

# Micro-Credit and Development

Alan Wright, Ph.D.

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Before taking up the topic of micro-lending per se, we should examine a relevant cultural phenomenon with which we must cope – the manufacture of cynicism. Western media and institutions of higher education participate, if unwittingly, in the disabling process of manufacturing apathy and cynicism. Here is how it works:

## THE CYCLE OF CYNICISM \*

1. We find out about a problem from the daily newspaper or our history class.
2. We want to do something to help
3. We don't see how we can help because the problem is so vast, so
4. We don't do anything about the problem. Eventually,
5. We feel sad, powerless, and angry. Subconsciously,
6. We decide that nothing can be done, and so
7. Our compassionate heart begins shutting down.
8. This leads us to want to know less about problems, believing that we are powerless to effect them.
9. The cycle repeats until apathy results.

Micro-lending works to defeat the cycle of cynicism, replacing it with a cycle of hope.

## THE CYCLE OF HOPE

1. We begin by taking personal responsibility for being a good person;
2. Then we create a vision of a better world based on our values.
3. Based on that vision we seek out quality information about the world's problems.
4. We discover practical options for action.
5. We begin acting in line with our values.
6. We repeat this process until better world results.

(\*adapted from The Better World Handbook by Ellis Jones, Ross Haenfler, Bret Johnson)

The development strategy known as “micro-lending” (also referred to as “micro-finance” or “micro-credit”) has rocketed from relative obscurity to celebrity status in the last couple of years.

- First, the UN named 2005 the International Year of Microcredit to highlight the potential of micro-finance to lift people from poverty.

- Then, in October of 2005 Tufts University received from e-bay founder Pierre Omidyar \$100 million to deploy in global micro-lending.
- In June of 2006 -- Warren Buffet announced that he would give a \$31 billion gift to the Gates Foundation. Melinda Gates suggested that the world's largest foundation would expand into new areas such as microlending in order to help poor regions become more self-sufficient in agriculture and biotech.
- In August, 2006, the Seoul Peace Foundation awarded a \$200,000 Peace Prize to Muhammad Yunus, architect of the micro-lending concept.
- Then the Nobel Peace Prize committee named Muhammad Yunus and the Grameen Bank the 2006 recipients.

Some skeptics asked -- why is the Nobel Peace Prize going to a poverty alleviation strategy? In the words of the Nobel committee:

"Lasting peace cannot be achieved unless large population groups find ways in which to break out of poverty,"

Another Nobel laureate Bishop Desmond Tutu expressed it this way:

"We will never win a war against terror as long as the conditions for poverty and injustice remain. Poverty breeds terrorism. So we should stop spending billions on weapons of destruction and instead feed the hungry people of the world. Then we will stop terrorism. If we want to live in peace, we have to realize we are all members of the same family."

Global Poverty alleviation then can be seen as a strategy for addressing international terror. Micro-lending, it would seem, could be an effective weapon in the arsenal of the Department of Homeland Security.

Were we to be given the assignment of designing a global development strategy, one which would benefit the world's poor, we would need to begin by facing a harsh reality:

- This year, over 6 million children under the age of 5 will die of hunger;
- Joined by 2 million adults.
- In all 500 million of our planetary brothers and sisters are chronically malnourished (1/12<sup>th</sup> of the world's population).

The compassionate response to this tragedy would be to set up massive food aid programs, distributing global food surpluses to those most in need. Such programs do exist .. a fact for which we should all be grateful.

However, we all know the Chinese proverb -- "Give a man a fish and you feed him for a day. Teach a man to fish and you feed him for a lifetime." The proverb's core message is that the structural violence of starvation is not eradicated through food aid. Without skills, those who receive food aid soon become hungry again, or they become dependent on relief.

So to our development plan we must add education (math and literacy skills) and training (enhanced productive capacity) – in the words of our proverb – “teach fishing”.

