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Book Review

Microfinance: Perils and Prospects

Jude L. Fernando (ed), 2012Routledge, London and New York, 242 pp.
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Microfinance gained tremendous popularity in the 90's, following the unprecedented success of the Grameen Bank which continues to provide millions of dollars in loans to poor people in Bangladesh via their internationally recognized microfinance program. Some important characteristics associated with microcredit are collateral free lending, low interest loans, reaching the poorest of the poor, and the formation of credit groups (p. 25). Greater participation and maximization of social capital, along with increased empowerment, poverty reduction, and providing opportunities and capital for entrepreneurship are all beneficial impacts associated with present-day microfinance interventions; which have also tended to prioritise the provision of loans to women. While there have been documented cases of failure, on balance, impressive loan repayment rates, participation rates of women, and improved entrepreneurial skills, are examples of key successes associated with microfinance. This evidence of success is also used to support the propagation of the microfinance model, as a strategy for poverty reduction and empowerment of women.

This book explores the perils and prospects of microfinance by looking at the issue under a holistic lens. The introduction and conclusion, written by the book's editor Jude L. Fernando, provide an overview of the historical, political and economic contexts in which credit and microfinance programs have evolved over time. It addresses the effect that neoliberalism has had on the modern-day application of microfinance programs. There is also the recognition, in Chapter 3, that within development studies, microfinance programs have often been 'insulated from critical inquiry as an initiative which promises both…'empowerment' and a better standard of living'. (p. 64).

The book is composed of nine chapters (including the introduction and conclusion). Each chapter, written by a distinct author, looks at a different aspect of microfinance. Some examples are the social and political impacts of microfinance, an analysis of the role of NGOs and empowerment, social capital and participation, the impact of neoliberal theory on the evolution and form of microfinance program delivery, to name a few. The chapters are rich in detail and clear in presentation. They provide an appropriate blend of quantitative and qualitative data, and a list of references that could be useful to readers who want to learn more.

One of the central themes analysed is that of microfinance as a means to poverty reduction through the empowerment of women. We learn that past loan programs were often subsidized by the state, and mainly went to support male-headed households. With the neo-liberal turn in development, the state's role was reduced which often led to the scaling back or eradication of food and agricultural subsidies for subsistence farming. Third sector (NGO-led) microfinance institutions appeared in communities across developing countries; and began targeting poor rural women, with the desired impact of bringing about greater female empowerment.

By reading the analyses of the different authors, one begins to question how the shifting of loan recipient target group (from men under a state-run program to women under an NGO-led program) can truly be expected to change a community or society with deeply ingrained beliefs pertaining to gender roles; which are often accompanied by cultural norms and inherent power structures that reinforce them, especially if the only new factor in the equation is the availability of microfinance loans, and if current inequalities or power structures within the community are not addressed.

We begin to wonder whether women are being targeted as a means to bring about their greater empowerment. Or are they 'simply used as instruments to discipline household behavior according to the imperatives of loan repayment' (p 227). We learn that for many women, access to loans via a microfinance program has not led to any real or major change in the quality of their lives. One case study, presents data showing that, for some women, the 'need for cash increased after borrowing from an NGO' (p. 222) because of the rigid weekly loan repayment schedule set by most NGOs. As one delves deeper into the book, one begins to question the commonly extolled positive attributes associated with microfinance.

Another trait of many microfinance programs is that loan provision often requires one to belong to a credit group. The main idea behind the formation of credit or loan groups is that bringing women together will empower them through creating social bonds and mutual responsibility. The long-term desired impact would be greater female empowerment. These credit groups are often exclusively made up of poor women but not the poorest of the poor who are often excluded from microcredit schemes altogether because they are viewed as high risk or, more precisely, unlikely to be able to meet a weekly loan repayment schedule (p. 214).

