MICROFINANCE, LAW, AND DEVELOPMENT: A CASE STUDY IN MALI

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I. INTRODUCTION

Among the greatest challenges to economic development is persistent poverty. Despite progress made in recent years, about twenty percent of the world's population still lives on less than $1.25 a day.[1] Since the early 1980s, microfinance has become one of the basic tools used in efforts to reduce poverty. The theory is simple. Lending small amounts to the poor to fund small enterprises can stimulate economic development and alleviate poverty. However, theory is one thing, practice another. To lend to the poor, one must overcome a series of economic, logistical, organizational, and legal obstacles. Because the poorest of the poor are often dispersed in remote areas, efforts to reach them frequently face

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Since 2008, Professor Greenberg has been part of a team doing an assessment of microcredit in Mali for Oxfam America, sponsored by the Gates Foundation. The fieldwork in Mali on which this case study is based was done as part of that study. However, the focus in this article is on microfinance generally, not on Oxfam's program specifically. All opinions expressed are the author's own, and are not endorsed by either Oxfam America or the Gates Foundation.

1. *See* WORLD BANK, WORLD DEVELOPMENT INDICATORS 2013, 31 (2013), *available at* http://databank.worldbank.org/data/download/WDI-2013-ebook.pdf.

the last mile problem, whereby the further one must go to deliver a service, the less cost effective such efforts become.

The last mile problem invariably involves making organizational choices about how services are to be delivered. We can discern two diverging approaches that organizations have taken to this problem. One is to follow the path of centralization, and thereby seek the economies of scale necessary to reach the poor. The other is a decentralized approach that helps local communities form self-help groups. The first is an institutional, or banking, approach that depends on trained staff and bureaucracy to provide services. The Grameen Bank in Bangladesh exemplifies this approach. Even though its members ostensibly own the bank, the funds flow into a formal bank that is run by professionally-trained staff. The bank makes group loans, holds savings, and collects repayments. The second approach can be seen in a decentralized, village savings and loan approach, which was originally developed by CARE (Cooperative for Assistance and Relief Everywhere) and builds upon existing cultural forms, knowledge, and principles to create groups that local people can control and run. This approach, which starts with savings, stands the problems of microfinance on its head. Groups lend their own capital to members, so members start by saving and not borrowing.[2] In this savings-led approach, instead of banks or credit unions providing financial services, an NGO facilitates the formation and training of small (typically fifteen- to thirty-member) savings and lending groups in communities that function like "nano" credit unions. Members are trained to administer their own funds. Transparency and social pressures rather than outside regulators serve to guarantee both honest administration and loan repayments. Groups begin by saving, and after a time, they begin to use their accumulated funds to make loans at interest to group members. Unlike the banking approach, the group remains in control of its funds. The NGO's goal is to create self-sustaining groups, which, once trained, are capable of functioning without aid. At this point, the NGO can shift its efforts elsewhere.[3]

II. THE GRAMEEN BANK

The origins of the Grameen bank are now nearly mythical. Just after Bangladesh achieved its independence in 1972, Muhammad Yunus a thirty-two year old assistant professor at Middle Tennessee University resigned his position and returned to Bangladesh to take a professorship in economics at Chittagong

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2. Steven W. Mumford, Sustainable Microfinance for the Rural Poor: The Performance and Replication of Village Savings and Loan Associations Promoted by CARE and Oxfam in Mali (2008) (unpublished M.A. thesis, University of Washington) (on file with author).

3. Jeffrey Ashe, Oxfam America, *The Savings Led Revolution: Mass-Scale, Group Managed Microfinance for the Rural Poor*, MICROFINANCE GATEWAY, 1–2 (Sept. 25, 2009), http://www.microfinancegateway.org/gm/document-1.1.4553/37.pdf.

University.[4] Near the university was the village of Jobra. Appalled by its crushing poverty, Yunus soon learned that because people could not even "find tiny amounts of money" needed to carry on their livelihoods, they became easy prey to moneylenders, who "turned them into slave-labour with unbelievable loan conditions."[5] Doing a census, he found forty-two people in this situation and realized that all they needed to free themselves from the clutches of these moneylenders was $27. He decided to loan them this small amount, freeing them from the moneylenders. To his surprise, they all repaid him.[6]

Although delivering affordable credit to the poor has long been recognized as a key ingredient for development, one of the chief stumbling blocks, at least from a banking perspective, was the matter of security. Bankers logically worry about how loans are to be repaid and so are usually loath to make loans without collateral. The insight Yunus had, for which he won the Nobel Peace Prize, was that the poor would repay their loans, if the social capital of groups could be mobilized to administer the loans, and if they had a stake in their repayment.[7] These insights have fundamentally shaped how the Bank operates. The Grameen bank is organized through branches, centers, and groups. Each branch works with a number of centers to serve an area of fifteen to twenty-two villages.[8] At the village level, the Bank organizes a voluntary group of five borrowers.[9] These are primarily women. The Bank's decision to focus on women was driven by the belief that small loans would empower women, that they were more likely to repay them, and that they were also more apt to use these funds to benefit their children.[10] Unlike traditional banks, there are no papers to sign, no collateral is required, nor are debtors to be taken to court if debts are unpaid. Loans are made on trust.[11] However, because the group's performance on repayment determines its eligibility for future loans, group pressure usually is sufficient to guarantee repayment.[12] In fact, loan repayment rates at Grameen

4. MUHAMMAD YUNUS, CREATING A WORLD WITHOUT POVERTY: SOCIAL BUSINESS AND THE FUTURE OF CAPITALISM 44 (2007); Mark Engler, *From Microcredit to a World Without Profit? Muhammad Yunus Wrestles with Moving Beyond a Society Based on Greed*, 56 DISSENT 81, 81 (2009).

5. Muhammad Yunus, *Grameen Bank, Microcredit and Millennium Development Goals*, 39 ECON. & POL. WKLY. 4077, 4077 (2004).

6. YUNUS, *supra* note 4, at 47.

7. *See generally* JOANNA LEDGERWOOD, MICROFINANCE HANDBOOK: AN INSTITUTIONAL AND FINANCIAL PERSPECTIVE 2 (1998).

8. GRAMEEN BANK, *Credit Delivery System*, http://www.grameen-info.org/index.php?option=com_content&task=view&id=24&Itemid=169 (last updated Jan. 1, 2013).

9. *Id.*

10. GRAMEEN BANK, *General Questions on Grameen Bank FAQ*, http://www.grameen-info.org/index.php?option=com_easyfaq&task=cat&catid=80&Itemid=200#faq19 (last updated Jan. 1, 2013).

11. *Id.*

12. GRAMEEN BANK, *Credit Delivery System*, *supra* note 8.

bank were ninety-seven percent in 2011.[13] Loans are made for a year, and as long as weekly or bi-weekly payments continue to be made, borrowers may take out more than one loan. While these are interest-bearing loans, interest charges are based on market rates rather than moneylender rates.[14]

Borrowers, nevertheless, are required to participate in the bank's savings programs, which offer attractive interest rates starting at 8.5%.[15] Where the credit industry in the United States uses credit reports to qualify borrowers, what makes the Grameen system effective is that it draws on local knowledge: both of people's reputations as an essential part of group formation but also to make decisions about loans, and to evaluate whether economic activity that a borrower proposes to undertake makes sense. Since its inception, the bank has expanded its loan programs: it has special programs for beggars; it offers five year housing loans for up to $354 at 8%;[16] it has a microenterprise loan program for larger loans; it offers scholarships and education loans; and, in case of death, all of its outstanding loans are paid off under its Loan Insurance Program. Borrowers receive life insurance at no cost when they become a shareholder of the bank.[17] As part of its savings programs, the Bank has also created a pension fund for borrowers.[18]

Since its founding in 1976 and its formal incorporation in 1983, the Grameen Bank growth has been phenomenal, and it has put up impressive numbers.[19] Beginning in one village, the bank was in 363 villages by 1980, in 19,536 by 1990, in 40,225 by 2000, and in 81,343 by 2010.[20] In 2011, the

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13. GRAMEEN BANK, *Comparative Consolidated Statement for the Years 2010 & 2011*, *in* ANNUAL REPORT 2011, *available at* http://www.grameen-info.org/index.php?option=com_content&task=view&id=1188&Itemid=1014 (last updated Jan. 1, 2013).

14. *See* GRAMEEN BANK, *What Is Microcredit* (Oct. 2011), http://www.grameen-info.org/index.php?option=com_content&task=view&id=28&Itemid=108 (last updated Jan. 1, 2013).

15. GRAMEEN BANK, *Grameen Bank: 2008*, *in* ANNUAL REPORT 2008, *available at* http://www.grameen-info.org/index.php?option=com_content&task=view&id=669&Itemid=671 (last updated Jan. 1, 2013).

16. GRAMEEN BANK, *Grameen Bank at a Glance: October, 2011*, http://www.grameen.com/index.php?option=com_content&task=view&id=26&Itemid=0 (last updated Jan. 1, 2013).

