

NOTE

‘The Beauty of Microfinance’

Bharat Jhunjunwala writes :

THE GOVERNMENT IS MAKING efforts to improve access to microfinance by the poor through Self-Help Groups of women. This is thought to provide financial independence to women and also improve the economic condition of their families. Mr Mohammad Yunus of Grameen Bank of Bangladesh was given the Nobel Peace Prize for reaching microfinance to more than 40 lac families constituting about 15 percent of the population of that country.

Experts say, however, that microfinance is not leading to much improvement in the conditions of the poor people. Economist Farooque Chaudhury of Bangladesh writes in an article in *The Nation* that the wage rate for the agricultural labour increased from Rs 20 in 1984 to Rs 28 in 2003—an increase of about two percent per year. Bangladesh continues to be counted among the poorest of countries. The situation in India is no different. This writer had opportunity to study the impact of microfinance in many states of India and found the condition of those taking loans to be generally worse than those not taking loans. In one study in Gulbarga District of Karnataka comparison was made of the incomes of people from two villages—one with many Self-Help Groups and other with none. The incomes of the villagers without Self-Help Groups were higher.

The microfinance movement is suspect because virtually no discussion is made of the rate of profit on the deployed loans. It is implicitly assumed that the rate of profit will be higher than the rate of interest. But this assumption has no basis whatsoever. Rather it is seen that people in the villages often deposit their savings at low rates of interest of about 5-7 percent in Fixed Deposits with the banks. They would scarcely do so if they could earn more than 30 percent from the same money by opening a shop or establishing a mini rice mill. It is also seen that the price of many items produced by the poor such as paper envelopes, candles, buttermilk and vegetables is falling. The microfinance movement becomes an instrument of expansion of poverty in this background of declining prices and rates of profit. The poor become poorer because they have to pay out a part of their meagre earnings as interest to the banks. Thus Mr Mohammed Yunus and Dr Manmohan Singh both do not talk about the prices of commodities made by the poor.

Some evidence of the negative impact of microfinance is available. Mr Taj Hashmi, a fellow student of Mr Yunus writes : “I personally know Mr Yunus since our Chittagong University days. He is not the type who would make money by this project. So where is the problem? I was a big admirer of Grameen Bank. In 1996 I spent a few months in Bangladeshi villages examining the impact of NGOs on the poor villagers. Later in 2002 I spent two months in villages in Comilla, Sylhet and Dhaka districts with my students as their supervisor. My students without my

prompting all told me that they found non-Grameen villagers were much better off than those taking Grameen loans. Some villagers proudly asserted: Sir, we did not allow Grameen to open its branch in our village. As a result we are much better off than some neighbours.” The reason is that the income of the milkman who takes loan is less than one who does not do so. The borrower milkman has to pay interest out of his meagre earnings while the non-borrower retains all of his income. Since both undertake the same business with same technology in the same market, the price received by the two is same and the non-borrower is better off. The problem of microfinance is that attention is given only to the lending and not to the establishment of profitable businesses. The borrower and the non-borrower compete with each other in the same market and the non-borrower emerges winner because he does not have to pay interest.

The beauty of microfinance is that it sucks out the income of the poor without causing much pain. Rather the poor thanks the lender for impoverishing him. Just as the drunkard thanks one who lends him money for buying a bottle of liquor or just as the bonded labour thanks the moneylender for giving him a loan, similarly the members of Self-Help Groups thank the microfinance institutions for providing loans. They forget that the same institution is also taking away their incomes.

Governments of India and Bangladesh and foreign donors promote microfinance because this movement is successful in pacifying the poor into believing that the government is trying to do something to improve their conditions. □□□