Globalising Gender Equality and Social Justice

The Other Financial Crisis: Poor Women, Small Credits, Big Businesses

By Christa Wichterich

Rue Hobbema 59

1000 Brussels

Belgium

Tel: +32 2 545 90 70

Fax: +32 2 512 73 42

info@wide-network.org

www.wide-network.org

Written by **Christa Wichterich**
Translated from German by **Alejandra Mantecon**
Cover Picture by **Sanjay Kumar**, SEWA

This paper has been produced with the financial assistance of the European Union and HIVOS. The contents of the paper are the sole responsibility of WIDE and can under no circumstances be regarded as reflecting the position of the European Union.

Introduction

India is in the midst of a financial crisis that shows striking similarities to the US subprime crisis, both in its origins and the rescue strategies used. Just as the cheap mortgage granted to low-income households in the USA, the microcredits given to poor women in rural areas worked out as financialisation of everyday live and integration of the women into the global financial market with its return-based logic. This jeopardised the social processes and the very objectives at the heart of the initial non-profit microfinance model. The growth of this sector led to an over-supply of microcredits in villages and in turn to the over-indebtedness of women, the collapse of repayments and a capital shortage of the microfinance institutions. What seems at first sight to be a specifically Indian crisis results in fact from the market rationale of growth, overheating, and crisis.

The Financial Bubble

This crisis has affected microfinance institutions (MFIs), which – since the liberalisation of the Indian financial sector in the early 1990s - have acted as intermediaries between women borrowers at the grassroots level and commercial banks. As their services are limited by law to credit-lending, they would take loans at the usual interest rate from Indian and foreign banks, including the well-known German 'Kreditanstalt für Wiederaufbau'. They would then re-lend the money to women with hefty interest rates and charges, thus turning the credit-lending process into a commercial financial service and exposing it to the market mechanism of profit making. The collatoral the MFIs assured to banks and investors was the women's high repayment rate of more than 95 per cent.

The prospect of good returns sparked a multiple boom. The number of MFIs, or 'non-banking finance companies', soared to above 3,000 in India. Their first and foremost aim was the 'penetration' of areas with no access to banks, or, as the Indian government put it, the 'financial inclusion' of those who had always been excluded from the formal financial institutions. The MFIs expanded and competed, and after a concentration process, six market leaders channelled even more capital from the international financial market into Indian villages. At the same time, the number of investment funds abroad (especially in Luxembourg) investing their capital in MFIs grew. Ironically, the investment funds as well as the MFIs benefitted from the global crisis of 2008/9, which saw investors searching for new return prospects for the ever-moving capital. The investors were promised a double return on their investment, that is to say both financial and ethical, as microcredits were held up as a panacea to reduce poverty, empower women and promote development.

The MFIs became a huge source of employment, absorbing thousands of agents (mostly men) in a bonus system through incentive schemes. This resulted in agents trying to snatch female clients from each other and even encouraging women below the poverty line, who had no realistic repayment prospects, to get together with four other women who would be collectively responsible for repayment. A SMART Card made it possible for people to use 'mobile banking' services right on their doorstep and for MFIs to collect their interests every week. In 2008/9, the MFIs managed to reach 8.5 million female customers in the southern-Indian state of Andhra Pradesh alone – a 60 per cent rise compared to the previous year. Outstanding MFI credits amounted to 360 billion rupees (approx. 6 billion Euros).[1] One of the biggest MFIs, SKS Microfinance, recorded an average growth in business turnover of 162 per cent in the past five years, and was able to hand out the highest salaries of the whole sector as well as

[1] Srinivasan, N (2009): Microfinance India. State of the Sector Report 2009, New Delhi

attractive bonuses. When SKS Microfinance entered the stock exchange in 2010 – the second initial private offer of a MFI in the world -, it was massively oversubscribed and managed to raise 350 million dollars of fresh capital.