17. *Id.*

18. *Id.*

19. GRAMEEN BANK, *Historical Data Series in USD (1976–2009)*, http://www.grameen.com/index.php?option=com_content&task=view&id=177&Itemid=144 (last updated Jan. 1, 2013); GRAMEEN BANK, *2010-01 Issue 361 USD* (Feb. 10, 2010) http://www.grameen.com/index.php?option=com_content&task=view&id=718&Itemid=84 (last updated Jan. 1, 2013).

20. GRAMEEN BANK, *Historical Data Series in USD*, *supra* note 19; GRAMEEN BANK, *2010-01 Issue 361 USD*, *supra* note 19.

Grameen bank had close to $1.8 billion in assets.[21] As of March 2013, it had 2,567 branches, 143,100 centers, a staff of over 25,000 employees, and reached 8.4 million members (ninety-six percent women) in 81,386 villages in Bangladesh.[22] According to its own criteria, as the result of its own loans, sixty-eight percent of Grameen borrowers are now living above the poverty line.[23]

III. SELF-HELP GROUPS: SAVINGS-LED MICROFINANCE

The Grameen model's staff requirements make its delivery of services costly, especially to remote rural areas. The savings-led approach arose to meet the challenge of creating a more cost-effective system to deliver credit to the rural poor at the bottom of the pyramid where the "cost of the last mile" puts access to such services beyond their reach. Historically, this approach grows out of experiments in village level banking, and attempts to create self-help groups that by mobilizing their own funds to lend through savings, become financially self-sustaining.[24]

In the early 1990s, CARE developed a village savings and loan (VS&L) model in Niger that laid the foundation for this approach.[25] Other large international NGOs such as Pact, Oxfam, Plan International, Catholic Relief Services (CRS), Aga Khan Foundation (AKF), and World Vision have since adopted and developed their own variations of this model. CARE's model, rather than trying to impose complex banking organizations and practices on villages, attempts to improve upon indigenous group lending traditions, most notably upon rotating savings and credit associations (ROSCAs).[26] Called by many names (*tontines, tandas, cundinas, susus, chit* funds, Merry Go Rounds) ROSCAs exist in many variations and are found throughout the world.[27] In their classic form they are group-based saving clubs, usually composed of a group of nine to twelve friends, kinsmen, or workmates. Participants meet regularly to contribute a fixed amount to a pool, and this lump sum is then given to one member, and the cycle continues until everyone in the group has had a turn. CARE's idea was to build on principles that were already well understood from experience with *tontines:*

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21. GRAMEEN BANK, *Balance Sheet (1983–2011)*, http://www.grameen-info.org/index.php?option=com_content&task=view&id=179&Itemid=424 (last updated Jan. 1, 2013).

22. GRAMEEN BANK, *2013-03 Issue 399 USD* (Mar. 2013), http://www.grameen-info.org/index.php?option=com_content&task=view&id=453&Itemid=527 (last updated Jan. 1, 2013).

23. GRAMEEN BANK, *Grameen Bank at a Glance*, *supra* note 16.

24. Ashe, *supra* note 3, at 1–2.

25. CARE, CLOSING THE GAP MICROFINANCE IN AFRICA: STATE-OF-THE-SECTOR REPORT 7 (2011), *available at* http://www.care.org/getinvolved/advocacy/access-africa/pdf/CARE-Access-Africa-Closing-the-Gap-2011.pdf.

26. *Id.* at 4.

27. Carlos Vélez-Ibáñez, BONDS OF MUTUAL TRUST: THE CULTURAL SYSTEMS OF ROTATING CREDIT ASSOCIATIONS AMONG URBAN MEXICANS AND CHICANOS (1983).

savings clubs, managed by villagers, chosen by group members, operating under rules commonly agreed to and understood, with transparency in the collection of payments and distribution of loans.[28]

The savings-led model enables the members, who are primarily women, to organize themselves into simple savings and loan groups based on mutual trust.[29] These groups are typically somewhat larger than *tontines*, having fifteen to thirty members.[30] They are also more formally organized, having a president, a secretary, a treasurer, a community chest guardian, and a key guardian.[31] During their formation, groups democratically elect their officers, set the bylaws for the group's operation, and decide on weekly quotas and interest rates.[32] Although their bylaws may vary slightly from group to group, they generally require women to attend weekly meetings, and impose fines for failure to do so without prior notification or adequate excuse.[33] Initially, like CARE, Oxfam tried to get groups to keep written books, and issue passbooks for savings.[34] In Mali, this failed miserably because of low levels of literacy, and Oxfam developed an effective oral accounting system that depends upon group memory, and uses pebbles or leaves to make calculations.[35]

Among these innovations, some groups use the idea of shares to allow members with more assets to achieve greater savings than if all members contribute equal amounts. As an illustration, if one share costs 100 CFA, then each week a member will pay 100 CFA for each share they have.[36] Like *tontines*, such savings-led groups operate on a cycle. Commonly these cycles are twelve months, which are somewhat longer than the three or four months typical of a *tontine*.[37] And unlike *tontines*, rather than members taking turns in receiving lump sum payments, the cycle begins with savings.[38] For the first two months, groups

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28. *Id.*

29. *See* CARE, *supra* note 25, at 9–10. The composition of these groups varies somewhat. Some NGOs (AFK, CARE, CRS, Plan International, and World Vision) will permit men to join savings groups but even among those that do, women predominate, ranging for sixty-five to eighty percent of the members. Oxfam and Pact, are exceptions—preferring to exclude men. No men are members of Oxfam's Savings for Change groups; and only one percent are members of Pact's savings groups. *Id.* at 12.

30. *See* Ashe, *supra* note 3, at 1.

31. *See id*. at 3.

32. *See* EOIN WRENN, MICRO-FINANCE LITERATURE REVIEW (2005), *available at* http://www.dochas.ie/Shared/Files/2/MicroFinance_literature_review.pdf.

33. *See* Ashe, *supra* note 3, at 5.

34. *See id*.

35. *Id.* at 4–5; *see* BUREAU OF APPLIED RESEARCH IN ANTHROPOLOGY, OPERATIONAL EVALUATION OF SAVING FOR CHANGE IN MALI 69 (2008).

36. BUREAU OF APPLIED RESEARCH IN ANTHROPOLOGY, *supra* note 35, at 23. Some savings-led groups offer variable quotas. In these, members may purchase between one and five shares when a saving cycle begins, and thus receive a proportionately bigger pay out when the cycle ends. *Id.*

37. *See id.*

38. *Id.*

meet weekly to pay their savings quotas.[39] By the third month the group has enough capital to begin making small loans.[40] At weekly meetings, loan requests are made.[41] Once the group has heard all the requests, members discuss whether there are sufficient funds to cover these, and if not, how to prioritize them. Unlike *tontines*, loans must be repaid with interest, typically ten percent per month.[42] Most loans are for a month, but some groups provide lower interest and longer-term loans for agricultural activities.[43] Over time, as interest charges expand the group's funds, the amounts available for lending increases. However, unlike saving in banks, members cannot withdraw their funds until the end of the cycle. When the cycle ends, the accumulated funds are divided according to shares, and because of the interest on loans, members in essence receive interest on their savings. After the group divides the accumulated funds, they decide whether to start a new cycle, and may change the conditions.[44]

The savings-led model has a number of notable advantages. Since savings groups lend their own money to members, no collateral or written application is required.[45] Because all the money comes from the members themselves, as opposed to outside loans or savings-matching programs, there are strong incentives to manage this money well.[46] Like *tontines* all transactions are done in front of the assembled group, making the system perfectly transparent.[47] Usually, most loan requests can be handled within a week.[48] Collection seems seldom to be a problem, and available figures indicate that less than one percent of participants are late on loan payments.[49]

While these savings groups are self-sustaining and do not require direct subventions, there is a back-story to be told of the NGO efforts required to set up these groups, to train members to run them, as well as to train chosen group members to help other savings groups to form and function. This behind the scenes tale is one of funding; partnerships; recruiting and training technical personnel; and carrying out of assessments, evaluations, and studies without which the introduction and scaling up of these programs could not be done. The CARE program, for instance, which consists of groups of on average twenty members, has enrolled 2.3 million people in its saving groups in twenty-seven of Africa's fifty-four countries since 1991.[50] This represents about sixty percent of

39. *Id.*
40. *See* BUREAU OF APPLIED RESEARCH IN ANTHROPOLOGY, *supra* note 35, at 69.
41. *See generally* JEFFERY ASHE, SAVING FOR CHANGE: A SAVINGS-LED, ASSET BUILDING, SUSTAINABLE STRATEGY FOR PROVIDING BASIC FINANCIAL SERVICES TO THE RURAL POOR 2 (2007).
42. BUREAU OF APPLIED RESEARCH IN ANTHROPOLOGY, *supra* note 35, at 23.
43. *Id.* at 23, 25, 57–58.
44. *Id.* at 24.
45. *Id.* at v.
46. *Id.* at v, 12.
47. BUREAU OF APPLIED RESEARCH IN ANTHROPOLOGY, *supra* note 35, at 24.
48. *Id.*
49. *Id.*
50. CARE, *supra* note 25, at 12.

