

What we don't know about microfinance: religion, outreach, models and Marx

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Structure (?)

- What's wrong (reprise)
- What we can learn from faith-based microfinance
- Further information we need
- Possible improvements

What's wrong for its clients:

It promotes debt, not thrift.

It often excludes the poorest, it does least for the poorest whom it does include, and it can seriously injure them.

It forces its clients into unremunerated, time-consuming and oppressive groups.

It offers un-remunerative, inflexible and unsafe savings facilities

It is monopolised by women, who employ themselves but do not create jobs

Its 'empowerment effects' are short-lived

It is too expensive, for anything except petty trade and refinancing money-lender loans.

Microfinance Institutions:

“Crowd out” community-owned financial institutions which can raise local capital and provide mutually beneficial financial services

Are a new tool for centralised capital to exploit the marginalised poor who have only their labour to sell. (Marx got it right, again!)

In the Economies where it operates:

It runs against financial development history, which starts with savings, then “consumption” and finally investment credit.

It creates donor and debt-dependent petty trading economies.

Public and ‘important’ opinion is based on heart-warming stories of success, not on rigorous assessments of reality.

It is not the service that poor people need most, it creates unviable self-employment rather than jobs, and can crowd out livelihood assistance.

It does not include housing finance or small business finance, and crowds out institutions which might do so.

What can we learn from “FBOs” ?
(Faith-based institutions)

Is their experience relevant to the
improvement of microfinance in
general ?

What is a faith-based development institution ?

- Started by a religious institution, or by an individual for strong religious motives
- Works with and through local ‘branches’ of the religion – churches, mosques, temples...
- Raises substantial proportion of its funds from people of the same faith

Faith-based institutions do not:

- Serve only or even mainly people of the same faith.
- Employ only people of the same faith
- Raise funds only from people or institutions of the same faith

Case studies

- Shri Kshetra Dharmasthala Rural Development Programme – Mangalore - Jain-Hindu – 25 years, 6.6 lakhs clients
- Akhuwat Microfinance – Lahore – Muslim - 7 years, 20,000 clients
- ‘Catholic Bank’ – Ranchi – Christian -99 years, 66,000 members.
- Holy Cross – Hazaribagh – Christian – 15 years, 34,000 group members

Some of the “Rules” that faith can break

- “Avoid cheap money”
- “Lend mainly to women”
- “Work through groups”
- “Avoid charity”
- “Stick to finance”
- “Be sustainable”

“Avoid cheap money”

- Akhuwat – flat 5% service charge, irrespective of repayment schedule
- Catholic Bank – 5% interest
- SKDRDP – 8% c.o.f. – 11% interest
- Other Islamic MF, ‘musharaka’ profit sharing, CAPARV - Imphal.

“Lend only to Women”

- SKDRDP – similar numbers of men’s and women’s groups - both achieve 100% recovery, secured by savings
- Akhuwat – lend to household, wife and husband co-sign, take equal responsibility
- Catholic Bank – mainly to men

“Lend only through groups”

- Catholic Bank – no groups
- Akhuwat – abandoned groups, lend only to households
- SKDRDP – all through groups, but 25% of loans > Rs 25000, can lend 40 times savings, no ceilings

“Avoid Charity”

- SKDRDP – lifelong pensions for families with disabled members
- Akhuwat – loans forgiven in hardship cases & 5% fee waived for neediest borrowers
- Catholic Bank and Holy Cross – frequent discretionary forgiveness

“Stick to Finance”

- SKDRDP – labour sharing, farm extension, seedling supply, group business development, produce marketing.....
- Holy Cross Sisters – overt mass action and political advocacy.....
- Catholic Bank – sideline for parish priests, religion is the main business - **thrift**

“Be Sustainable” (maybe very profitable indeed)

- Akhuwat – funds all donated, most staff voluntary
- SKDRDP – continuing dependence on temple funds
- Catholic Bank – managed by unpaid staff
- Holy Cross – total income Rs 60 lakhs, all donated.

Information we need, to learn and improve

- Market segments and delivery models
- Drop-outs and fly-outs
- Gender and Groups
- Competition or market sharing ?
- Returns on investment and interest rates

Delivery models

- Is there a ladder ? Do clients climb it ? (or fall down it ?)
- Is Grameen more suitable than SHGs for poorer people ?
- What demands does each method make on its clients, and what does it cost ?

Drop-outs and fly-outs

- Who leaves MF groups, and why ?
- What happens to those who drop out ?
- Are there any “fly-outs” ?
- Do MFIs follow up and assist drop-outs, or fly outs, and how, with what results ?

Groups and Gender

- What works for men ? JLGs, individual accounts.....,
- What do groups do to real ‘entrepreneurs’ ?
- Do poor people want jobs, or self-employment ?
- How (if at all) can MF help job creation ?

Competition or market-sharing ?

- Is competition good for clients ?
- Does ‘double-dipping’ hurt clients ?
- Do MFIs ‘carve up’ the market ?
- Should competition be encouraged or discouraged ?

Interest rates and returns

- Do clients compare RoI with RoR of their proposed investments ?
- Do high MF RoI influence the choice of activities ?
- What are the RoR of typical ‘productive’ investments by MF clients ?

What might be done: to products ?

- Use groups as steps on a “ladder”, not as the permanent form of access
- Help clients to move to individual accounts, as soon as they can
- Serve men as well as women
- Offer flexible safe savings (or become banks)

Insurance

- Life, health, livestock, theft
- Weather-based crop cover
- Subsidise premiums if necessary
- Preferred sequence of services:
Savings-insurance-remittances-loans

What about the institutions ?

- Become banks, or hand over ‘graduating’ clients to banks
- Lower costs, improve efficiency
- Become or make way for independent co-operative institutions
- Do not exploit or perpetuate monopoly

And government, donors and social investors ?

- Keep profit-maximising lenders and investors at arms' length
- Demand not-for-profit services for the poorest people
- Encourage competition
- Encourage community ownership

And the rest of us ?

- Stop the hype, accept that MF is NOT a panacea for poverty, it is no more than a short-term, temporary, low quality “band-aid” for poverty