

World

Unhealthy interest in new system with old-fashioned ways

Behind the story

Inspired, like many people, **Leo Hornak** went to join the microfinance miracle. He quickly became disillusioned

The crisis in Indian microfinance has been brewing for several years. Between 2007 and 2008, I worked in Hyderabad for one of India's new breed of microfinance consultancies, advising the banks who lend to village women on business strategy. Like many foreign nationals, I had been inspired by the idea of microfinance, which seemed to promise a much more business-orientated and practical approach to helping the poor than traditional aid.

Unfortunately, while microfinance can sometimes empower the poor, and

can also be extremely profitable, it is rarely both at the same time. As we now know, India's most successful microfinance banks long ago chose to focus on the business of offering high-interest loans to village women, which they had discovered could also be remarkably profitable. The other aims — empowering the poor, creating “micro-businesses”, even ending poverty, as the economist Muhammad Yunus had promised — were best kept for the website and corporate brochure.

I remember asking a colleague what she thought of traditional village moneylenders, the kind of

old-fashioned loan sharks that Mr Yunus had promised to put out of business. She was refreshingly candid: “You know, to be honest, so long as they aren't beating people up, I don't have a problem with them; we are in the same business. We just do it more cheaply, and more professionally.”

The contradiction between the public face of microfinance and the village reality was nowhere clearer than in the way that loans were repaid. Officially, microfinance loans are offered to help the poor to create their own micro-businesses — typically a stall or piece of equipment like a sewing machine. The idea that it can alleviate poverty depends on this principle: the loans and interest charged on them are supposed to be funded using profits from the market stall, so that the borrowers are never out of pocket. Any money left over is kept by the women.

I remember sitting at a branch of a microfinance bank near Varanasi on loan repayment day, when the full implications of the idea became clear to me. The courtyard was packed with women, jostling to push their rupees through the teller's window: every few minutes another wad of banknotes would be dropped on to the teller's desk.

Officially, this was the system working perfectly: each roll of rupees represented loans being paid back with interest, almost 95 per cent in full and on time. In theory, it also meant that 95 per cent of the women were entrepreneurial prodigies — able not only to start a small business with no experience, but also to extract enough profit to repay the bank at more than 25 per cent interest, and still have enough left to escape from poverty. I had been to those villages, and there simply weren't enough market stalls or sewing machines, or business opportunities, to make this remotely plausible.

Something much more old-fashioned was happening. India's poor were borrowing cash because they needed it to tide them over, and someone else was making a healthy profit.

In Andhra Pradesh, where the system has now broken down, a huge proportion of loans never had any connection to entrepreneurship, or the creation of micro-businesses.

One of the most common reasons for taking a loan was to help to pay off other debts, often other microfinance debts. The suicides and despair that we are now seeing in parts of India are the logical results of that.

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Woman police chief shot dead

Meoqui Hermila Garcia, 38, the female police chief of a troubled northern Mexican town, has been shot dead as she drove to work less than two months after taking up her position (Girish Gupta writes). Ms Garcia was one of a number of women taking up the role as men shy away for fear of being killed. She had chosen not to employ bodyguards or carry any personal weapons. Forty people have been killed in Meoqui so far this year.

Seven held over Mumbai attacks

Barcelona Six Pakistanis and a Nigerian have been detained over the Mumbai terrorist attacks in 2008 (Graham Keeley writes). All were said to be linked to the Pakistan-based Lashkar-e-Taiba group. The arrests were part of an international police effort.

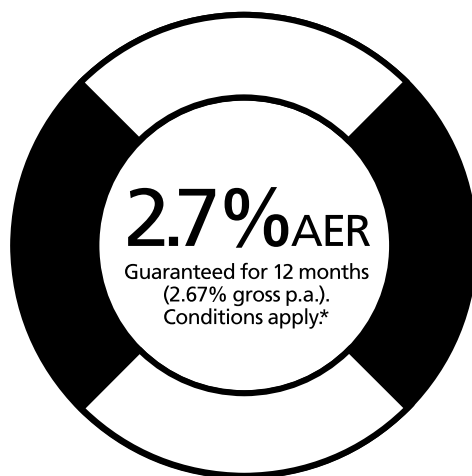
Rules change for EU motorists

Brussels Motorists who commit traffic offences in the EU will in future be prosecuted by the country concerned under new plans announced by the European Commission. Parking fines incurred while abroad will not be followed up. (AFP)

Two more walls fall at historic site

Pompeii Heavy rain has been blamed for the collapse of two more Roman walls at the ancient archaeological site. Neither had frescoes or murals on it, say Italian curators. The collapses are the latest in a series of disasters in the area. (AFP)

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