the 3.8 million people participating in microfinance groups in Africa.[51] Perhaps the most impressive statistic CARE provides is that sixty-four percent of these groups were formed without the assistance of paid project staff.[52]

The rapid growth and expansion of microfinance is not just due to CARE's efforts, but reflects the collaborative work of a consortium of NGOs that also include Catholic Relief Services (CRS), Plan International, Oxfam, and Freedom from Hunger (FFH), the AKF, World Vision and Pact, as well as a number of smaller organizations implementing saving groups development programs.[53] Nor would this rapid expansion have been possible with the support of major donors such as the Visa Corporation or the Bill & Melinda Gates Foundation that has provided funding to CARE, Oxfam, and CRS. (These groups form a consortium of NGOs that collaborate closely with one another).[54]

Program implementation typically is carried out through a multilevel apparatus. At the top are donors and the international NGOs overseeing its implementation. Under these there is usually a technical unit that is the interface between the donors and international NGOs, and the partnering local NGOs that work directly with the women's savings groups. The technical unit's primary functions are: 1) to pass down directives and strategies from the international NGO to the local NGOs and to assimilate data and feedback from them to provide to the top level NGO and donors; 2) with international NGO's aid to identify and train, the local NGOs to work with savings groups; and 3) to collect, synthesize, and manage the databases that NGO and donors use to monitor the program. The Bill and Melinda Gates Foundation in recent years has helped the consortium to develop the Savings Group Information Exchange (SAVIX) to collect geographic and core statistics on savings group performance data from the CARE, Plan International, CRS, Oxfam and the AKF savings group development programs. This database includes information about the aforementioned savings groups, such as the size and frequency of loans, type of loans, and trends in size of investment.[55]

At the regional level, local NGO partners chosen to work with savings groups are typically involved with numerous development projects. These partnering local NGOs usually have a coordinator whose sole responsibility is to oversee savings group formation and training.[56] These coordinators supervise the field agents (called promoters) that work directly with village savings groups, and

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51. *Id.*

52. *Id.*

53. *See id.*

54. BUREAU OF APPLIED RESEARCH IN ANTHROPOLOGY (BARA) & INNOVATIONS FOR POVERTY ACTION (IPA), BASELINE STUDY OF *SAVINGS FOR CHANGE* IN MALI: RESULTS FROM THE SEGOU EXPANSION ZONE AND EXISTING SFC SITES 73 (2010) [hereinafter BARA & IPA], *available at* https://www.freedomfromhunger.org/sites/default/files/SfC_BARA-IPA_Baseline_Final_21Apr2010.pdf.

55. *See generally* BUREAU OF APPLIED RESEARCH IN ANTHROPOLOGY, *supra* note 35, at 15; CARE, *supra* note 25.

56. *See* BARA & IPA, *supra* note 54, at 65–66.

see to it that the replication goals set by the technical unit and consortium are met.[57] In theory, each coordinator directs a group of promoters, and each field agent is responsible for the villages in a set area. Their duties include explaining the savings program to communities and obtaining approval from village elders. They often help to both recruit women to form savings groups, as well as train them in all aspects of the group operations: electing officers; establishing their meeting procedures; creating rules governing lending, savings, and accounting techniques.[58] While initial training takes a couple of months or so, promoters may continue supervising groups for up to a year, and if other training is also being provided such as literacy, the supervision may last as long as two years.[59]

This training is costly. Generally, start-up costs run about $25 per client, and rise rapidly the farther services are extended into isolated rural areas.[60] To lower these costs, some programs train volunteers to become replicating agents. Generally these volunteers are unpaid, and are supposed to help other groups to form by providing them with the same kinds of training they received. There is some concern about the quality of this type of training. Three kinds of groups may be discerned: formal groups that have been trained by a promoter; informal groups trained by volunteers; and spontaneous groups that have received no training.[61] It is recognized that volunteers are not as well trained as promoters, thus many groups formed by them may not function as designed.[62] This concern is even greater regarding spontaneous groups.[63] While volunteers doubtless have reduced costs, the key to the program's quick spread has been the members themselves "who discuss [their savings groups] at weddings, deaths, and other ceremonies that bring together social networks that extend beyond the confines of individual villages."[64]

IV. LEGAL DIMENSIONS

Among the vast differences between the two approaches is their legal status. The Grameen Bank is a formal banking institution in Bangladesh subject to the full array of banking laws, regulations, and oversight mandated by the formal legal system. In Mali, by contrast, because savings groups are informal village organizations, they fly below the radar at least as far as the government and legal system are concerned, and remain unregulated and unlicensed. At the local level, nevertheless, there is some regulation. Village chiefs and their councils of elders who are the local authorities must grant permission to NGOs to

57. *Id.* at 64–65.
58. *Id.* at 65.
59. HUGH ALLEN & DAVID PANETTA, SAVINGS GROUPS: WHAT ARE THEY? 9 (2010).
60. *See* Ashe *supra* note 3, at 2; CARE, *supra* note 25, at 17.
61. *See* CARE, *supra* note 25, at 17–18.
62. *See CARE, supra note* 25, at 18.
63. CARE, *supra* note 25, at 18.
64. BUREAU OF APPLIED RESEARCH IN ANTHROPOLOGY, *supra* note 35, at 68.

work in their communities.[65] Where the Grameen Bank looks to the formal legal system for its legitimacy and to deal with any irregularities, savings groups have been designed not only as self-governing, but also as transparent.[66] Officers are members and must be elected. Because the rules and penalties for infractions (e.g. for not attending meetings without an excuse, being disruptive at a meeting) were negotiated with everyone's participation, they are well understood. More importantly, because members are one's neighbors and kinsman, the informal sanctions are potentially even more severe than those within the group, as someone's "bad" behavior may stain not only their own reputation, but also that of their family.[67] The result is that savings groups are generally well governed, and rarely have problems they cannot handle themselves.

This does not mean that there are not occasional problems. There have been cases where someone has come to the village pretending to be from an NGO, and organized women into a group, got them to begin saving, and then found a way to steal their money. The reaction of the village authorities was to ban such activities entirely. Similarly, while savings groups appear to function well as long as the basic design principles are followed, if these were to change (e.g., by not requiring members to attend all meetings) one might easily imagine irregularities occurring.[68]

In Islamic countries, one fundamental legal issue both for the formal banking approach, and for the less formal savings groups approach revolves around the Islamic injunction on usury.[69] Like Aristotle, Islamic tradition views money as inherently barren, and considers the idea of money producing money without any real good or object being exchanged as unnatural.[70] Centuries of Islamic traditions, however, have defined ways of structuring transactions that are acceptable. There are two basic principles that microfinance instructions draw upon to make their transactions acceptable in Islamic cultures: the first is based on partnership and the sharing of risk and rewards; the second is inspired by Islamic traditions of *Zakat*, which is usually seen as "charity" but may be more broadly understood as efforts undertaken to eliminate "conditions that promote economic and social exploitation."[71]

The Grameen bank fends off charges of usury in two ways. First, drawing on ideas surrounding *Zakat,* it defines its central mission as helping the poor, and emphasizes that its loans are alternatives to the entrapment that debt to

65. Based on author's observations in the field.

66. For groups that use Oxfam's system of oral accounting, transparency is truly complete, because every member knows exactly what is in the group's "books."

67. Based on author's observations in the field.

68. Based on author's observations in the field.

69. Both the Koran and the Hadiths forbid usury (*riba*) in no uncertain terms, and urge adherents to refrain from engaging in *riba*, literally unlawful or exploitative forms of gain. *See* Mohammad A. Asharf, *The Effectiveness of Microcredit Programs and Prospects of Islamic Microfiance Institutes (IMFIs) in Muslim Countries: A Case Study in Bangladesh*, 6 J. OF ISLAMIC ECON., BANKING & FIN. 69, 77 (2010).

70. *See id.* at 77–78.

71. *Id.* at 79.

moneylenders involves. So, even though it charges interest on most loans (except to beggars), because its loans are couched as part of its efforts to improve the lives of the poor, they can be interpreted as a means of *Zakat*.[72] Second, although charging interest on loans is usually unacceptable, partnerships in which associates share risks and rewards is acceptable. Thus, a common practice in Islamic banking is to use partnership principles to share risks and rewards. For instance, a group may finance an individual enterprise, and then share in its profits or losses according to an agreed-upon ratio.[73] Even though the Grameen bank charges interest on most loans, because the borrowers are "owners" and shareholders in the bank, they arguably share in its profits and losses.

NGO savings groups have not, by and large, emphasized *Zakat* to justify their actions, but they probably could. They rely instead on the principals of Islamic partnerships. Money raised within the group goes to fund the activities of its members, and though individual loans are interest bearing, because all the interest earned belongs to the group and is divided at the end of each year's cycle among its members according to agreed-upon shares, the group shares the risks and rewards as required by Islam.[74]

V. BASIC CLAIMS OF THE MICROFINANCE MOVEMENT

The microfinance movement makes a number of basic claims about their programs: that microfinance and microenterprise are effective antipoverty strategies and that they have positive socioeconomic impacts on rural women.[75] Advocates maintain that providing the poor access to financial services is one way to increase their income and productivity; that extending them credit creates self-employment opportunities that reduce poverty.[76] As evidence, Nathanael Goldberg, who was chief of staff of the Microcredit Summit Campaign from 1999–2003, refers to a number of studies that support these claims by offering a more nuanced view.[77] For example, he cites two studies done for the Bangladesh Rehabilitation Assistance Committee (BRAC). The first, a survey of 2250

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72. *See id.*

73. *Id.* at 78.

