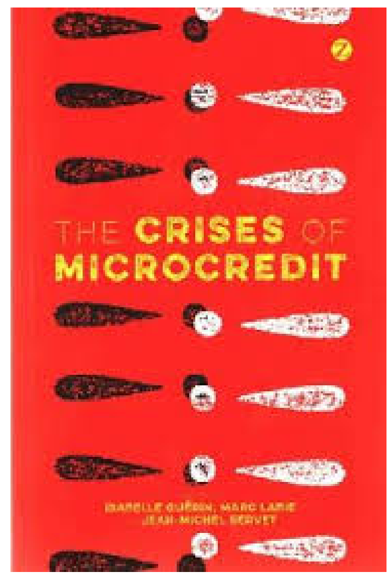
Book Review: The Crises of Microcredit edited by Isabelle Guérin, Marc Labie and Jean-Michel Servet

Do microfinance initiatives offer a panacea for poverty? In **The Crises of Microcredit***, editors* **Isabelle Guérin***,* **Marc Labie** *and* **Jean-Michel Servet** *present a set of essays that examines the emergent problems in the microfinance sector. While the book will be of use to those wanting to understand how an apparent miracle cure now seems shrouded in crisis,* **Jason Hickel** *argues that the book does not fully explore the structural issues that render microcredit a fundamentally flawed means of enabling development and solving global poverty.*

***The Crises of Microcredit*. Isabelle Guérin, Marc Labie and Jean-Michel Servet (eds). Zed Books. 2015.**



I remember attending a talk by Muhammad Yunus shortly after he received the Nobel Peace Prize in 2006 for his work on microcredit with Grameen Bank. It was at the University of Virginia, and the organisers had chosen to host him in a cavernous sports arena on account of his rock-star popularity. They judged correctly: the arena was packed despite its size, with students crammed onto the floor like eager acolytes at the feet of a master. Everyone was giddy with excitement about the promise of microcredit, the new miracle cure for poverty.

Microcredit has had a rough time of it since those heady days. In fact, even back then it wasn't doing very well. From 2007, while Yunus was still on tour, serious crises began to hit the microcredit sectors in Nicaragua, Bosnia, Pakistan and Morocco, with default rates soaring past ten percent. In Andhra Pradesh in 2011, default rates reached ninety percent and the sector eventually collapsed altogether in a high-profile implosion, but not before setting off a spate of tragic suicides among over-indebted borrowers.

The Crises of Microcredit sets itself the task of explaining why delinquency crises happen in the microcredit industry. In their introduction to the book, editors Isabelle Guérin, Marc Labie and Jean-Michel Servet assemble an analytical framework that points to four main drivers.

First, microcredit institutions often suffer from mismanagement or even corruption, which can manifest as relentless pressure on fieldworkers to sign new clients regardless of their ability to repay. Second, state regulation of the industry is often weak or unenforceable, which means that microcredit institutions can get away with risky loans and cruel strategies for loan recovery. Third, many microloans are used not to start businesses, but to fund consumption or pay down other debts; and when they *are* used to start businesses, entrepreneurs often encounter saturated markets that render their enterprises unviable. Finally, sometimes non-payment of loans is organised as a political act, something that is particularly likely to happen where microcredit institutions are regarded as unjust or exploitative.

Each of the nine essays in this volume expands on one or more of these issues. All told, the editors and authors make an important contribution to the ongoing debate about microcredit, and this book will doubtless serve as a useful reference for students and researchers curious to know what lies behind the faltering legacy of this once-celebrated idea.

Image Credit: Embellishing the Batik. Darti uses a copper pen to put some glue on cotton at a batik workshop, Gulurejo village, Indonesia. Darti is taking part in an Australian-funded workshop that aimed to train more than 85 local women on how to improve their livelihoods through microfinance and better business practices (Ahmad Salman/AusAID)

But I can't help but feel that the book doesn't do quite enough to highlight what I take to be the more serious crisis of microcredit. The microcredit industry is profoundly unstable, true, but the bigger problem is that microcredit doesn't actually work when it comes to accomplishing its stated goal of reducing poverty. As David Roodman from the Center for Global Development put it in his recent book, 'The best estimate of the average impact of microcredit on the poverty of clients is zero.'

This argument is now well supported. A comprehensive DFID-funded review of extant data concludes that the microfinance craze has been built on 'foundations of sand', for 'no clear evidence yet exists that microfinance programmes have positive impacts'. Just last year, Abhijit Banerjee and Esther Duflo of the Poverty Action Lab reported the results of a randomised evaluation of microcredit in Hyderbad, India, concluding that microcredit caused no significant changes in consumption, health, education or women's empowerment. Such findings deal a devastating blow to the rosy narrative of microcredit, and yet somehow it still manages to survive.

It's time to stop pretending that microfinance is a meaningful tool for development. When it comes to poverty reduction, we know exactly what needs to happen. Poverty is a political problem, and as such demands a political solution. What might this look like? Well, we could start by ending the tax evasion system, which right now drains developing countries of more than $1 trillion per year. We could cancel odious debt, which would cut down on the $700 billion that developing countries pay to service external loans each year. We could put an end to the structural adjustment programmes that force developing countries to cut social spending and subsidies. We could renegotiate unfair trade deals. And we could de-commoditise life-saving medicines and essential technologies.

All of this would help ensure that developing countries have the resources they need to build their economies and eradicate poverty. Of course, such interventions would require challenging the interests of rich countries and powerful corporations – something that the prophets of microcredit are at great pains to avoid. But that's exactly the point. When we begin to realize that mass poverty is a class problem – the consequence of an economic system that is rigged in the interests of some at the expense of others – microcredit begins to seem like little more than a distraction from the real issues. Worse still, it depoliticises the problem of poverty by framing it as a matter of personal responsibility – a point that anthropologist David Picheret makes in his excellent contribution to this volume.

Should microcredit be scrapped? Guérin, Labie and Servet don't think so. The weaknesses of microcredit 'should not bring us to condemn microcredit out of hand', they say. 'The poor and unbanked do need financial services, provided that they are understood for what they are – financial tools – and not a magic bullet.' They want to figure out what makes microcredit work in some instances, and replicate those conditions more widely. And they want to make sure that poor people have access to financial services beyond just credit, such as savings and transaction mechanisms.

The editors do, however, call for a new vision of microcredit: one that sees finance and money as 'commons' rather than as externally owned capital. They note that in many historical cases grassroots social movements have managed to improve their lot by founding their own institutions – mutuals and cooperatives – to provide finance locally within a framework of solidarity. We might see this as a more political approach to microcredit. The editors hope, albeit in a highly tentative way, that microcredit enthusiasts might take lessons from these historically successful models, using local initiatives to work around the failings of externally funded institutions. If microcredit is worth rescuing, this might well be the only way to do it.

Dr Jason Hickel is an anthropologist at the London School of Economics and the author of *Democracy as Death: The Moral Order of Anti-Liberal Politics in South Africa* (University of California Press, 2015). In addition to his academic research, Jason writes regularly for *The Guardian* and *Al Jazeera*.