

Microfinance revisited

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MAHFUZUR RAHMAN

THE founder of microfinance reportedly called them loan sharks. Newspaper reports looked on them as debt-traps for the poor. Some leading politicians of the country described them in much worse terms. It is a little hard to believe that it is microfinance institutions themselves -- or at least some of them -- that are being so unflatteringly described.

After all institutions that give very small loans to very small entrepreneurs were hailed not so long ago as a great big hope in fighting poverty, and continue to receive a great deal of praise. The finance minister, one of the more articulate members of the present government, and an ardent supporter of small loans, is said to have acquiesced to the suggestion that microfinance was not a panacea. What is going on?

The immediate trigger to such denunciation and defensiveness is reports that microfinance institutions of the country have been charging their clients very high rates of interest. Such reports are, of course, not new but have gathered a momentum of their own in recent times. The wide coverage given in the international media to a broadly similar situation in the Indian state of Andhra Pradesh may also have reflected on the state of microfinance in its birthplace.

Among the Indian states, microfinance has spread the widest in Andhra Pradesh, and a large number of suicides allegedly

linked to high indebtedness to some of these institutions have created uproar and have led to calls to cap interest rates charged by microlenders. The uproar for a time led to a standstill in lending. In Bangladesh the outcry over the allegedly usurious rates of interest has led the authorities to cap interest rates.

This is not how things were supposed to be. To be sure, the focus on exorbitant interest rates in microfinance should not obscure the broader picture. The idea of small loans, given without collateral, has spread. Globally, lending by microfinance institutions are now worth tens of billions of dollars, and their clients counted in tens of millions. Value is being created by people with small means or none at all who would otherwise be unemployed or underemployed. Thanks to availability of small loans some women in the poor strata of society have turned into small entrepreneurs and attained a degree of respect in society so often denied them.

It is both easy to deny the achievements and to exaggerate them. That is because a comprehensive study of what microfinance has achieved is hard to come by. Microfinance institutions reel off statistics to show how their membership, loan disbursements, and outstanding loans, for example, have grown over the years. Anecdotal evidence of success is often presented, much in the manner of sales promotion. But little has been done to assess the impact of microfinance on eradication of poverty, its lofty goal.

On the other hand, the odd academic studies made so far seem to suggest that the role of microfinance in poverty eradication has been quite negligible. It seems there is a lot for the proponents of small loans to be defensive about. The recent outcry over high interest rates charged by microlenders has certainly not helped.

Let me air my thoughts very briefly on this rather murky subject with the aid of some economics and a bit of common sense. It is well-known that Professor Muhammad Yunus, the founder of microfinance, does not much care for text-book economics, which he once denounced as an "exclusive playground for blood-thirsty profit-seekers" and topped this with the suggestion that the "seeds of poverty are planted firmly in the pages of economic text-books." But even text-book economics can help in understanding microfinance.

We know from economics that real rates of return on capital are high in capital-scarce countries. We know, without help from economics, that poor countries are short of capital. Rates of interest are, therefore, high in these countries, often extraordinarily high. Bangladesh is no exception.

Small entrepreneurs would thus normally be willing to borrow money at high rates of interests to use it in investments that promise commensurately high rates of return. It requires no genius to envision people willing to borrow money at high rates of interest in that situation.

That text-book scenario provided the rationale for microfinance: Grameen Bank, pioneered by Professor Yunus, started out on the premise that small entrepreneurs would find it profitable to borrow money even at fairly high rates of interest. It is to the credit of Professor Yunus that he devised an institutional arrangement that Grameen now stands for.

It is hard, a priori, to dispute that the rates of interest charged by microfinance institutions are high. The majority of effective



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rates of interest charged by microfinance institutions in Bangladesh probably range between 25 and 40%. This is roughly 2 to 3 times as high as rates of interest charged by commercial banks to their best clients. There is little reason to be coy about accepting that small loans are expensive.

On the other hand, small borrowers do repay their loans with a remarkable degree of regularity, reflected in Grameen's loan "recovery" rate of well over 90%. This, in effect, means that income from ventures financed by microlenders is enough for the average borrower to at least break even. Some may even earn enough to escape extreme poverty.

Yet there is little hard evidence to suggest that microfinance has become a significant vehicle for fighting poverty. The evidence of progression of the micro-borrower, from her chicken coop to her cattle pen -- no derision intended -- and onward, still remains very largely anecdotal; and the stories of those stuck right where they began remain largely untold. It should be the policy of microfinance institutions themselves to end their own poverty of evidence about their success in fighting economic poverty.