74. There are reports of local imams and village elders raising the issue of usury as an objection, but in most cases the argument that the group functions as an Islamic partnership has overcome these objections.

75. Sharmina Afrin, Narzul Islam, & Shahid Uddin Ahmed, *A Multivariate Model of Micro Credit and Rural Women Entrepreneurship Development in Bangladesh*, 3 INT'L J. OF BUS. & MGMT. 169, 170 (2008).

76. *See* Jonathan Morduch, *The Microfinance Schism*, 28 WORLD DEV. 617, 618–20 (2000); *see also* M. Safrankova, & J. Havel, *Impact of Microfinancing on Reducing Poverty in Developing Countries, Case Jordan*, 40 AGRICULTURA TROPICA ET SUBTROPICA 24 (2007).

77. *See* NATHANAEL GOLDBERG, MEASURING THE IMPACT OF MICROFINANCE: TAKING STOCK OF WHAT WE KNOW (2005).

households done by Mustafa et al. in 1996, provides a baseline for evaluation.[78] The second, done by Husain in 1998, revisited these households in an attempt to assess the impact of the BRAC program.[79] This second study, as Goldberg observes, found that BRAC members' non-land assets were 380% greater and their net worth was fifty percent higher than those of the comparison group of nonmember households.[80] However, when landholdings are factored into the analysis, Goldberg notes that the landless benefited least.[81]

Shahidur R. Khandker, the lead economist in the World Bank Institute's Poverty Reduction and Economic Management Division and the Development Research Group at the World Bank, is another prestigious voice lending support to the proposition that access to microfinance reduces poverty.[82] Using panel data from Bangladesh that compared household assets in 1991–1992 to their status in 1998–1999, Khandker calculated that their poverty rates declined by about three percent per year over this seven year period, and attributes much of this to participation in microfinance programs, claiming that forty percent of the reduction in moderate poverty is due to microfinance, and the impact on extreme poverty is even slightly higher, both at the individual and village levels, and stronger for women than for men.[83]

Yet as impressive as such statistics may be, the question remaining to be answered is who are these women? Are they really the poor and most vulnerable? Certainly in Bangladesh, where microfinance programs are now present in nearly every village, this question is less of reaching the poor than of including the most vulnerable. Vulnerability it should be noted is a little different from poverty per se, as it is a measure of both the particular risks associated with their livelihoods and the capability of their households to absorb the kinds of shocks that regularly affect them. In Bangladesh the evidence suggests that while these programs may reach the poor, they are less successful at reaching the vulnerable.[84] There may be good reasons that these programs have difficulty reaching the vulnerable. Given the emphasis on repayment of loans, the vulnerable are poor risks. Even savings programs, because they require regular contributions, are risky for this group. Because lending groups are self-organizing, and their access to credit depends upon their repayment record, they are unlikely to recruit women who they consider to be poor risks, and so the vulnerable are likely to be excluded.

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78. SHAMS MUSTAFA ET AL., BEACON OF HOPE: AN IMPACT ASSESSMENT STUDY OF BRAC'S RURAL DEVELOPMENT PROGRAMME i (1996).

79. BRAC RESEARCH AND EVALUATION DIV., POVERTY ALLEVIATION AND EMPOWERMENT: THE SECOND IMPACT ASSESSMENT STUDY OF BRAC'S RURAL DEVELOPMENT PROGRAMME xv (A. M. Muazzam Husain ed., 1998).

80. GOLDBERG, *supra* note 77, at 9.

81. *Id.*

82. Shahidur R. Khandker, *Microfinance and Poverty: Evidence Using Panel Data from Bangladesh*, 19 WORLD BANK ECON. REV. 263, 282–84 (2005).

83. *Id.* at 283–84.

84. Sajeda Amin et al., *Does Microcredit Reach the Poor and Vulnerable? Evidence from Northern Bangladesh*, 70 J. OF DEV. ECON. 59, 59 (2003).

Grameen explicitly recognizes this problem, and has special programs–at least for beggars.[85]

VI. QUESTIONABLE ASSUMPTIONS

Microfinance is based on some very questionable assumptions. Because of the peculiar way outsiders envision the problem of poverty, it is often supposed that the poor lack access to credit, and want it.[86] Many donors believe in the free market and individual initiative.[87] As a result, they imagine the poor as longing to be self-employed, and expect microcredit programs to unleash their entrepreneurial spirit. They envision microcredit creating successful microenterprises that produce both cash to pay off their loans, and the income needed for the poor to lift themselves out of poverty. They assume that the poor need no special training to do this, as they know what is best for them.[88]

The idea that with some modest help the poor can lift themselves out of poverty is based on the false premise that what works well for some people can work for everyone, everywhere. It is unreasonable to expect that any single intervention can be a solution to poverty.[89] Despite assertions that there is a need

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85. GRAMEEN BANK, *Is Grameen Bank Different* (Oct. 2011), http://www.grameen.com/index.php?option=com_content&task=view&id=27&Itemid=176 (last updated Jan. 1, 2013).

86. Larry Dossey, *The Peasant and the Professor: On Trust, Microcredit, and World Poverty*, 3 EXPLORE, 433, 441 (2007) (examining the microcredit movement generally as a vehicle allowing the poor to access credit); Gary M. Woller & Warner Woodworth, *Microcredit as a Grass-Roots Policy for International Development*, 29 POL'Y STUDIES J., 267, 277 (2001) (examining the microcredit movement generally as a vehicle allowing the poor to access credit).

87. Aneel Karnani, *Help, Don't Romanticize the Poor*, BUS. STRATEGY REV., Summer 2008, at 48, 49 (espousing view that a free market is the best way to achieve overall growth and development, but recognizing that governments must temper this by taking protective role to prevent the exploitation of the poor).

88. *Id.* at 51 ("The romanticizing of the poor as entrepreneurs has led to an overemphasis on microcredit as a way to reduce poverty."); S. M. Rahman, *A Practitioner's View of the Challenges Facing NGO-based Microfinance in Bangladesh*, *in* WHAT'S WRONG WITH MICROFINANCE? 193, 202 (Thomas Dichter & Malcolm Harper eds., 2007); Paul Rippey, *Princes, Peasants, and Pretenders: The Past and Future of African Microfinance*, *in* WHAT'S WRONG WITH MICROFINANCE? 109, 111–12 (Thomas Dichter & Malcolm Harper eds., 2007).

89. ELIZABETH LITTLEFIELD, JONATHAN MURDUCH & SYED HASHEMI, IS MICROFINANCE AN EFFECTIVE STRATEGY TO REACH THE MILLENNIUM DEVELOPMENT GOALS? 1 (2003) (noting that while micro-finance is a critical factor in achieving the Millennium Development Goals, progress in those areas is also dependent on things like a functioning government, physical security, economic growth, and basic infrastructure); *see also* Thomas Dichter, *Hype and Hope: The Worrisome State of the Microcredit Movement*, LEGAL MAG. (Jan. 26, 2006), http://www.legalcity.net/ (criticizing microcredit systems as

for credit, and that credit even may be a human right, the poor are usually leery of credit, and with good reason as the darker side of credit is debt.[90] Borrowing means being in debt. Borrowing from any kind of institution is fundamentally different from borrowing from friends.[91] Taking loans, even from microcredit associations, is perilous for the poor, as they risk sinking into even deeper economic and social poverty if they cannot repay them.[92] For poor households whose livelihoods are very vulnerable taking on debt increases the risks of falling into a downward debt spiral.[93]

The assertion that the poor are natural entrepreneurs needing only a little seed money to create successful microenterprises is perhaps the most dubious of these assumptions.[94] A host of problems plague this assumption.[95] To begin, it imagines that what is needed is a minimal amount of credit. Although some credit may be essential to start and run even petty enterprises, it is not the only condition that must be met. Running any successful enterprise requires skills, knowledge, and certain discipline. And even with these, given the great burdens women already carry, unless time tradeoffs are made, the time they have available to engage in such revenue generating activities may be severely limited.[96] Along with personal limitations, would-be small entrepreneurs also face a vast array of structural constraints, such as distance to markets, competition, and regulatory requirements.[97] In the rural areas, such constraints mean the poor have few opportunities to share the benefits provided by the market economy.

Such limitations have led many to conclude that the microfinance model in "is patently unsuited for anything but the very smallest of ventures";[98] and that

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merely alleviating poverty in the short-term, but failing to produce any real economic development).

90. Rippey, *supra* note 88, at 116.

91. Thomas Dichter, *Can Microcredit Make an Already Slippery Slope More Slippery?*, *in* WHAT'S WRONG WITH MICROFINANCE? 13 (Thomas Dichter & Malcolm Harper eds., 2007).

