Microcredits no shortcut to happiness

May 9 2013

The importance of microcredits in reducing poverty among women in developing countries has been exaggerated.

"Microcredits should not be marketed as a panacea for development. They are connected to other livelihood strategies targeting women, plus they cannot replace traditional aid to developing countries," says Johanna Hietalahti, Master of Social Sciences. Her doctoral thesis for the University of Helsinki focuses on the everyday politics and power plays in microcredit networks in Limpopo, South Africa.

Microcredits were of greatest benefit to recipients whose households enjoyed regular income and who managed to achieve a good social position in their communities. Only a few businesses were financially sustainable. At worst, microcredits pushed people into a debt spiral and crippled the entire group receiving microcredits.

"Joint liability is applauded as a Nobel-Prize-worthy substitute for financial collateral. However, it epitomises the key problem of microcredits: joint liability only works for the microfinance institution. There are no rules for how responsibilities are to be shared by group members," explains Hietalahti. "This leaves room for exploitation and puts group members at the mercy of their 'own laws'."

In microcredit jargon, group credits are based on the solidarity of five well-acquainted women and their will to help one another. Each of them receives an individual loan, but they are jointly liable for one another's credits. In Limpopo, however, entire village communities and families were sometimes the ultimate guarantors of microcredits. The repayment of loans relied on strict discipline and control. If someone failed to pay a loan, the others raised the sum one way or another.

Although microcredits basically target people who are not served by the official financial markets, loans were not automatically granted to everyone. Not only did potential credit recipients have to satisfy the organisation's requirements, they also had to pass the tight screening of the women themselves. Occasionally, a dire need for money forced the group to accept just about anyone.

Inequality limits women's activities

Microcredit organisations share one particular feature: they are committed to eradicating poverty, but function as banks. International funders emphasise quickly gained self-sufficiency, pressuring the organisations to make painful compromises in poverty reduction targets. In addition to structural issues, the microcredit business is marked by power struggles involving both employees and clients.

In South Africa, women in microcredit groups are considered to be agents of their own development. This is somewhat contradictory in the sense that the society's structural problems and systematic political inequality restrict women's activities. Hietalahti's study calls for a deeper understanding of the everyday lives of women in microcredit groups: of the sacrifices and compromises they are forced to make to keep their microcredit wheels turning despite unfair rules, weak social support and unfavourable power relations.

Provided by University of Helsinki