

Micro Credit & Micro Finance Issues

Response to Betsy Bowman and Bob Stone's Article on Microcredit

by Bob and Sue Leonard

A few weeks ago, an article was written, "Can Grameen Bank-style Microcredit Eliminate Poverty?" As an international development professional for eighteen years, there are several things in the article I must take issue with. The first is with the title. In spite of what the Grameen founder, Muhammad Yunus said, no seasoned development practitioner would dare to say that microcredit or any other of the many disciplines (including co-ops and micro-finance) can cure poverty. Poverty is so multi-causal, so entrenched, so complicated and so age old that even to suggest that one mode of development can cure the problem is overly simplistic. One has to forgive Yunus for his statement, "If we can come up with a system which allows everybody access to credit while ensuring excellent repayment, I can give you a guarantee that poverty will not last long." Poverty has been with us since time began, and to bring the world out of poverty is a task so complicated and so immense that it defies explanations – certainly by me. I take Yunus's statement as a natural expression of someone who passionately believes in what he is doing and nothing more. So let us lay that one to rest.

The second issue is that the authors appear to be talking about a utopian world where cooperatives replace individual businesses, and that anything to do with private enterprise is simply feeding the neo-liberalistic economy driven by the U.S. It appears the paper is trying to discredit one development model so that another model, cooperatives, will look better or even seem to be the only way to attack the horrific problem of poverty. It also seems that the paper is part of an attempt to bring down one system, neo-liberalism and replace it with something else; and to accomplish this, all institutions and projects that work to improve the present system go on the chopping block. Unfortunately, in the development profession, we don't have that luxury. We have to work within the system, regardless of what country we are in. More than half the world's population lives on less than two dollars per day. That's close to three billion people who desperately need action – now. I praise the authors for trying to change a system that desperately needs changing, and urge them forward with their challenges to the system. Others, however, work to change the system, but in a different way. We work within the system, and while performing that work, many things are changed.

Our focus is on assisting people to take control of their lives and rise above the level of their poverty in countries that have dictators, parliaments that pass laws that nobody knows about, or obeys, where the police are there only to protect the ruling elite, and where communities have no say as to where their schools or clinics will be built. In those countries, people are suffering, and we have to act with whatever tools are available. However, because we use a process that promotes open participation, transparency and accountability and that leads to group solidarity and strong commitments to complete projects to better people's lives, we are indirectly changing the system. People form groups and committees, and they in turn form clusters with other villages and become strong advocates to local government for change. We have seen wonderful examples where villages and government even work hand in hand in open participation for regional planning where before it was totally a distrustful government telling communities what to do. When I visit villages during evaluation assignments where they have gone through a community development process, I hear the excitement over and over from both men and women, "This is the beginning of democracy."

Development organizations are also encouraging and assisting people and villages all over the world to set up cooperatives. As with everything, there are both successes and failures. Rule number one for any economic venture: make sure there is a real need, and don't set it up just so people can get together. It may seem that getting people together is going to make things better, but this is not necessarily true when you are talking about an individual's livelihood, particularly with farmers who are, on the whole, very individualistic. If the community is dealing with a middle man situation and

there is plenty of competition among the middle men, the rate they charge can be quite low. Cooperatives require much work, and often, if very little is saved, after a few months people lose interest and begin saying it not worth the effort. Often quarrels break out, and the organization begins to fall apart. This is very similar to any other non-profit organization. On the other hand, if the middle man has no competition and is ripping off the people, then a cooperative could be just the thing. There are, of course, a host of other examples where cooperatives are successful. The other issue is that a cooperative should be run just like any other business. There are several guiding principles: to know the market and enable the cooperative to be market not product driven (too many fail because their focus is on a product which may not sell); open and accurate financial records; careful planning; and finally, good management.

Cooperatives are wonderful when they work, and I cheer when I see a cooperative set up and become successful. I would much prefer that to individual or partnership businesses. Some people prefer to work with a group, while others prefer working as individuals. Individuals will join a cooperative if it meets their economic needs. As with all development, it is important that the community shows the initial interest in setting up a cooperative, and that it is not something that is pushed on them from the outside. People need to feel a strong sense of ownership for the project to be successful. It has to be their project not that of some outside organization. The ejido system of land ownership in Mexico seems to be a wonderful opportunity for cooperative development. I say this even though I have never done development work in Mexico. Successful development interventions attempt to initiate projects that meet the needs of the people, or saying it another way - - to make it work, make the intervention sustainable with *measurable results*. Making it work is the most challenging task imaginable, whatever the model.

The term neo-liberalism is frequently used by the authors as the antithesis of a good economic system. The term is mainly used in Latin American and is rarely used in the United States. Very few people in the States have ever heard the expression. The IMF, which is the bastion of this trend, never uses the term. The term was stuck on developments in market economics which put more emphasis on free trade (which is thousands of years old), free capital markets and monetarism in addition to a balanced budget (pretty much of a joke in the U.S.). The point is that even though the U.S. has been in this mode for many years, other countries, Europe and elsewhere, have a more traditional view of economics and seek much more economic control and social reform within their own governments; however, they are still capitalist and still face all of its unique challenges of the market economy.