92. Syed Masud Ahmed, *Capability Development among the Ultra-poor in Bangladesh: A Case Study*, 27 J. HEALTH POPULATION & NUTRITION 528, 528 (2009).

93. *See generally* Timothy Finan, Debt and Vulnerability in Northwest and Southeast Bangladesh: A Cross-Regional Comparison (2005) (unpublished, on file with author).

94. *See* Vijay Mahajan, *From Microcredit to Livelihood Finance*, *in* WHAT'S WRONG WITH MICROFINANCE? 241, 242 (Thomas Dichter & Malcolm Harper eds., 2007) (discussing "five fatal" assumptions associated with the microfinance movement).

95. *See id.* at 242–44.

96. *Id.* at 242.

97. BARA & IPA, *supra* note 54, at 27, 135; Abhijit V. Banerjee & Esther Duflo, *Mandated Empowerment: Handing Antipoverty Policy Back to the Poor?*, ANNALS N.Y. ACAD. SCI., June 2008, at 333, 336.

98. Milford Bateman, *De-industrialization and Social Disintegration in Bosnia*, *in* WHAT'S WRONG WITH MICROFINANCE? 207, 216 (Thomas Dichter & Malcolm Harper eds., 2007).

it mainly supports informal activities with limited demand and low returns.[99] Even in the best of circumstances, microfinance programs merely help fund self-employment activities that supplement the income of poor women.[100] Even if microenterprises get off the ground, they are very vulnerable. Because of the low capital requirements and easy entry, usually such petty enterprises face very stiff competition in small local markets, where there is little demand and little profit. Moreover, rarely is the capital required to maintain a petty business kept separated from household funds. As a result, such activities are easily decapitalized by crises affecting households.[101]

Despite these shaky and questionable assumptions—microfinance efforts are not without value. What I am arguing is that microfinance has been hyped and oversold. Because of this, any fair assessment of its impact requires a more careful look both at the claims made and criticisms that have been presented of such programs.

VII. MALI: A CASE STUDY[102]

Although thrashing through the many issues that surround microfinance is necessary to appreciate their complexity, the generalizations made while doing so tend often to oversimplify, flatten, and distort these very issues. The antidote is to turn to specifics and scrutinize these issues by looking at real people, doing real things, in specific places. These issues are perhaps nowhere clearer than in Mali, one of the poorest countries in Africa.[103]

A few statistics may help to put Mali in perspective. In 2010, some fifty percent of its population lived in extreme poverty on less than one dollar a day.[104]

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99. *See generally* Khandker, *supra* note 82 (basing his hypothesis around the belief, stated in the article abstract, that "micro-finance supports mainly informal activities that often have low market demand").

100. *See generally* Jonathan Morduch, *The Microfinance Promise*, 37 J. ECON. LITERATURE, 1569–1614 (1999) (reporting that women are targeted by programs offering microfinance loans and make up the overwhelming recipients of such loans).

101. *See, e.g.*, James Acherson, *Household Organization and Budget Structures in a Purepecha Pueblo*, 23 AM. ETHNOLOGIST 331, 340 (examining how the poor in Purepecha budget their household funds and finding that "typical" households temporarily go out of business when money normally used for business supplies needs to be re-directed to food or necessities for the household).

102. This case study is based on the author's original fieldwork in Mali in 2008 and 2010.

103. *See* U.N. DEV. PROGRAMME, INTERNATIONAL HUMAN DEVELOPMENT INDICATORS: MALI (2013), http://hdrstats.undp.org/en/countries/profiles/MLI.html (ranking Mali 182d of 187 countries on the human development index).

104. UNDATA, U.N. STATISTIC DIV., MILLENNIUM DEVELOPMENT GOALS DATABASE, http://data.un.org/Data.aspx?d=MDG&f=seriesRowID%3A580 (last updated Sept. 12, 2012).

Seventy-nine percent lived in poverty on less than two dollars a day.[105] While Mali is a large country, sixty-five percent of its territory is comprised of Sahelian and Saharan deserts; only four percent of its lands that lie near the Senegal and Niger rivers are arable.[106] About ninety percent of Mali's population is concentrated in the southern part of the country.[107] Although one million people live in its capital, Bamako, about seventy percent of the population lives in rural villages.[108]

Rural households face a number of environmental and infrastructural constraints. The principal environmental constraint is rain. Rain falls during the monsoon season from June to September, but amounts vary widely from an average of 700–1400 millimeters in the Southern and Western Mali to less than 50 millimeters in the North.[109] Droughts are common.[110] Too much rain, or rains that come early or late, can be just as problematic. The Malian economy is heavily dependent on cotton and gold exports, so even small fluctuations in world prices for these commodities can send periodic shocks through the economy. The economy also has been subject to a continuing set of structural adjustments whose consequences for the poor have been as severe as those of any drought or locust plague.[111] As an illustration, a recent sudden jump in the costs of agricultural inputs by nearly fifty percent has placed the costs of fertilizers and pesticides beyond the reach of most farmers—seriously affecting yields of both cotton and corn.[112] If this were not enough, malaria is endemic and the incidence of water-born diseases is high, frequently burdening household finances with the costs of treating illnesses.[113]

Besides climatic risks and infrastructural limitations, rural livelihoods in Mali are very vulnerable to economic shocks and political shock. For example, the credit debacle in the United States that began in 2008 sent shock waves through the Malian economy, particularly for exports such as cotton that depended on timely credit. More recently, following the fall of Moammar Gaddafi, well-

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105. WORLD BANK, 2012 WORLD DEVELOPMENT INDICATORS 70 (2012), *available at* http://data.worldbank.org/sites/default/files/wdi-2012-ebook.pdf.

106. FED. RESEARCH DIV., LIBRARY OF CONGRESS, COUNTRY PROFILE: MALI 5 (Jan. 2005), *available at* http://lcweb2.loc.gov/frd/cs/profiles/Mali.pdf.

107. *Id.* at 6.

108. *Id.* at 1 (adding that at the time of the 1998 census, Bamako had more than one million inhabitants). In 2002, the population of Mali was sixty-eight percent rural. *Id.* at 6.

109. WORLD BANK GROUP, VULNERABILITY, RISK REDUCTION, AND ADAPTATION TO CLIMATE CHANGE: MALI 3–4 (2011), *available at* http://sdwebx.worldbank.org/climateportalb/doc/GFDRRCountryProfiles/wb_gfdrr_climate_change_country_profile_for_MLI.pdf.

110. *Id.* at 4.

111. *See generally* ERIC TOUSSAINT, YOUR MONEY OR YOUR LIFE: THE TYRANNY OF GLOBAL FINANCE (2005) (writing on the links between developments in the global finance institutions, and global debt and impoverishment).

112. BUREAU OF APPLIED RESEARCH IN ANTHROPOLOGY, *supra* note 35, at 41 (examining the Bougoula village as a case study).

113. *Id.* at 58, 61.

armed Malian Taureg mercenaries returning to Mali from Libya allied themselves with other Taureg extremist groups pushing for the independence of Azawad (the Taureg homeland), and launched a rebellion that soon led to the Malian military's ousting of President Amadou Toumani Touré.[114] According to the United Nations High Commission for Refugees the conflict displaced more than 350,000 people, in regions already threatened with famine due to poor rains in the first six months of 2012.[115]

A. Households in Mali

In order to understand the impacts of microfinance, one must understand how households are organized and function economically. In Mali, domestic units tend to be large and complex. Typically, they are comprised by a set of brothers, their wives, children—and even grandchildren. A distinction is made between the unit as a whole, which is commonly called the *gwa*, and individual, nuclear sub-units of the households referred to as *du*.[116] The *gwa* headship passes from brother to brother before it passes to next generation, following seniority and lineage.[117] Property, including wives, is inherited in like fashion. Within the household the status of women also is hierarchically organized. Apart from age differences, first wives have greater power and status than junior wives.[118] Because residence is patrilocal—wives marry into villages, and daughters marry out—unmarried daughters are subordinate to their mothers.[119]

Although the *gwa* is a collective enterprise, its sub-units have some degree of autonomy.[120] *Gwa* members work large fields collectively, filling common granaries with the fruits of their labor.[121] By managing these resources, the *gwa* head tries to assure that everyone has adequate food.[122] Since the needs

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114. Jeremy Keenan, *Mali's Tuareg Rebellion: What Next?,* AL JAZEERA (Mar. 20, 2012, 12:59), http://www.aljazeera.com/indepth/opinion/2012/03/20123208133276463.html; Adam Nossiter, *Mali Leader Finds Refuge in Senegal After Coup*, N.Y. TIMES, Apr. 21, 2012, at A6, *available at* http://www.nytimes.com/2012/04/21/world/africa/ousted-mali-president-amadou-toumani-toure-arrives-in-senegal.html?_r=0.

115. U.N. Secretary-General, *Assistance to Refugees, Returnees and Displaced Persons in Africa*, ¶ 1, U.N. Doc. A/67/323 (Aug. 12, 2012), *available at* http://www.unhcr.org/50b392be9.html; *see also*, *Drought Worsens in the Sahel Region of Africa – Millions of People at Risk*, WORLD BANK (May 31, 2012), http://go.worldbank.org/K11FM4JEQ0.

