

BOOK REVIEW

Microcredit's Real Revolution (La vraie révolution du microcrédit)

Jean-Michel Servet. Odile Jacob, Paris, 2015, 256 pp.

ISBN: 978 2 73813246 8

REVIEWED BY NATHANAEL OJONG

Department of Business Administration, Tyndale University College

Jean-Michel Servet's latest book, *La vraie révolution du microcrédit* (*Microcredit's Real Revolution*, 2015), is a must read. It is a sequel to his earlier highly influential book *Banquiers aux pieds nus* (*Barefoot Bankers*, 2006), which critically examined three decades of the expansion of microcredit. This current book extends his previous book by navigating readers through a forty-year, crises-ridden journey of microcredit. Much like Jude Fernando's (ed) book *Microfinance: Perils and Prospects*, reviewed in this journal (Neverston, 2013), *Microcredit's Real Revolution* shows that the last four decades has witnessed the global spread of microcredit as a concept in development studies and as a strategy in development policy. At the same time, the world witnessed the frequent repackaging of the concept, with the same neoliberal logic. At first, it was called microcredit, next microfinance, and then financial inclusion. The pomp and pageantry that accompanied various events linked to this concept and the personalities involved are a testimony to the general acceptability of this concept. Little wonder that Muhammad Yunus and the Grameen Bank were awarded the Nobel Peace Prize for 2006 for their work which has helped to 'create economic and social development from below.'¹

Unlike extant scholarship, however, the book under review shows the diversity in the microfinance advocacy, rhetoric, and practice. On the one hand, the microfinance advocacy focuses on poverty, conceptualising it as the lack of finance. In practice, however, microfinance is also an investment vehicle for the

¹ The Norwegian Nobel Institute

wealthy because, while it allows beneficiaries to tackle their problem of finance and get out of dire economic status through their own strength, it simultaneously enables investors to increase and diversify their investments by reaching out to new markets. Indeed, the book argues that while microcredit is portrayed as a quick fix, erected on the ashes of public development policies, its real underlying motives are the expansion of financial markets and the extraction of surplus from the beneficiaries of financial services. The book shows that the number of users has increased significantly, substantially increasing the profit margins of the proprietors of the scheme, but the intended development outcomes sought are yet to be realised. A different revolution, the author argues, occurred, one involving the development of 'financialisation' on a global scale and the need for financial inclusion.

The book is divided into four parts. The first analyses the ideology and consensus that supports microcredit. The microcredit revolution had a goal of eliminating poverty as well as render financial aid for development obsolete. The author explains how its advocates portray it as a win-win game, whereby the interests of lenders and borrowers are satisfied. Moreover, according to its champions, microcredit was to increase the income of borrowers and generate social benefits such as better schooling for poor children, women's empowerment, and even healthcare for all. In fact, microcredit was not simply out to cause a revolution, it was believed to perform miracles. According to the author, there has been several unfulfilled promises. Yet, a multitude of actors and institutions supported and continue to support this fallacy due to interest or structural coercion. It was only when microcredit faced a crisis, one that led to a wave of suicides in India or rebellion of borrowers against abuses in Bangladesh, Bolivia and Morocco that criticism became possible. In reality, we witnessed a counter-revolution. The expansion of microcredit has helped propagate the concepts of competition and private property to the margins of society, that is, in areas where they initially had little presence, without necessarily reducing poverty. Competition—an essential component of neoliberalism—forced microcredit institutions to be converted into providers of commercial financial services. The search for profitability, he argues, has led to a frantic search for customers, and has partly diverted micro-lenders from creditworthy clients, or worse, led them to propose usurious interest rates to cover the high cost of administering the loans, and to attract investment from investors in search of risk diversification: thus the revolts of borrowers and low repayment rates in various areas around the globe. The quest for profits, which takes precedence over social welfare goals, is at the root of microcredit repayment crises. But these crises are also

driven, to varying degrees, by the strongly interrelated and mutually reinforcing factors of regulatory weaknesses and political interference, over-saturation of some markets with credit, as well as collective resistance to repayment.