The book's detailed analysis of credit group interactions clearly shows that power structures existing in the community tend to be reflected within these groups. In the presented case, the NGO chooses women from families that already 'play a leading role in economic and political activities in the locality' as group leaders, thus replicating existing power hierarchies (p. 29, p. 214). Along with perhaps reinforcing existing inequalities, the 'group solidarity approach promotes unprecedented levels of indebtedness and low levels of default figures mask unprecedented misery' (p. 224). The pressures of having to meet weekly loan repayments, societal pressure that may be felt if one is unable to meet their repayment obligation, and peer pressure from having a loan bound to a group, are all factors that contribute to this 'unprecedented misery'. We also learn that some microfinance programs disallow members from exiting the credit group, and accessing any of their savings, until all loans (from all group members) are repaid (p. 224).

One can certainly not deny the benefits reported by microfinance programs targeting women. For many microfinance projects, repayment of loans provided to women are quite high. Paradoxically, we learn that loans provided to women, are often controlled by men. This is ironic when one considers that female empowerment is one of the main desired end goals of microfinance.

It appears that additional training to enhance capacity building, entrepreneurial development and financial knowledge, for example, may not always be provided by NGOs, as part of a comprehensive microfinance program. Additional funding may not be available to provide these complementary services to loan recipients. The book questions the use of loan repayment rates as a way of measuring the success of microcredit schemes because empowerment of women (one of the key objectives of microfinance) cannot simply be reduced to having an excellent credit or loan repayment record.

Further, one cannot abstract microfinance programs from services provided by other community actors since the successes of various credit programs may be 'predicated on the past and ongoing investment by the state and the other NGOs in the areas of health care, education and infrastructure for (agricultural) production' (p. 34). Women interviewed in one of the case studies, argue that 'their traditional home-based income generating activities have failed to improve their standard of living. They would be better off if provided with employment with regular wages, legal and financial assistance to redeem leveraged land, agricultural inputs and water pumps at cheaper prices' (p. 215) than with microfinance.

What this book demonstrates is that, although repayment rates on microfinance loans are high (positively reported result), there are some cases in which women borrow more to ensure that they meet repayment obligations. Over 85 per cent of women interviewed in one study (p. 217) admitted to borrowing from more than one NGO. Many also relied on moneylenders for additional funds to amortise existing loans.

If multiple loans are being accessed by borrowers from various NGOs, and loans are being used to pay off other loans, this could lead to credit pyramiding which could potentially lead to mass defaults, and institutional collapse (p. 209). If access to credit is placing the poor in a cycle of borrow-repay-borrow, with limited wealth accumulation and potential for creating income generating activities (entrepreneurship); then how can this cycle lead to any true form of empowerment (economic or social)? This is an interesting point for further contemplation, especially when one considers the current fragile state of global financial systems, including multiple countries crippled by high levels of debt. If mass defaults were to occur in NGO-led microfinance programs, would the state, whose role has been greatly limited under neoliberalism, then be expected to pick up the pieces?

One of the key assets of this book is the use of detailed case studies to illustrate and illuminate important points. The case studies move the reader away from high-level (macro) results-based impacts of microfinance, and allow one to understand the micro-level impacts through the experiences of those who have accessed loans. The case studies from Mali, Peru, Guatemala and Bangladesh are rich in detail and content. They enable one to critically analyse the positive characteristics and impacts generally linked to microfinance, by contrasting them with the experiences described in the case studies. A very detailed description of the implementation of two microfinance programs in Bangladesh is presented in the conclusion and provides the reader with a clearer description of the practical application of these programs in a community.

Though this book focuses primarily on the perils of microfinance, it also describes its prospective positive use as a means to cultural conservation in Mali (Chapter 6). The book, in its entirety, also makes one reflect on the prospective possibilities that could be achieved with microfinance by exploring new directions and approaches that are perhaps more holistic in nature, as opposed to being predominantly economic.

This book is simple to read and understand, even though it deals with the complexities of microfinance, as well as the impacts of the historical, political, economic and social spheres in which microfinance programs operate. It analyzes a variety of topics (many more than this review could cover) and the case studies allow anyone – whether new to microfinance or quite knowledgeable on the subject – to learn something new. This book provides food for thought and cues for further research! I would recommend it to development students, researchers, program managers, and to those interested in developing a critical understanding of microfinance.

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