116. BARA & IPA, *supra* note 54, at 73.

117. BUREAU OF APPLIED RESEARCH IN ANTHROPOLOGY, *supra* note 35, at 29.

118. *Id.* at 77 (second wives of poorer men described as being especially vulnerable or food insecure).

119. *Id.* at 29.

120. BARA & IPA, *supra* note 54, at 31.

121. *Id.*

122. *Id.*

of sub-units vary with size, *du* subunits normally have some lands allocated to them to help them provide for their own needs.[123] Within *du* subunits wives are provided small garden plots to help them provide for their children.[124] Just as collective labor fills the granaries of the *gwa*, within the *du*, each wife fills her tiny granary, by working her little garden plot with her children.[125] This distinction between *gwa* and *du* becomes particularly important during the *soudure*, the lean months before harvest.[126] As food becomes scarce, responsibilities for providing food begin to shift from the *gwa* to the *du*; from the "large plate" drawn from the *gwa*'s granaries, to the "small plate" that each woman in the *du* is expected to provide to feed her own children.[127] Within households this division between *gwa* and *du* has some profound implications.[128] Although adults have equal access to the "large plate," because the resources of each *du* can vary some du may be richer or poorer than others, so not all members of the household may be equally well off.[129] Although simple households (defined as those with a single head and dependents) are somewhat more likely to be poor, pockets of poverty may be hidden within larger-complex households.[130]

Household size matters. While the household constitutes a primary source of labor, provisioning for its members may be challenging. The larger the group, the more capital it must generate to meet its basic needs. In its survey, IPA found that the average *gwa* had 25.7 people, and the average *du* 6.6 people.[131] At least 10 percent of the *gwa* had more than 40 members.[132] For example, using the poverty figures of $1 to $2 a day, an average *gwa* would need to generate approximately $9400 to $18,800 a year just to meet its food needs. Even the average *du* would need something about $2400 to $4800 a year. Food, of course, is only one need. There are many other demands on household's funds.[133] Funds must be allocated to production: inputs need to be bought; there are transportation costs, equipment that must be replaced, and houses to be maintained. Money is spent on medicines, and on education of children. Births, deaths, marriages and other rituals periodically call for expenditures. Clearly, household that are able to mobilize more able-bodied adults have some advantage when it comes to meeting their needs. This advantage is not simply a matter of numbers. Larger households are more able to diversify what are often gendered strategies, and so can have their fingers in many pies. Consistent with this, the IPA's baseline survey found that simple households (defined as those with a single head and dependents) are

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123. *Id.*
124. BUREAU OF APPLIED RESEARCH IN ANTHROPOLOGY, *supra* note 35, at 29.
125. *Id.*
126. *Id.*
127. *Id.*
128. *Id.*
129. BUREAU OF APPLIED RESEARCH IN ANTHROPOLOGY, *supra* note 35, at 29.
130. *Id.*
131. BARA & IPA, *supra* note 54, at 31.
132. *Id.*
133. *See generally* ERIC R. WOLF, PEASANTS (1966).

more vulnerable to shocks, and are ten percent more likely to run out of grains than larger-more complex households.[134] They are also more likely to fall below the extreme poverty line of $1 per day than are larger-complex households.[135]

Gender organizes household economic activities throughout Mali. Men are expected to provide the "big plate."[136] Because men have greater control over land, household labor, and greater access to capital, they are able to undertake riskier, larger scale activities that are potentially more rewarding.[137] Cotton, which is the backbone of the economy in many villages, is a prime example.[138] Before its privatization in 2008, earnings were good.[139] The state-run *Compagnie Malienne pour le Développement des Textiles* (CMDT) offered cotton growers inputs on credit that were then repaid from their earnings.[140] Unfortunately, during its privatization, poor harvests, low cotton prices, and rising input prices were made worse by late payment for their cotton crop, which was delayed more than six months.[141] Many growers ended up in debt, and owed CMDT money for the fertilizers and pesticides advanced to them on credit.[142] Some growers were even forced to sell their plow animals to pay these debts.[143] Although CMDT offered to increase the price paid for cotton the following year, in part because of the credit crisis in the United States the costs of inputs rose even more.[144] By 2010, despite higher cotton prices and promises of credit, most poorer cotton farmers were switching to other crops. Not everyone, however, abandoned cotton. Rich growers—who did not need credit—continued to grow cotton because its high prices provided them needed cash.[145]

As with cotton, each economic activity entails numerous risks. Although some households take more risks than others, households almost universally

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134. BARA & IPA, *supra* note 54, at 46.

135. *Id.*

136. BUREAU OF APPLIED RESEARCH IN ANTHROPOLOGY, *supra* note 35, at 29 (stating that men's grain crops provide the large plate during the *soudure*).

137. *See, e.g.*, *id.* at 29–31 (comparing men's and women's livelihood strategies).

138. *See* BUREAU OF APPLIED RESEARCH IN ANTHROPOLOGY, FINAL IMPACT EVALUATION OF THE SAVING FOR CHANGE PROGRAM IN MALI, 2009–2012, at 80 (2013).

139. Paradoxically, in the years before 2008, Mali's cotton industry had been in "steady decline" and "chronic deficit." *Mali Adopts Cotton Privatisation Law*, AFRICA ONLINE NEWS (July 5, 2013), http://www.afrol.com/articles/30135. In the years preceding privatization, Mali's cotton sector was facing "serious difficulties" owing to sharp declines in world cotton prices, mounting costs, and declining yields. *Mali: Fears Over Privatising Cotton*, IRIN HUMANITARIAN NEWS AND ANALYSIS (Apr. 24, 2008), http://www.irinnews.org/report/77905/mali-fears-over-privatising-cotton. (IRIN is a service of the U.N. Office for the Coordination of Humanitarian Affairs.)

140. BARA & IPA, *supra* note 54, at 139; JAMES TEFFT, MALI'S WHITE REVOLUTION: SMALLHOLDER COTTON FROM 1960 TO 2003, at 3–4 (2004), *available at* http://www.ifpri.org/sites/default/files/p10cotton.pdf.

141. BUREAU OF APPLIED RESEARCH IN ANTHROPOLOGY, *supra* note 35, at 36.

142. *Id.*

143. *Id.*

144. *Id.*

145. BARA & IPA, *supra* note 54, at 133 (reporting on the village of Diora).

follow a strategy of diversification to cope with risk, so that should crops fail, animals die, or market prices fall, they have options. As a general rule, households try to secure their subsistence base first. Women's "small plate" economic activities would seem to be an important part of this strategy.[146] Because of the domestic constraints on their labor—such activities tend be more risk adverse than those of men.[147] Typically women's crops tend to take little preparation other than planting, and require few if any inputs. In Mali such crops include rice and peanuts, vegetables, okra, eggplants, hot peppers, tomatoes, beans, and watermelons. Similarly, women's investments tend to be much more modest and risk adverse than men. Where a man might own cattle, the loss of which would be a big blow. In contrast, women own chickens, goats, and sheep, putting less at risk. If they engage in petty commerce, it tends to be in things that require little capital. It may be as simple as raising a few chickens and selling their eggs or buying raw peanuts and shelling them to sell in the market. Another way they may supplement their household income is by engaging in secondary occupations, which typically are extensions of their domestic skills such as cooking, sowing, and millet pounding.

Local livelihood strategies are often inadequate to cope with sundry blows to household finances; thus, many send migrants out in search of work, especially during the four-month off-season between the harvest and planting.[148] Most of this migration is within Mali, primarily to Bamako or other urban areas, although there is some to neighboring countries, particularly Guinea and the Ivory Coast.[149] Although both men and women migrate, the barriers are greater for women as they usually need either to be accompanied by a male relative, or to have relatives to stay with.

Although the microfinance movement often paints a picture of rural villages, bereft of credit except from moneylenders and tightfisted middlemen, in Mali this portrait is hardly accurate. In villages, the most common, and most ready sources of credit are loans made between family and friends. Such loans may be in kind or in cash, and almost never accrue interest.[150] Besides these, a variety of traditional forms of credit and savings are commonly found in villages: *tontines*, cereal banks, and social funds.[151] Villagers, mostly men, are increasingly making use of formal institutions—banks, village credit unions, and other microfinance institutions and their offices are found in most regions of Mali.

