



Ruth Dickinson investigates the growing phenomenon of microfinance and asks, 'Are loans really the way out of poverty?'

Forever **indebted?**

In 2006, a relatively unknown financier named Muhammad Yunus was awarded the Nobel Peace Prize. It sparked some controversy at the time – what contribution had this banker made towards world peace? Was he really in league with Nelson Mandela and the Dalai Lama?

Yunus founded Grameen Bank which pioneered microfinance. In basic terms – microcredit or microloan is the system in which a loan is given to a small group of people in the developing world in order to start a business. The idea is that the loan is then paid back with interest in a series of instalments as the business develops.

The system has grown over the last 30 years to the point where millions of people in the developing world are now subscribed to one scheme or another.

Both big business and western NGOs have invested in such schemes. Charities in particular claim that microcredit helps to empower people, moving away from a 'handout' culture to a 'hand up' culture.

Critics, on the other hand, have trouble squaring the idea of poverty alleviation with accruing debt, and, more

ominously, with corporations which are, directly or indirectly, responsible for much of the world's oppression and poverty.

In light of all the campaigning churches and others have been doing in the last ten years to drop the debts of developing countries, isn't there a slight incongruity in then supporting schemes whereby they are once more indebted to the west, however altruistic the motives?

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The gift of loans

Its supporters say, 'not at all'. Firstly, people who need them will always look for finance or loans. Microfinance just offers a fairer deal for poor people

who traditional banks won't lend to and who are therefore vulnerable to loan sharks.

"Microfinance is a service provided to people who wouldn't be able to access normal financial services," says Martin Kyndt of Christian Aid. "They don't have assets to guarantee loans – poor people have no assets of any kind. Microfinance targets that group of people that is excluded from the normal financial lending services."

"We go where traditional banks don't go. The choice for people looking for finance is us or a loan shark," adds Tamsin Morrison of Opportunity International (OI).

OI, the UK's largest microfinance provider and a Christian company, sets up commercial banks in local areas. Loan officers, usually local people, are employed by OI. People approach the loan officer with a simple business plan. If the plan is approved, a loan of between £20 and £130 is given, and paid back at an interest rate 2-3% below the market rate over six months.

OI operates in a slightly different way from other NGOs in that, while having charitable status here, on the ground it makes its loans via commercial microbanks.

Of the 7,000 NGOs providing microfinance around the world, less than 100 have initiated transformation into privately owned, regulated Microfinance Institutions, but OI claims this means it can help more people more efficiently. "If we were an NGO, we wouldn't be able to do what we do," says Morrison. "The microbanks we set up have to be approved by the central bank. We are part of the infrastructure of that country."



Business or charity?

Whatever the particulars of the schemes, microfinancers are all businesses to some degree. They are in the business of lending money, and charging interest on the repayment of that money. This doesn't always sit that well with the idea of charity and helping the poor. However, the scheme's advocates argue that it can actually be a good thing – encouraging people to help themselves and move away from a culture of dependency.

"The best way to treat our clients is to take them seriously," says Morrison. "Our founder believes that a poor person should be treated as anyone, not as a charity case.

"We'd love not to charge interest but we do, so that the operation is

Case study – Peace bakery

Nelizer Darko, a 52-year-old wife and mother from Ghana, had high hopes for a better future. Married to her husband, Daniel, dreams of stepping out from poverty and owning a bakery business seemed unattainable.

Today, Nelizer owns Asomdwee ("Peace") Bakery and is working toward her sixth loan cycle from Opportunity International. The fragrance of bread, doughnuts, chips, cakes and meat pies waft about the village.

"I would like more ovens and an additional mixing machine that uses diesel because the electricity goes out all of the time," says Nelizer. Profits from her business have supplied her family the means to a larger, three-bedroom home and school tuition fees for her 15-year-old daughter, Becky. The bakery supports 18 employees and their families, including Nelizer's son Frank. One employee, Naalouize Nelson, had no family and no job. 13 years ago, Nelizer brought her into her home and cared for her and her two children. From the bakery profits she also provides shelter, nutritional food, clothing and school fees for five orphans ranging in age from seven to 20 years old. To her, educating "children to the highest degree" is her calling. □



Source: Opportunity International.

↩ sustainable. It goes towards the loan officer's salary etc. In any case, this model prepares them for life in the real world, and gets away from the 'handout' culture of a lot of aid."

"Loans bring a sense of ownership," says Andy Stevens, OMF China Ministries Co-ordinator. "We run a biogas project in Southern China. When we began we gave communities biogas cisterns (using animal waste, through a sulphur filter, to create gas to heat water and/or provide electricity). When we gave the cisterns to families, we discovered that they didn't last well. Families didn't take care of them. Now that we loan small sums of money to pay for a part of the cistern, families take responsibility and maintain the cisterns. Also, a loan brings a sense of dignity, self-esteem, independence rather than dependence."

Tom Sanderson, of Christian charity Five Talents, argues that microfinance is actually totally in keeping with biblical teaching.