The End of the Gold Rush

Until 2010, all stakeholders claimed they had a fantastic repayment rate of 95%. In part, this is the result of peer pressure exerted by the women`s credit groups , but it is primarily due to the fact that women take out several credits from various lenders while also going to their local money lender in order to make repayments quickly. According to statistics, eight credits flowed into every poor household in Andhra Pradesh.

This juggling of several formal and informal sources of capital led to years of invisible over-indebtedness for women. When news of the suicides of over-indebted women came to light, the repayment myth eroded. The MFIs denied any links to these events, justifying their interest rates and charges of up to 38 per cent by the high transaction costs based on the labour-intensive loan disbursement and interest collection. The government of Andhra Pradesh, in turn, accused the MFIs of creating a new non-transparent corporate money lending regime and of making colossal profits. When the director of the listed SKS sold 13 million dollars worth of private shares to a hedge fund in Singapore, this only reinforced accusations of personal enrichment at the expense of women below the poverty line. Shortly after, the repayment rate collapsed and it became difficult for MFIs to find new capital on international financial markets.

The Indian government is, in turn, being criticised for not regulating the unfettered industry and at the same time slashing more than a third of its investments in small-scale farming in the past 20 years. The income of smallholders has fallen by 20 percent; half of all rural households nationally are over-indebted, something which led to the suicide of 200,000 farmers. While microcredits were pressed on poor women, it became increasingly difficult for small- and medium-scale farmers to get loans. In the Indian state of Andhra Pradesh, which became a model of credit 'penetration' on the world stage, this led to the indebtedness of 82% of rural households.[2]

The regulation promised during the crisis has been as half-hearted as the regulation of the financial markets in the West. In an attempt to mitigate the damages, the Government of Andhra Pradesh recently enacted a decree on MFIs, but without effectively managing to protect female borrowers from exploitation. National and foreign banks (including the US corporation Citi Group) created a safety net for the MFIs by offering capital aid. But the burst of the bubble delegitimized the whole of the microcredit industry.

The Development Aid Bubble

At the same time, however, there was a second bubble that burst, the hype claiming that microcredits as effective aid instrument would empower women socially and economically that they could generate their own income and free themselves from poverty. The architect of this hype, the Nobel laureate and founder of the Grameen Bank, Mohammed Yunus, had two brilliant ideas, namely: 1) that the bank

[2] In average, 49% of households are indebted. The debt burden in Andhra Pradesh was eight times higher than the Indian average. Srinivasan, N (2009): India Microfinance. State of the Sector Report 2009, 4

should go to the poor women in the villages if the women could not go to the bank; and 2) that credits could be granted to groups of women who would collectively stand surety for the repayment of the high interest rates of 25%. Yunus's Grameen Bank linked credits with teaching women financial discipline and modernising the role of women by implementing family planning and development activities in villages. What is central is the twin relation between microcredits and income generation, i.e. the concept of small enterprise. From Foucault`s perspective, microloans are a technology of neoliberal domination through which women learn self-regulation and become integrated into the financial markets as self-responsible subjects.

Mohammed Yunus called for a 'human right to credit' and established a link between the United Nations' human rights paradigm on the one hand and the modern financial world and neoliberal mainstream on the other by calling on big banks and investment companies to enter commercial business by granting microcredits. What he promised to commercial and welfarist money lenders in return was 'a clear conscience' and the hope to banish 'poverty to the museum'. Yunus therefore was also the father of the commercialisation of the microcredit sector. With constant reminders of the women's repayment excellence, his Grameen model set out on a triumphant world tour.

The Stages of Microfinance in India

The fatal growth of Indian microfinance business had its roots in two non-profit-driven types of saving and credit institutions for poor women in the country. The first was the Sangham model. Since the 1970s village women joined in groups to tackle their problems together, be they in the field of health or sexual violence. The central element of this grassroot organisations based on solidarity, was saving and the granting of credits to Sangham members in the event of emergencies or specific circumstances. The group itself determined the use of credits according to individual needs against a backdrop of poverty, the caste system and the oppression of women.