But, while knowing how to fish gives one a leg up on those who merely have a single fish, even that knowledge falls short. If the fishing school graduates lack a pole, line, bait, or a boat and nets, then the training will go for naught. Our development strategy leaves our intended beneficiary hungry or dependent, albeit better educated.

This was the Eureka moment for Muhamad Yunus, an economics professor from Bangladesh. In 1974, three years after Bangladesh won independence from Pakistan, a famine killed as many as one million people. Yunus, motivated by a commitment to take personal responsibility and to act on his values (remember the cycle of hope), visited the village of Jobra in Bangladesh, to see how he might be of assistance. There he met Sufia Begum, a 21-year-old villager and a mother of three. She worked all day making bamboo furniture. At the end of the day, covering her expenses, she had only two cents left. Upon investigation, Yunus discovered that 43 of the villagers, like Begum, were enslaved to a system from which they could free themselves for 856 taka (about \$27). He reached into his pocket, gave them the money they needed to buy their freedom and said: “Pay me back when you can.” In less than one year, they had repaid him in full. With that simple experience, the seeds of the Grameen Bank were born. In 1983, it came to fruition as a full-fledged business concept.

In past quarter century, the Grameen Bank has lent \$5.72 billion to more than 6 million Bangladeshis. Worldwide, micro-credit financing is estimated to have helped 92 million families last year alone.

Here was the central “eureka” moment for Yunus – that very poor people can lift themselves from poverty using micro-credit. I had a comparable experience in Nicaragua that has led to a series of “eureka” moments that have shaped the micro-lending program known as SOSTENICA.

In 1984, I visited a Salvadoran refugee camp set up by the UN High Commission on Refugees, outside of León Nicaragua. One project of the UN had been to establish a weaving cooperative to make use of the cotton grown in the León region. The coop was to be made up half of Salvadoran refugees and half by low income Nicaraguans. Six years later, I returned to visit the Farabundo Martí y Sandino weaving cooperative. What I found surprised me. Rather than a thriving textile cooperative of 100 members, I found six Nicaraguan women. They were all that remained of the original members of the cooperative. The Salvadorans had returned to their country at the end of the war. The Nicaraguan members of the coop had given up in despair. These six sat idly, surrounded by more than a dozen large manual looms. “Why” I asked “are you not working?” “No yarn” they replied. “We can fix that” I thought. In short order, with a \$500 loan (less than \$84 per person) the women were hard at work. In less than three months, they had repaid the loan, had yarn on their looms, and plenty of finished product in their store room for sale, and they were working full time. Like Yunus in Bangladesh, we discovered that micro-credit could work in Nicaragua to activate people’s potential.

Then came a second eureka moment. In León there is a very poor neighborhood known as barrio Río Chiquito, named for a sewage stream that runs through it. In the late 1980’s an international development agency decided to improve conditions in the community by funding the paving of roads, installation of sewage systems, and improving housing conditions. While quality of life in the barrio improved, at the end of

the project, residents still had few jobs, and no greater means to support themselves. That development mission was missing an economic component.

Bringing these two insights together – it became clear that financial resources in the U.S. could mobilize capacity in Nicaragua. Soon the original pool of \$500 had grown to \$40,000 which was directed at the Río Chiquito barrio mentioned earlier. Banks sometimes engage in a practice known as redlining. On a map, they circle in red those neighborhoods, usually poor, which should not receive credit. We circled the Río Chiquito barrio and said no loans outside of this poor neighborhood. In less than three years, those \$40,000 had been loaned out to 974 people in micro-loans, averaging \$345 per borrower. The total amount of loans made exceeded \$335,000. Our \$40,000 had been loaned, repaid, and reloaned more than 8 times. And with that, SOSTENICA was born.