"The parable of the talents in Matthew 25:14-30 is our inspiration," he says. "It speaks of Jesus' sudden return, and the expectation that we should all use and actively multiply our talents. It has a very challenging message. Microfinance is not easy, it takes risks to start and build a business. But the message of accountability, hard work, being faithful with a small thing, and all having talents – are very clear messages. We (and our programme partners) use the parable often in training."

He also counters the opinion of some Christians that you shouldn't lend or borrow money.

"We have a programme in Indonesia [where] people simply want a small amount of money, for a reasonable fee, to inject capital into their business to help it to grow. I think the biblical teaching on loans and interest charges refers to usury and oppressive charges and relationships. We definitely do not encourage a cycle of debt and dependence: in fact the opposite. The whole approach is one of dignity and

Case study – Borrowed goat



By the end of 2004, Johura and her family had reached crisis point. She and her husband couldn't afford to send their children to school, nor feed them properly.

"My husband and I had become so helpless and really thought there was nobody who could help us at all. We were in a crisis position. There was only one person – my husband – earning as a day labourer which is unpredictable work. He couldn't support all five of us. (I have three children). We tried to send our children to school, we wanted them to go, but we couldn't afford the things they needed for school. It was so difficult to manage the household."

Johura joined a Christian commission for development in Bangladesh 'forum'.

"Since I've been involved in the forum, I have bought a goat with a loan. Now the goat has had two kids. I bought another goat and have been able to save. Now I have bought some land where I can grow some vegetables.

"Before joining the forum I wasn't sure if my husband could get work every day – it was so uncertain. Now, if he doesn't get work, it's no problem because we have some spare money and things to do on the land." ☐

Source: Christian Aid

self-esteem, gained from hard work, private ownership and responsibility – rather than the age-old method of handouts and giving people things for nothing."

As well as helping people to escape this cycle of dependence, microfinance schemes can build a sense of community. Often, people borrow as a group, and act as guarantors for each others' loans. "Yunus realised that trust in people is a great and valuable asset for the poor," says Morrison. "The majority start in some sort of trust group – that's how they start to grow their business. They rely on each other, meet each other's needs,

buy and sell from each other. Ultimately, other people's wellbeing becomes a concern."

Warnings and criticisms

Not all microfinance enterprises run on completely benign principles – and even NGOs vary in the way they are carried out. "Good microfinance organisations will accompany the person or the group in the process of developing a good business plan and ensuring the business is properly established and successful," says Kyndt.



this model prepares people for life in the real world

"The consequence of not having this is that people take the money for enterprises which are not successful, they are not able to pay back the loan, and that potentially drives them into debt."

While microfinance goes some way to improving the lives of individuals living in poverty, it does carry with it some caveats. It only benefits the active poor, it involves a culture of borrowing and lending, which as we have seen from the recent economic downturn in the western world, is a risky business. It also addresses the effects of poverty rather than the cause.

For Andy Stevens, while it may not solve the world's problems, there is still a place for it. "Not every Christian is equipped to deal with the global issues. Jesus addressed the global problem of corporate sin, the national problem of Roman occupation. He 'lent' his miraculous powers to Peter and John so that they could catch fish – certainly an economic windfall that probably liberated them for ministry for a good while. He also healed individual blind and lame people."

"Yes – microfinance is no panacea," adds Tom Sanderson. "It is 'micro' by definition and often leads to small gradual changes which can take months, years, generations to show impact. For example, if the business can generate ⇒

← enough profits for the owner to send one, two, three children to secondary school and perhaps one or all to university (plus improved diet, health care etc) that is fantastic, and will have long term benefits for those children. Our strategy is that growing small businesses builds the market economy, creates jobs and improves livelihoods."

So while building the market economy in any concentrated area will go some way towards helping some people out of poverty, there are other issues which need to be addressed in order for things to really change.

Stephen Rand, of Jubilee Debt Campaign, says, "Some people think that microfinance will save the developing world – Americans particularly! I've seen it in action – it's great, can work really well – I saw an Ethiopian woman where a £5 loan was meaning she could feed her children.

"One of the problems is that most

Credit check

When researching whether to support any microfinance scheme, make sure you do the following checks

- Check the target group: the poor or the middle classes?
- Check the average loan amounts. An average loan amount of £60 per person is low enough to be sure that most of the loans are supporting really modest household-level businesses.
- Check the repayment rates: 100% may indicate that loans are given to safe established businesses only, and that risky start-ups are not encouraged. At the other end, 60% repayment rates indicate the project is not well run and will never be self-sustainable.
- Check the legacy of the scheme – is it a 'give and go' or is there an ongoing practical support and help? Is the scheme welcomed and supported by all members of the community?

microfinance projects are focused on tiny retail opportunities – which means that it is harder for them to be major city-wide transformation projects. So I think they are a crucial weapon on the armoury of the war against poverty, but

microfinance by itself won't end poverty – partly because the macrofinance things need to be put right as well." □

Ruth Dickinson

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