performance and Transparency: A Survey of Microfinance in South Asia", *Microbanking Bulletin*, April, 2006) do not support claims made by the microcreditors.

A number of experts are also telling the bold fact: Dr Qazi Kholikuzzaman Ahmad, chairman of PKSF, a central body monitoring microfinance in Bangladesh, said that the poor were being exploited under microcredit. He opined that the poverty-stricken people of Bangladesh suffered a lot from high rate of interest for borrowing from microcredit agencies. Furthermore Qazi Kholikuzzaman Ahmad described microcredit as a "death trap" for poor. Dr Salehuddin Ahmed, former Bangladesh Bank, the central bank of the country, governor stated that microcredit was not the panacea for poverty alleviation. "It is not Aladin's lamp with which one could alleviate poverty." (*The Independent*, Dhaka, Dec. 28, 2010)

Microcredit makes some more claims. There is a myth with high, very high repayment rate. We now know the "mechanism" behind this "high" return, pressure and dehumanization. There is the myth of bank at the door step, but mostly there is no real consulting. Even, the philosophy behind microcredit is a myth itself. The approach that avoids class question while dealing with the question of poverty is myth. The title of the book you have mentioned discusses these myths.

SE: Muhammad Yunus as well criticizes many institutions that give microcredits as "the new loan sharks" and asks for more regulation. The government of Bangladesh decided to cap during the next months the interest rates for microcredits at 27 percent. Will such regulatory instruments bring about a solution?

FC: Muhammad Yunus is willing to admit, 'microcredit cannot solve society's every problem' as Mark Engler, a senior analyst with Foreign Policy in Focus has written. Now, failure of microcredit in alleviating poverty is increasingly being told by many others. The debate seems almost finished.

Rate of interest is a major problem with microcredit. But, it is not the only problem. The rate should be taken into account. But, a scientific approach is first to look into the source of interest. There, the MC debtor comes, comes the appropriation of surplus value. Otherwise, looking only at rate might lead to a confusing conclusion and the MC debtor's plight will miss eyes. The regulatory instruments you have mentioned will bring respite to debtors for the time being. But, the problem will not be resolved as the fundamental problem is the reasons behind poverty.

Microcredit is part of a process, which should not be personified. Singling out organization or individual will not help understand the process and its failure, will not help analyze it scientifically. Blaming an individual will hide the perspective, the reality that pushed dominant interest to generate microcredit, the process, the capital involved, the institution microcredit has taken shape of, the interests, the relationship between related social classes, the distortion of concept of rights, etc.

SE: Even if microcredits are imperfect, poor people need to get loans to buy a cow or to pay for medical care. The traditional moneylender in the villages are not an alternative, they take interest rates of 120 per cent and more. What can be the alternative?

FC: Why we always imagine that the poor has to survive by borrowing, by turning debtor? Why not we think about a different context, where the poor need not borrow, where credit will not be considered as human right, rather bondage, where to be free from debt will be considered a human right? Why we always have a constant premise where the poor has to turn debtor? Can't the premise be changed where the poor does not need to turn debtor?

Turning debtor is not the alternative; rather, turning the poor a debtor is actually business as usual, it is actually, to let the poor live as poor with some breathing space so that the lot of poor does not change fundamentally.

Problem with microcredit is not only its interest rate. And, the question is not only the survival of the poor. The question is to have an economy where none languishes with yoke of poverty, where none is indebted to a destiny dominated by hunger, ignorance, disparity, uncertainty, no space for participation, long working days, etc. Moreover, it is not a question to be addressed on individual basis, on household basis. It is a question related to politics along with economy and society, along with entire equation of social forces. Poverty is not only an economic question; it is a political question also. An alternative, as you ask, has to be searched in this perspective. □□□