Mali has a long tradition of women's *tontines* (ROSCAs or savings clubs). They are found widely in rural villages, and in a good number there may be more than one. These *tontines* take a number of forms. The most common being a group of ten to thirty women that contribute a fixed quota to a pot that

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146. BUREAU OF APPLIED RESEARCH IN ANTHROPOLOGY, *supra* note 35, at 29–31.
147. *Id.*
148. BARA & IPA, *supra* note 54, at 72–73.
149. *Id.* at 125 (reporting on the village of Werekela).
150. *Id.* at 88–89.
151. *See id.* at 106–08 (comparing various credit systems).

each one takes in turn, till all have taken a turn.[152] The size of these quotas depends on the wealth of the women involved, but more than half have quotas of at least 250 CFA, and some as much as 1000 per week.[153] In villages that have more than one *tontine*, it is not uncommon for women to participate in more than one of them. One variant of the *tontine* is based on labor. Instead of weekly cash quotas, the group works fields for cash, and the proceeds are deposited in a collective fund.[154] At the end of the year the women divide these funds and use their savings to buy large cooking pots and attire for celebrations.[155]

Social funds of various sorts are also widely found in Malian villages. Many villages have a community chest, whose funds are collected and administered by the village chief and his council.[156] These community chests are used to help people in sudden need and pay for some community expenses (such as pumps, teachers' salaries, and upkeep of mosques).[157] These funds are raised in a number of ways.[158] In cotton growing regions, a small tax is assessed on each sack of cotton sold at the time of sale.[159] In some places a parcel of land is worked or rented and the proceeds go into the community chest.[160] Other villages tax migrants, assessing them a fixed amount when they return to the village.[161] Cereal banks are also found in some places.[162] They lend grain at interest to those in need to be repaid in kind. Another common social fund used to assist those in need is the *zakat*.[163] These are tithes and alms given to the village mosque and administered by its *imam* to help the poor, the crippled, and the elderly in need.[164]

Just as important as credit are savings. People have always stashed cash—proverbially under the bed—but cash savings are unproductive and run the risk of being stolen. Cash is also both easily squandered and subject to social pressures. It is very hard for wives to say no to their husband's demands for cash if they have any. Tying cash up in a *tontine*—makes it less subject to immediate pressures. Because nearly everything within the household belongs to men, except for a few personal items (cooking pots, jewelry, clothes, and small animals) the best long-term saving strategy for women is to buy these items.

Although entailing risks, both men and women often use animals as a means of savings. Unlikely money, animals reproduce, so that if properly

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152. *Id.* at 53, 107–08.

153. BARA & IPA, *supra* note 54, at 53.

154. *Id.* at 108 (describing the *tontine* in the village of Bougan, called "Benkady," which is a mutual assistance program).

155. *Id.*

156. *Id.* at 106 (describing the social fund system of the Dioundiou Kologo village).

157. *Id.*

158. BARA & IPA, *supra* note 54, at 106.

159. *Id.*

160. *Id.*

161. *Id.*

162. BARA & IPA, *supra* note 54, at 107 (discussing cereal bank use in the village of Pona).

163. *Id.* at 89.

164. *See generally id.*

managed the "savings" literally grow. More importantly, the wealth that animals represent is "lumpy."[165] Although selling an animal provides a lump sum, it is an all or nothing proposition. This lack of liquidity and lumpiness makes it a little easier to turn down social demands from their husband, kinsmen or friends for small cash loans.[166] One can simply say, "I don't have any cash."

B. Formal Credit Institutions in Mali

Since the mid-1980s, there has been a rapid spread of formal credit institutions (regulated by Malian laws) into the countryside.[167] Currently, formal credit unions are found in all regions of Mali, but are more prevalent in the South, including the regions of Gao, Kidal, Timbuktu, Koulikoro, Sikasso, Bamako, Segou, and Mopti.[168] In IPA's survey of 500 villages, sixty-two of them reported having access to such microfinance institutions.[169] Credit unions such as Kafo Jiginew, Nyèsigiso, or Kondo Jigima have extension programs that reach into villages and not only can make large loans, but offer both short term (1–5 months) and longer term loans (6–12 months) for either consumption and agriculture.[170] To qualify, however, one must become a member. Kafo Jiginew, for example, requires applicants to provide 10,000 CFA, ID photos, and a copy of their identity cards.[171] Loans also require collateral such as houses, buildings, or plantations of fruit trees to which there is clear title. Because of these collateral requirements (given the limited kinds of property women own) most borrowers are men. This is not to say women do not take out loans as well. However, these usually are married women, whose husbands are willing to cosign as guarantors.[172]

Many NGOs working in Mali currently offer savings-led microfinance programs, primarily aimed at women. Among them are CARE, CRS, Oxfam, and Plan International.[173] Because each NGO organizes democratically run savings

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165. *Id*. at 112.

166. *Id.* at 111–12.

167. *See* U.S. AGENCY FOR INT'L DEV., MALI FINANCE, ANNUAL REPORT: SEPTEMBER 2006 – AUGUST 2007, at 39–42, Annex 2 (2007), *available at* http://pdf.usaid.gov/pdf_docs/PDACM063.pdf.

168. *Id.* at 28.

169. BARA & IPA, *supra* note 54, at 30.

170. *Id*. at 25–26, 109.

171. *Id.*

172. *Id*. at 87 ("In Kambila . . . women are less likely to use the village savings bank… because it requires livestock as collateral and women need to ask their husbands or other men to guarantee the loan."); BUREAU OF APPLIED RESEARCH IN ANTHROPOLOGY, *supra* note 35, at 45 ("Collateral can be in the form of houses, buildings, plantations of fruit trees, but not in the form of animals.").

173. As of 2011, CARE's program reached about 118,000 Malians, CRS had 10,000 enrolled in its groups, Oxfam's Savings for Change (SFC) groups had 339,000 members, and Plan International's groups served 19,000 members. COOP. FOR ASSISTANCE AND RELIEF EVERYWHERE (CARE), CLOSING THE GAP, MICROFINANCE IN AFRICA: STATE-OF-

groups that manages its own savings funds and makes all decisions about loans transparently, these programs are generally well-designed, well-accepted, and very popular by both men and women, although perhaps for different reasons.

So, what do the Mali materials tell us about the issues surrounding microfinance? To be specific, what does this data say to the microfinance movement's claims that because the poor lack access to affordable credit they are at the mercy of moneylenders and unscrupulous middlemen? What can we learn from Mali about the claims made for microenterprise? What do these studies tell us about the impact of microfinance on households?

The picture of moneylenders preying upon poor in need of credit does not seem to apply in Mali particularly well. Even though women seldom use the services of formal credit institutions, they are even less likely to turn to moneylenders. They go first to friends, family, and neighbors, as they are more likely to make loans without interest, collateral, or other harsh terms. While savings-led microfinance groups are a welcome addition to the credit and savings options for women, *tontines* existed long before these came on the scene.[174]

Women continue to participate in *tontines*, and in many places use both saving-led groups and *tontines*.[175] Because *tontines* tend to have a smaller number of members, their quotas also tend to be larger.[176] Their smaller size also means they can complete a cycle in three or four months, allowing distribution of significant sums three or four times a year.[177] Even though funds placed in *tontines* typically gain no interest, they entail no debt apart from the week quota.[178] However, because *tontines* tend to have high quotas, they may not be vehicles for the very poor.[179] Women not only have multiple alternatives for savings and credit, but some they avail themselves of several of these at a time, giving them some flexibility to juggle their obligations.[180] A small percentage of women, participate in multiple *tontines*, or members of both savings groups and *tontines*.[181] Weighing against participation in multiple groups is the greater capital required and the time this takes, which would explain perhaps the small percentage of women doing this.[182]

THE-SECTOR REPORT 12 (2011), *available at* http://www.care.org/getinvolved/advocacy/access-africa/pdf/CARE-Access-Africa-Closing-the-Gap-2011.pdf.

174. BARA & IPA, *supra* note 54, at 14.

175. *Id.*

176. BUREAU OF APPLIED RESEARCH IN ANTHROPOLOGY, *supra* note 35, at 26.

177. *Id.*

178. *Id.*

179. *Id.* (giving the example: "*Tontines* tend to have higher weekly quotas than SfC, on the order of 500–1000 CFA as compared to 100 CFA.").

180. BARA & IPA, *supra* note 54, at 14.

181. *Id.* at 53 tbl. 28 (finding that only 2.9% of participants in the Savings for Change Program were also participating in multiple *tontines*).

182. *See id.* ("Most tontines have a system of weekly contributions, and these tend to be higher than the range normally found in SfC groups.").

C. Microenterprises in Mali

One of the central premises of the microfinance model is that given a little credit, women can become micro-entrepreneurs. NGOs appeal to donors by telling true stories of women who have started successful businesses and helped their families. One such video is the story of a very poor, West African woman from a poor village who with a micro loan is able to buy a sewing machine, and begins to make school uniforms that she sells for ninety cents.[183] Soon she is able to buy other sewing machines and hire other villagers. Eventually expanding her little factory, to twenty-four sewing machines, and twenty-four employees. With the money she earns is able to educate her three sons, as well as her daughter, who is now in the eighth grade, is good at math, and hopes someday to become a doctor.[184] Another such video tells a more modest story of a Malian woman who joined the Saving for Change women's group in her village.[185] She began by saving about $6 a month, and eventually was able to get a loan to buy a hand pasta making machine which she used to make pasta to sell in the market. This income has allowed her to buy medicine when her child was sick, and to help her husband start a business.[186] But how reasonable is this picture?