The second type were self-help programmes for groups of women drawn up by the government with the support of World Bank credits and implemented by NGOs. The inspiration for the schemes, which were mostly financed via the development bank NABARD, originated in the Grameen model. With its focus on expansion and market orientation, the Grameen Bank already encompassed the logic that would make microfinance institutions into a fully-fledged business circuit to extract capital from village economies.[3] The emphasis thus shifted from managing savings to granting credit, from the needs of the borrowers to market requirements, from political struggles to the integration of women into the market, and from solidarity to competitiveness.

Cash flow and consumption rose in the villages at the same time as over-indebtedness, which led to a financialization of everyday life, as Fourd, Leaver and Williams described the US phenomenon, though never to an eradication of poverty.[4] In fact, making profit became an end in itself for this complex system of financial transactions. As poor women were always at the centre of the microcredit system, a feminisation of financialisation took place.[5]

[3] This was proved systematically by Bateman in an extremely well-informed work: Bateman, Milford (2010): Why Doesn't Microcredit Work? The Destructive Rise of Local Neoliberalism, London

[4] Froud, Julie; Adam Leaver & Karel Williams (2007): New Actors in a Financialised Economy and the Remaking of Capitalism. In: New Political Economy 12 (3), 339-347.

[5] Kannabiran, Vasanth (2005): Marketing Self-Help, Managing Poverty, in: epw, August 20, 3716-19

A Shift in Discourse

The crisis of the microfinance sector caused an astonishing shift in the language and discourse surrounding microcredits. After their positive impact against poverty and women's high repayment morale were praised for over two decades, the concepts of poverty eradication, empowerment or even group solidarity have evaporated completely. All the criticisms of the microcredit system that had been voiced for years and ignored by big NGOs, MFIs, as well as by Western donors, have suddenly been confirmed by the broader public.[6]

It is now common knowledge that at least half of the women use the credit to repay other debts, cope with emergencies, e.g. a surgery, or for consumption, and that they take out new loans to repay the microcredit. A study in Bengal showed that although 97 per cent of women borrowers had repaid the microcredits, in only in 9 per cent of all cases did it really improve their economic situation in the long term.[7] When the credit is invested in production, e.g. in chicken farming and the egg business, there soon appears a phenomenon of local oversupply, with women outcompeting each other. This was also the case with the Grameen Bank, where women in villages began renting out telephone time with Nokia mobile phones. Danone yogurt (Yunus set up a 'social enterprise' project with the French corporation) found no demand in these villages, as all women make their own yoghurt. However, through this kind of credit-funded projects new markets for the corporations are opened up while women operating a franchise are taking on turnover risks. This results -as in the example of Danone yoghurt- in a marginalisation of local women's work and the village economy.

Even if often this process enables women to gain recognition and bargaining power at home and with the authorities, there is no doubt since the crash that even the best microcredit system is no substitute for social security and wealth distribution policies. Structural changes to eliminate poverty remain necessary. While the microfinance industry is hoping for its recovery, the debate is only just emerging amongst the Indian public on how to integrate saving and credit granting into social contracts and structures of a solidarity economy. It is crucial that the revenue generated by the poor is not siphoned off from outside but that it stays in local circles to ensure the survival of the population.

6 Mayoux, Linda (1995): From Vicious to Virtuous Circles? Gender and Micro-Enterprise Development, UNRISD, Geneva; Singh, Kavaljit (1997): Women's Empowerment and the New World of Microcredit Evangelism, Delhi; Kabeer, Naila (2005): Is Microfinance a ´Magic Bullet´ for Women's Empowerment, in: epw, October 29, 4709-19; Batliwala, Srilatha & Deepa Dhanraj (2006): Gender-Mythen, die Frauen instrumentalisieren, in: Peripherie 103, 373-385.

7 Chatterjee, Amrita (2010): Institutionalization of Micro Finance as a Menace towards an Integrated Development of Women Surviving Severe Poverty in India: A Study, South Asian Forum for Environment