

BOOKSHELF

By William Easterly

The Dark Side Of Microcredit**We Are Not Able to Live in the Sky****By Mara Kardas-Nelson***Metropolitan, 400 pages, \$31.99*

Perhaps the single most popular idea in foreign aid over the past few decades has been microcredit for the world's poor. Small loans to poor people, it was suggested, would empower them to become affluent entrepreneurs.

Muhammad Yunus and Grameen Bank received the 2006 Nobel Peace Prize for the idea, which the Nobel committee celebrated as a way for “large population groups” to “break out of poverty.” Mr. Yunus, in his Nobel lecture, outlined a vision of a “poverty-free world” where “the only place you would be able to see poverty is in the poverty museums.” Today the online microloan distributor Kiva offers lenders the opportunity, for as little as \$25, to “make a loan, change a life.” Well, maybe hold off on the poverty

museums. In “We Are Not Able to Live in the Sky,” Mara Kardas Nelson, an independent journalist, identifies a few hitches between microcredit delivery and the end of poverty. This powerful chronicle traces the global rise and possible fall of microlending and documents the experiences of some women borrowers in Sierra Leone. Among her case studies is a woman named Finda in the eastern city of Koidu. The Nigerian microlender Lift Above Poverty Organization (LAPO) advanced Finda some money to sell shoes, but her business went bad and she couldn’t repay her loan. She was turned over to the police, who arrested her for “deceiving a creditor” on a \$150 debt. In prison, Finda was often cold, thirsty and hungry, sleeping on a concrete floor. Her face and feet swelled up. Finally, after a year, Finda’s family repaid \$100 of her loan, thus securing her release. But her health was already broken. “Penniless and frail,” she moved to a mining town in part for a job carrying gravel but also for “a cloak of anonymity, big enough to cover her shame.” Many others in the mining town were also “running from microfinance.” Finda now spends her income on pain medications and basic survival.

The brutal coercion of microcredit borrowers is Ms. Kardas- Nelson’s most notable theme. Some legal coercion

is necessary to enforce loan contracts everywhere, of course. But bankrupt borrowers in rich countries don't usually end up sleeping on the concrete floor of a jail cell for a year. The author met dozens of debtors in Sierra Leone who were similarly taken into custody or jailed when they couldn't make their loan payments. She also found similar threats of jail in Ghana, Uganda and Jordan.

High annual interest rates, often reaching triple digits, put extreme pressure on debtors. In Sierra Leone, the author relates, borrowers are told about fees and the payment schedule but often not the rates. Lenders say their clients are "too financially illiterate to understand."

Deploying microfinance into societies with brutal governments and police as enforcers was perhaps not such a promising idea.

Combining coercion, poor information and rapid microcredit expansion to meet international goals has led to some unhappy results around the world. As Ms. Kardas-Nelson shows, microlenders often force debtors to sell their houses, land, furniture, livestock—even cellphones and utensils—to repay loans. In Cambodia, we learn, "some microfinance lenders reportedly pay a fee to local authorities to 'help pressure payment.'" Other researchers

have suggested “a link between microdebt and indentured servitude,” with factory owners agreeing “to pay off a debt in exchange for a debtor agreeing to work.” Sometimes these debtors will put their own children to work as well to help pay down debts faster.

The worst crisis for microcredit occurred in 2010 in the Indian province of Andhra Pradesh, where 200 microborrowers died by suicide. The Associated Press reported that one woman, who had borrowed \$3,000, killed herself with pesticide after a microcredit agent suggested she sell her daughters into prostitution. Other reports of suicides by microcredit borrowers have come from Bangladesh, Kenya and Sri Lanka.

Some have disputed whether the suicides were really caused by microcredit, and the lenders have denied the reports. The author herself declines to say that microcredit is always bad. In “Portfolios of the Poor” (2009), Daryl Collins, Jonathan Morduch, Stuart Rutherford and Orlanda Ruthven present a different picture. They argue that poor people understand better than some professionals that high interest rates are not really as high as calculated. Interest is often not compounded, short-term loans are repaid before

interest payments become exorbitant, and some fees are for financial services it is rational to pay for. Ms. Collins and her co-authors found poor people skillfully saving, lending to one another and borrowing from multiple sources; few borrowers had a negative net worth. Who is calling whom financially illiterate?

The consensus among most economists is that microfinance institutions have failed to realize their grandiose promises of ending poverty. Ms. Kardas-Nelson cites the careful studies that failed to find a decline in poverty with microfinance; in some cases, household consumption even declined. As one group of researchers announced in a 2015 press release: “Microcredit Doesn’t Live Up to the Promise of Transforming Lives, Six Studies Show.”

Even if the book’s worst cases are not representative, they show a microfinance industry unwilling or unable to prevent abuses of force. At the best of times, the aid business often struggles to respect the rights of the poor. Deploying microfinance into societies with brutal governments and the police as enforcers was probably not such a promising idea.

In the end, the author realizes that “intervening in another person’s life requires profound hubris.” We would all do well to heed her reminder that “distilling deeply complicated problems into bite-size solutions is a great way to make a big mess, often without meaning to.”

Mr. Easterly, a professor at New York University, is the author of “The Tyranny of Experts: Economists, Dictators, and the Forgotten Rights of the Poor.”

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