One of the key ingredients in making an economic system function is credit, particularly for the rural poor. Regardless of what we think of the economic system one is living under or whether you are acting as an individual or cooperative, except in communist systems, access to credit is essential in order to move out of poverty. In most all developing countries, poor and even fairly well to do farmers have little access to credit. Banks, which are often controlled by international corporations, have little interest in rural development. It is, at least as they see it, not cost effective. Unfortunately, local banks behave and act in the same way – basically they are not interested in small loans or in serving the poor.

So let's talk about microcredit. In this paper I am using the term microcredit to refer to all micro lending programs and am not making a distinction between the various forms. Whether one is dealing with neo-liberalism or some form of social capitalism, microcredit projects are enthusiastically endorsed, promoted and funded by almost all the European countries as well as Japan and Australia and are mostly implemented by dedicated non-profit organizations with totally committed and highly trained staff.

Microcredit does have a negative side. Because it has become so popular, there has been a rush to get into the act, and there are some institutions that come into a village, organize a few people into groups, loan them money and then pretty much leave. As the article pointed out, there also are commercial

firms coming into play, where before it was only non-profits that were implementing programs. Some firms do charge unduly high rates. These practices are not acceptable. But don't judge the industry by the misdeeds of the few. The ones I have experienced and studied operate quite differently. Another hazard for microcredit programs occurs as they become successful and popular with the population and come to be seen as a threat to government. This is true of much of development and needs to be dealt with carefully.

The first key to success is to only form groups that have a real desire to start some kind of a business and to better their lives. The second thing is that the group must have a sense of solidarity. The third element, and this is vital, is that they go through a series of trainings in basic business practices, elementary bookkeeping, marketing among other issues. Fourthly, the really good ones encourage people to produce something whether it is buying cows, pigs, chickens, sewing machines or new brands of seeds and fertilizers. An example is a widow in Cambodia who is very poor in money and status and must wait to the end of the planting season to have her rice field plowed because she lacks resources. Her crop will be poor because of her late planting. By receiving a loan of a draft animal, (oxen) she can now plow her own field early. She then hires the animal out to other farmers and receives income from that source. She receives a female who will produce an offspring which she returns to the animal bank and she can keep subsequent offspring. You may say that her owning a draft animal will only make other draft animal owners poorer, but the reality is that anyone who owns a draft animal is considered rich. The fifth point for successful microcredit is constant follow up by the microcredit field people.

Interest by our standards is quite high, 3-4% per month, but this is necessary for several reasons. It costs just about as much to make a \$100,000 loan as a \$50 loan, and that's why you pay much more for a small personal loan than a large commercial one. Also, microcredit is very labor intensive, requiring weekly visits to villages by field staff in addition to the time required for training. Local staff of non profit international microcredit organizations (such as Save the Children, Oxfam, and Mercy Corps) are trained to lead and manage the credit program allowing them to ultimately assume responsibility for the program thereby enabling it to become an established ongoing financial resource for the poor in the area. The program's financial resources are turned over to this grass roots financial organization (new NGO) thereby ensuring that credit will be available into the future. The interest rate insures sustainability for 10 to 20 years and more. Most development practitioners will agree that when done by a professional non-profit organization, microcredit is one of the real success stories in development. No, you don't automatically bring people out of poverty, but you give many people a chance to rise above hopelessness and despair. When you go from village to village and interview people, hear their success stories and feel their excitement, you become a believer.

The above mentioned paper reads regarding microcredit, "- - - a neo-liberal shift of responsibility from collective action on social structures to the backs of individuals in poverty." If one examines the reality in developing countries, the immediate realization is that there already is not enough collective structure where people are collaborating together to improve their villages or to form organizations to increase income for the whole. The first axiom of development is to bring people together, brainstorm ideas and come up with group decisions, planning and project implementation. Microcredit, rather than splitting people apart, brings them together, where they can more effectively take charge of their lives. It is also an excellent way to start other projects such as health, education and even cooperatives. It builds social capital. The other element - bringing women together is to see them take control of their lives, to feel powerful and to make things happen. Some microcredit practitioners feel this could be its most important aspect. Sure, there are cases of husbands taking the money or that money is borrowed to pay back a loan, or that money is used to buy food, but these cases are so rare in professionally run projects that they are hardly worth mentioning. Remember, the women (and men) are trained and are

made aware of these practices, and because a tight bond is usually developed between members of the group, the group protects and supports its members.

The article also mentions the women's association in India where members are given microcredit but also are trained including political organizing, training in leadership, business skills and project assistance. This is also common practice by development organizations and is seen throughout the developing world. They also train in management and planning, preventive and primary health care, HIV/AIDS and modern farming techniques.

Finally, interested people in San Miguel should visit the various villages where the local chapter of Save the Children (a non profit) has implemented microcredit to over three hundred people. They would be able to meet with the groups and hear their stories. I think they would come away convinced that microcredit is one of the most powerful development initiatives available.