There are some rather obvious limitations to the power of microfinance. Small is not always beautiful. That goes both for borrowers and for lenders. The types of

small business financed by the microlenders rarely lend themselves to innovation, the vital motive force of economic growth. And small loans are costly to administer, calling for high rates of interest.

On the other hand, economic growth still remains the best vehicle to alleviate poverty. Talks of the tide of growth lifting all economic boats have come to be disdained in recent times. Yet many of the powerful ideas of traditional economics of growth and development remain valid today. No amount of hyperbole over microfinance should cloud them.

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Slow murder of urban dwellers

Urban air here is thick with fumes; water either in the rivers, ponds or tubewells, is polluted, and the land is poisoned. Unchecked dumping of waste, a lot of it toxic, noxious emissions from vehicles and the pesticides we use in farmlands are the main culprits.

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AN ex-student of mine at Buet, who is now teaching in USA, came to Bangladesh with his eight year old son. When I asked him about his experiences of Dhaka, he told me in an anguished tone that next time he would never bring his son to this choked city. He told me that air pollution had reached menacing proportions and he found the city unlivable, and feared children here would turn sterile if the situation did not change. Could it be that his anxiety over the fate of our progeny was exaggerated? Looking around the country, especially Dhaka city, one may not be able to disagree with his assertion.

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A filthy gray haze of mist, auto exhausts and chemicals hangs low over Dhaka, one of the world's most polluted cities. It makes your eyes water, coats your lungs with layers of microscopic noxious soot and covers you with black grime. With the population growing in the city, motorised vehicles are on the rise, Reports suggest that about 100 used or new vehicles hit the road everyday, while road space covers only 6% of the city area.

More than 3.2 lakh motor vehicles ply the roads in Dhaka. Diesel-run vehicles account for more than 80% of the air pollution as most of them fail to comply with the emission standard. According to WHO guidelines, blood lead level above 10 microgram per deciliter is considered as lead poisoning. A recent survey found lead concentration in urban children to be 5.8 to 21.6 microgram per deciliter and urban slum children's lead level ranged from 9.6 to 38.9 microgram per deciliter, three times more than the acceptable level.

Doctors say that unacceptable lead concentration in a child's blood may cause irreversible neurological damage and fatal renal disease. According to a World Bank report, air pollution alone kills more than 15,000 people a year. It says that out of more than 6.5 million people suffering from various diseases each year, the major disease is not diarrhea, as is the popular perception, but acute respiratory infections caused mainly by polluted air, automobile and industrial emissions, and emissions from brick kilns burning low quality coal and rubber tyres having excessive sulphur content.



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Dhaka is descending into a nightmarish city. Before long, people here will fall like running away because of the accelerating deterioration in the quality of life. The very qualities that lured millions to Dhaka in the good old days are threatening to disappear. People, presumably because of the accelerating deterioration in the quality of life. The very qualities that lured millions of Dhaka in the good old days are threatening to disappear. People, presumably because of ignorance, have not taken this as a threat to their lives.

Despite the fact that regulations exist, indifference, inaction, and failure in taking punitive measures against the offending drivers and owners of the junk vehicles has worsened the situation.

This is not a natural disaster that cannot be prevented. It has been a daily reality. People have much to worry about because they are breathing very dangerous levels of toxic substances, and suffering from pollution related diseases.

A survey conducted by teachers of the Environmental Engineering department of Buet found extremely high concentrations of airborne poisons. The concentration of carbon dioxide in microgram per deciliter was 79,900 microgram per cubic metre at

Science Laboratory intersection, 43,000 at Zigatola, 69,300 at Mohakhali, and 85,000 at Panthapath. The safe limit, as defined by the World Health Organisation (WHO), is 10,000 microgram per cubic metre. The concentrations of nitrogen dioxide and sulphur dioxide skyrocketed to almost 12

The economic cost of sickness and death related to air pollution in four large cities of the country is estimated to be roughly \$800 million per year by a World Bank survey. If the level of pollution in major cities could be reduced to WHO standards, about 15,000 deaths per year

times above the safe limit.