The next SOSTENICA eureka moment related to gender. The vast majority of the world's poor are women and children. Since SOSTENICA had chosen to lend in the poorest neighborhood in León, it made sense to place an emphasis on those who suffered most from poverty -- women. We made a self-conscious effort to include women in our lending. 818 of those original 974 loans (84%) went to women. In the process we produced two unexpected side effects. First, children of borrower families dropped out of school less often. Even though schools at that time in Nicaragua were virtually free, many hidden costs conspired to force children out of schools and into the workforce. Uniforms, books, backpacks and other school supplies were necessary conditions for school enrollment. Families with limited resources could not afford to pay for their children to attend. With credit and a means of self-employment, mothers were better able to support children in school.

A second side-effect of lending to women benefited SOSTENICA directly. Our repayment rate in the Río Chiquito exceeded that of commercial banks, both in Nicaragua and in the US. Why, we wondered, would this be? Was it not true that the poor made bad credit risks? What we discovered surprised us. Women in Nicaragua (and around the world) make ends meet. They understand how to stretch their Cordobas. Alcohol is the scourge of Latin America. Women drink less alcohol than men. Women made good borrowers. Our repayment rate topped 98%! Based on these experiences, we should revise our Chinese proverb to read: “give a man a fish and he eats for a day. Give a woman a fish and she will feed her entire family, and repay her loan.”

The next eureka moment for SOSTENICA was mathematical. If we reached 6 people in a single cooperative with \$500, and we reached 974 people in a single barrio with \$40,000, logically we could reach many more people if we expanded our funding base. North Americans are generous people. Many people, upon learning of the impressive impact of micro-lending wanted to get involved. Rather than exclusively solicit donations, we created an opportunity for individuals and institutions to become socially responsible investors, selling off part of their stock portfolio in order to invest in the working poor of Nicaragua. Using this approach SOSTENICA has grown from \$40,000 to almost \$1.5 million.

Then came the reverse diffusion eureka. In chemistry, diffusion is the movement of molecules from an area of high concentration to an area of low concentration. All of SOSTENICA's early micro-lending activities were urban. Many micro-loan programs like SOSTENICA remain in cities for one simple reason -- population density is higher there.

City residents have easier access to markets. Urban borrowers are more likely to be literate. They are easier to service by loan officers. Yet, we recognized that Nicaragua's economy was agricultural, and a large number of Nicaragua's poor live in the countryside. Ironically, the more economic and social services get provided to urban residents while neglecting the rural ones, the more rural people conclude that the only hope for them and their families is to emigrate to an urban area. So while one might imagine that, by the principle of diffusion, people in urban areas would migrate to less densely populated areas, in fact people migrate towards areas of greater opportunity. Thus, the problem of illegal immigration is a problem of reverse diffusion. People emigrate from rural to urban, from poor country to rich country in so far as the conditions for success (perceived or real) are greater in the distant location. By this same principle, NAFTA and CAFTA have contributed to the recent flood of immigrants to the US.

SOSTENICA decided that, if micro-lending efforts were to serve the greatest good, they would need to find a way to target loans towards underserved rural areas. Interestingly, economic and social justice may be the most effective way to deter illegal immigration into this country – more effective even than the 700-mile long chain link fence recently approved by congress to separate the US from Mexico.

Then came SOSTENICA 's environmental eureka. Let's return for a moment to our proverbial fishermen. They have learned well their trade. With credit they have acquired poles, line, bait, floats and sinkers. Imagine that each of the fishing school graduates take up positions all along the banks of their community's best fishing hole with their shiny new credit financed equipment. Assuming them to be successful at hauling in a catch, day after day, they will feed their families and pay off their loans ... for how long? Until the fish disappear. And why would the fish disappear? Because our development education program neglected to include units on sustainable harvest.

This is, in fact, what is happening world wide. More than ten years ago, the U.N. Food and Agriculture Organization (FAO) reported that all of the world's 17 major fisheries were being harvested at or beyond their sustainable capacity while 9 were already in a state of decline. The world may be approaching "peak oil". We appear to have already reached "peak fish". The wisdom of the proverb "Give a man a fish..." presumes a stable and limited human population and a limitless natural resource. With the global human population topping 6 billion and still growing exponentially, and with the number of sea creatures remaining constant or decreasing, unregulated predation is unsustainable over time. So, it may not be true that if you "teach a man to fish, he will eat for the rest of his life" even with credit included.