Here, the Malian data is particularly revealing. In Mali, as a visit to almost any village or market would attest, most married women either engage in some sort of microenterprise such as petty commerce (i.e., buying and reselling), or the transformation and sale of agricultural products such as shea nuts into shea butter to sell in the market, or the preparation and sale of food, or do some sort of work, such as sewing or making pottery to make money.[187] On the face, such facts might suggest that microfinance programs could both foster the expansion of women's existing microenterprises, and provide other women the capital needed to also engage in such activities.[188] However, before getting too excited, it should also be noted that these data tell us nothing about the success or failure of such ventures.[189]

Behind success stories, however, lie countless other tales, of participants who are not as fortunate or as successful. But to dwell on such failures would be equally wrong, and equally distorting. Hidden behind their little failures is an even more important story of many women's efforts, while seldom as successful as the propaganda would have us believe, nevertheless make significant impacts for households by providing help when help is needed. Savings groups, by

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183. VISIONFUND, *Visionfund Presents: The CEO*, (Nov. 8, 2011), http://www.youtube.com/watch?v=rhAx9cuxjhU.

184. *Id.*

185. OXFAM AMERICA, *Saving for Change*, (Nov. 14, 2008), http://www.youtube.com/watch?v=PsmFdlSqXCo.

186. *Id.*

187. Based on the author's observations in the field.

188. Based on the author's observations in the field.

189. Based on the author's own observations in the field; *see generally*, BARA, *supra* note 35; BARA & IPA, *supra* note 54.

enabling members to borrow and save, effectively help them to cope with the daily crises they confront, like a sick child, a shortage of food, or adverse turns in economic policies or markets, whose impacts without these funds would be much more severe. The real story of such programs is that with the scant resources that women themselves are able to muster, they have helped tens of thousands of households in Mali to become more stable and resilient. It is the story of a program that has meant women are more capable of feeding and educating their children, and providing them medical care. To evaluate the real effects of this program, we need to go beyond the hype of propaganda and looks at the real issues in microfinance: namely the various constraints on women, microenterprise, and on access to capital.

While there is ample reason to believe that such activities are widespread, and even necessary, their success is also constrained by numerous factors. The reality is that few microenterprises are very successful for a variety of reasons. One of the major constraints on them is that women already have a full workload: childcare, cooking, cleaning, garden work, fetching water, and tending animals. Rather than having infinite time to devote to a microenterprise, because their time is highly constrained, any microenterprise they undertake must fit into their schedule. Usually this means that such activities need to be extensions of the kinds of skills and work that women do as a part of their everyday activities.

For example, pasta making is an extension of cooking. Another characteristic of most of their microenterprises is that the barriers to entry are low; that is to say, they require little capital to get started. As a result, we find women engage in activities such as cooking, cutting women's hair, processing peanuts or shea nuts, investing in sheep, goats, and farm birds as these require little attention and care. Likewise petty commerce and gardening are popular activities. If the startup monies come from savings group, or a similar organization, another limiting factor is that most groups require that repayments begin (with some exceptions for agriculture) almost immediately. This means that this activity must produce sufficient revenues from the start in order to make these weekly payments. Here's the rub: low barriers to entry, and the limited range of activities that women are attracted to and engage in, mean that when they come to market, competition is high, and rewards often are low. Moreover, unless one lives in a market town, the farther one must travel to market, the greater this disadvantage becomes. Further, lacking the quantities that would make traveling to more distant markets profitable, women tend to all come to the same small, local markets with the same sorts of things. In such markets, because supply is often greater than demand, competition is great, prices poor, and profits slim.

While women may dream of owning a cow, or of having a millet mill, the reality is that environmental and economic conditions are against them. Constant shocks and crises make them vulnerable, and can erode away their capital. In Mali, for example, malaria is endemic, so even a sick child can quickly deplete savings.[190] If microenterprises were really run like business firms, capital invested in the microenterprise would be administered separately from household expenses. But, what mother would deny a sick child medicine? The reality is that microenterprise and household funds are intermingled. In good times household funds may subsidize microenterprises; in bad times microenterprises may be decapitalized to meet household needs. Given this intermingling of funds, to talk about production or consumption loans is utter nonsense. Such distinctions have no meaning, and are of no help in understanding how women use their savings and loans. To underline this point, if the alternative to taking out a loan to buy medicine for a sick child is to take money from her "earnings"—if available—and risk decapitalizing her "business," then such a loan can be viewed just as easily as for production as for consumption.

To understand how women use savings and loans, narratives of women's success in business are less informative than are the more common stories of "failures." A woman from Dioundiou Kologo tells a typical story: she got a loan to start a poultry business, raising chicks to sell in the market. At first, the business went well. She sold her chickens and made a profit, but then her daughter came down with malaria, and she ended up spending all her earnings. While from the outside point of view this business venture may seem a failure, from the vantage point of the household, this enterprise is no different than a poor harvest: it provided some money that could be put to good use at the moment of need.

The point is that households are not in business to make a profit per se. Their goal is simply to survive. Any activity that contributes toward this is a success. In as much as savings groups help to capitalize, and often recapitalize such activities, even if loans are used for "consumption" and even if the money is then handed over to her husband, so long as these funds are used for the benefit or wellbeing of the household that is what counts.

VIII. CONCLUSION

Microfinance is based on a simple, but hardly new idea, that if the poor are given access to savings and credit they are capable of lifting themselves out of poverty. Just as this idea inspired nineteenth-century liberal attempts to deal with poverty, its twentieth-century versions stirs the imagination and led to a vast microfinance movement with millions of clients. This movement, however, is based on some very shaky assumptions: 1) that the poor lack access and want affordable credit; 2) the poor are natural entrepreneurs; and 3) that even small loans can make a difference.

Poverty is a complex phenomenon, and solutions to it are unlikely to be found solely in neoliberal faith in free markets or the power of entrepreneurial spirit. When we look at real people making livings in real places, such as Mali,

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190. Author's observations in the field. *See also* BUREAU OF APPLIED RESEARCH IN ANTHROPOLOGY, *supra* note 35; BARA & IPA, *supra* note 54.

the limitations of microfinance as a solution become all too apparent. Due to drought, flood, locust, and economic shocks, livelihoods are already risky. For credit to make a difference, the return on investments must generate not merely enough to pay off principle and interest, but to turn profits. If investments fail to do this, then a loan become a liability, a debt that must be paid by other means. In Mali, the cards are stacked against small entrepreneurs, particularly in small villages. Women, for example, must balance their domestic duties against any moneymaking activities in which they may engage. Like their capital, their time is limited. In rural Mali, because villages are often some distance from markets—unless one has sufficient quantities to sell transportation alone may eat into profits. To make matters worse, sellers take pretty much the same assortment of goods to market, so there is little demand, and prices are poor. Should a woman miraculously turn a profit, because these "enterprises" are not separate from household finances, they may be decapitalized if earnings are diverted to meet emergency expenses.

Does this mean that microfinance is of little value in the fight against poverty? Although the solution to the problem of poverty requires many kinds of investments in infrastructure, health, and education other than microfinance, the answer to this question would seem to be no. Even though the small amounts of credit available are hardly sufficient to meet the scale of household needs, they do appear to help in at least two ways: 1) they can help meet small emergencies that would otherwise require sale of assets, and so smooth consumption and preserve wealth, 2) they enable microenterprises to continue even though they may only bring in modest benefits. Claims to empowerment likewise must be scrutinized. In Mali, although membership in these microfinance groups give women a space where they have economic power and make decisions, other spaces exist—such as with *tontines.* To the degree that these groups give women access to and control over some money of their own, women are empowered. Scale, however, here is important. The small amount women may control hardly makes a difference given the size of demand within household, and so is unlikely to affect basic relations between men and women.

Even if microfinance is not the engine that will lift people out of poverty or the empowering tool that will profoundly change the position of women in the home and society, the small changes it does produce are very real and are greatly appreciated. However, the real story about microfinance is not about whether it delivers on its promises to alleviate poverty as much as whether it is a politically driven game of bait-and-switch. Seen from this perspective, its neoliberal embrace makes sense. Unhappy with development aid, and subsidizing loans to the poor, microfinance offered a seemingly viable, market based alternative that fit the neoliberal vision of development. Still this vision needed to be sold, so claims of its success were if not exaggerated, then based on business metrics rather than social metrics, on amounts loaned and repayment rates, and other numbers rather than on social outcomes. Reinforcing the tale with these metrics, were the doubtlessly true stories of individuals whose lives had been transformed by a small loan. That such results are not typical was certainly less important than the fact that such stories helped raise the money NGOs needed to offer these microfinance programs. Donors often are more concerned with the business metrics: how many people are enrolled, how many loans are made, and what is the repayment rate. Such concerns with efficiency frequently trump other concerns. Even in well-run programs, these concerns often lead to donor blindness. Groups that meddle with the given design to adapt it to their needs are assumed to not understand its virtues, and their modifications are labeled "deformations" that require more training.

Although it is tempting to make sweeping generalizations, not all NGOs are the same, and the concrete facts on the ground vary as well. On balance, despite the hype, and exaggerated claims, and internal problems with the design and administration, microfinance programs do make a difference, even if it is a more modest one than claimed.