Nobody really seems to know the long-term effects of constant exposure to such high levels of airborne poisons. Doctors say that exposure to such high levels can lead to premature ageing of lung tissue and possibility of cancer and other related diseases. Reports from the National Institute of Diseases of chest and Hospital (NIDCH) reveal the nearly 7 million people, almost half of them children, suffer from asthma and lung diseases.

In a city like Dhaka, reducing the number of cars, closing factories, and taking remedial measures in public transportation is simply not an option. But as things get worse, the government has to do something like prohibiting cars from moving in the streets unnecessarily, sometimes with no passenger, and taking stringent and punitive measures against vehicles spewing noxious fumes.

Sadly true, laws exist to book a polluter, but law enforcers shy away from using the laws in most cases because of an unholy alliance with the vehicle drivers. In most cases, polluting vehicles drive away emitting noxious fumes in the presence of the law enforcement personnel without being held up or booked.

could be avoided, says a document of the World Bank. Besides, there would be an estimated 6.5 million fewer cases of sickness requiring medical attention.

Experts believe that close to 40% of all vehicular emissions can be reduced if low quality petrol and diesel are improved. The most potent danger comes from two-wheelers and auto-rickshaws, which emit six times the amount of hydrocarbons and three times more suspended particulate matter than a car.

This calls for introduction of a mass transport system, if we have any concern for public health, and for our children. We must introduce circular railway-- either metro-rail or elevated expressway-- around the city without any further delay. An expert study reveals that a car requires 44 times as much road space as a bus to transport an equal number of people. Second, a car emits 90 times more carbon monoxide as compared to bus meeting the same travel demand. Two wheelers emit 49 times more emissions for the same number of passengers as a bus, and three-wheelers emit 60 times more.

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Censored Wikileaks: Link here!

WIKILEAKS boss Julian Assange is the reincarnation of Guo Zyi. In the Tang Dynasty (AD 618 to 907) in ancient China, a man named Guo Zyi became disgusted that all government business was done using sneaky secret alliances.

In response, he nailed his front door open. Whenever anyone walked past his house, they could see him doing all the normal stuff that guys do: having a beer, cutting his toenails, washing his underpants, trying on his wife's clothes, etc. Everyone laughed at him.

But politics got so tangled that the government collapsed. Citizens spontaneously decided that the only trustworthy person in the kingdom was Guo Zyi -- and all because his front door was nailed open.

That's one of the main reasons why Wikileaks' fight against secrecy is so important.

The other 80% of the reason is that reading dirt about rich, famous people is really fun, go on, admit it.

And so I dash to the newspaper rack at my breakfast café every morning to see if anything really juicy appears among the latest Wikileaks exposes.

Recently, no luck. "British prince rude about French," said one headline. That's not news. Brits and Frenchmen have been chopping off each other's heads for 900 years, and decapitating someone probably counts as "rude." It does in my home, anyway (though maybe not at my office).

Some readers tell me they're disappointed that Wikileaks has failed to provide answers to the most tantalising rumours swirling around modern geopolitics.

- 1) Is it true that Barack Obama is, in fact, a woman?
- 2) Is it true that Hillary Clinton is, in fact, a woman?
- 3) Do the Virgin Islands really exist?
- 4) Is there really a country called Christmas Island and if so, why doesn't Santa Claus live there?
- 5) Why is there no edible food in Germany?
- 6) Could Lady Gaga, shockingly, be an alien life form?
- 7) Could Kim Jong Il, equally shockingly, not be an alien life form?

Etc, etc! These are the most important current issues of the present day, unless you think my correspondents/commentators are wacky, lunatic-fringe conspiracy theorists. (Don't answer that!)

I decided to log on to Wikileaks and read the 250,000 classified documents myself.

The site was gone! Wikileaks.com led to a blank page. So did Wikileaks.org.

"The bad guys keep shutting it down, so they have to keep finding new addresses," a geek told me. He asked me to join thousands of other people in putting an "I Am Wikileaks" badge on my website and offering support and links.

I did so, of course (end of post, below).

Thinking about Guo Zyi made me decide to rush home and remove my front door.

But my wife reminded me that we lived on the 9th floor of an apartment block, so the public wouldn't share my floor would think I was dangerously deranged. So, no change there.

But it's important that the war on secrecy continues.

So please note, Presidents Obama, Kim, etc. Your secrets are safe for the moment. But it's only a matter of time.

My recommendation is that you nail your doors open before someone does it for you.

Mr. Assange and all his supporters (we are many) are approaching with hammer and nails.

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