How does this pertain to farming in Nicaragua? Try out this revised expression: "Give a man a fish and he will eat for one day. Give a Nicaraguan family a small plot of land, a micro-loan, supplemented with technical assistance in sustainable agriculture, and they are likely to have a decent life." While the revised proverb is not catchy, but it expresses what SOSTENICA learned. The land reform program of the Nicaraguan revolution in the 1980's resulted in the most equitable land distribution in all of Latin America. By the 1990's however, with neo-liberal capital once again in control of the Nicaraguan economy, credit had become a weapon for class consolidation. With the banking sector privatized and credit becoming a commodity available only to the upper classes, small farmers were getting squeezed. With no prospects of assistance, they began selling off their plots, and the large land holdings began to reconsolidate.

SOSTENICA decided to play a role in this drama. But SOSTENICA wanted more than merely to provide credit to rural poor, risking that greater economic activity would lead to greater predation on the natural world. SOSTENICA wanted to contribute to the restoration of the Nicaraguan landscape, devastated by 50 years of chemical intensive cotton production.

At exactly that moment, the National Autonomous University of Nicaragua (UNAN) directed its biology department to shift the focus of their agronomy program from supporting cotton production to an emphasis on agro-ecology. SOSTENICA, with their Nicaraguan NGO partner CEPRODEL, hired some of the first graduates from the UNAN masters program in agro-ecology. SOSTENICA put them to work promoting sustainable agriculture among rural borrowers.

Here is how it works. A SOSTENICA rural loan officer sits down with a rural family. The family describes their assets (land, water, animals, buildings) as well as their past experience (growing corn, beans, etc.) The loan officer works with them to develop a business plan. A budget is drawn up and, eventually, if approved, a line of credit gets established. From that point on the family receives a weekly visit from a staff agro-ecologists to offer suggestions on everything from soil fertility, pest management to marketing. While it is costly and labor intensive, it works. It builds capacity and it protects and restores the environment.

The last eureka moment deals with micro-lending and marketing. Many people assume that the goal of every producer should be to produce something for export. This legacy of colonialism originated in the colony where the goal was to produce raw materials for the colonial power. SOSTENICA discovered that the produce markets around León were willed with fruits and vegetables from Costa Rica and El Salvador, even though of these goods could have been grown within two miles of the market. By promoting low-tech methods of irrigation, weed and pest control, local farmers can compete in their local markets, avoiding the need to enter highly competitive international export market.

To summarize SOSTENICA 's discoveries, there is both good news and bad. Here's the good news: Micro-lending, now only 25 years old, has proven its ability to benefit extremely poor people around the world. In a comparatively short time, micro-lending has grown to become a global phenomenon, reaching over 100 million families per year world wide. And it is cost effective. Unfortunately, micro-lending is not a panacea for the world's economic ills. It is no substitute for a national safety net, or a comprehensive international development strategy. Micro-credit can only assist certain sectors, in very specific ways. Furthermore, it has the potential to aggravate many of the world's most pressing problems – emigration and problems related to the environment.

In any case, all development worthy of the name, will result in human development. Programs and projects which produce wealth, often at the expense of the environment, while leaving local populations even more miserable, deserve to be referred to by some term other than “development.” Oil exploration and extraction in Nigeria would be one example. (<http://www.globalissues.org/Geopolitics/Africa/Nigeria.asp>).

If we are to escape from the cycle of cynicism, and enter into the cycle of hope, we must first envision a better world, then we must take responsibility for our own personal action steps toward the realization of that world. Socially responsible investing and micro-lending are two, but certainly not the only steps that can be taken to realize a

better world. In the words now popular in the PanAmerican movement: “A better world is possible.” It is up to us to take steps to achieve it. (Alan Wright received his PhD from Yale in 1988. He is the founder and president of SOSTENICA.)