The second part of the book analyses the evolution of microcredit over the last four decades. The author introduces readers to the concepts of social business and impact investing—the most recent neoliberal 'products' which attempt to bring together two forces of human nature: self-interest and caring for others. To the supporters of these recent repackaged concepts, it would meet two missions: make profits and improve the lives of people who do not fully benefit from market forces. The author illustrates how these so-called noble concepts disguise the real face of the neoliberal paradigm.

In the third part of the book, Jean-Michel Servet critically analyses the causes of the failure of microcredit, since it failed to significantly reduce poverty as was heralded by some prophets who saw it as a poverty reduction tool. The author contends that those at the base of the pyramid need access to sound and reliable systems to meet their financial needs. The key challenge is to identify those conditions that allow microcredit to benefit the poor and local economies, and not just micro-lenders and investors. Jean-Michel Servet outlines ten conditions necessary for microcredit to contribute to poverty alleviation, hence benefit the poor and local economies. Unfortunately, it is very unusual for all these conditions to be met. On the contrary, the poor have found themselves in a poverty trap.

The fourth part focuses on the transition from microcredit to microfinance, the latter being a broader field than just microcredit. It shows the diversity of practices and needs—in terms of financial instruments, structure, and uses. The author reflects on micro-insurance, the links between microfinance and savings, money transfer and payment services. Finally, the author issues a call to go beyond the antagonistic relationship between interventions by the market and the state. As a result of the double failure of public development planning and microcredit, Jean-Michel Servet proposes a 'new world' in which money and finance would be managed by the commons.

Perhaps the most innovative aspect of the book is its proposal on ending the rivalry in the use of financial resources. It recommends the application of a theoretical framework following the work of Elinor Ostrom to the use of money and finance. Specifically, it entails the design of regulations to manage common pool resources, guarantee access for all to these resources, and define the particular yet collective rights of everyone to share in the distribution of the use of these financial resources while ensuring that all those involved accept the

rules. Resources in this common pool will be replenished when loans are repaid. This reinterpretation of Ostrom is novel for two reasons. First, Ostrom herself concentrated on natural common-pool resources, prompting much criticism of her naturalist conception of the commons (Euler, 2016). Second, Ostrom's work was rarely concerned with social justice and the political economy of social change (Obeng-Odoom, 2016). Professor Servet's book is a must read for students, academics, development practitioners, and policy makers.

Biographical Notes

Nathanael Ojong is an assistant professor in the Department of Business Administration at Tyndale University College (Canada). He has published in journals such as *Review of Social Economy* and *Journal of Economic Issues*. He can be contacted at nojong@tyndale.ca

References

Euler J. (2016). Commons-creating Society: On the Radical German Commons Discourse. *Review of Radical Political Economics*, vol. 48, no. 1, pp. 93-110.

Neverson, K. (2013). Book Review - Microfinance: Perils and Prospects, ed. Jude L. Fernando. *African Review of Economics and Finance*, vol. 4, no. 2, pp. 305–310.

Obeng-Odoom F. (2016). The meaning, prospects, and future of the commons: Revisiting the legacies of Elinor Ostrom and Henry George. *American Journal of Economics and Sociology*, vol. 75, no. 2, pp. 372-414.

About this journal

The African Review of Economics and Finance (AREF) is the official journal of the African Finance and Economics Consult (AFEC). The Journal welcomes high quality articles in theoretical and empirical economics, with special emphasis on African economies. Theoretical contributions can be either innovation in economic theory or rigorous new applications of existing theory. Pure theory papers include, but are by no means limited to, those in behavioural economics and decision theory, game theory, general equilibrium theory, contract theory, public finance, financial economics, industrial organisation, labour economics, development theory and the theory of economic mechanisms.

At the same time AREF publishes papers of high quality dealing with the confrontation of relevant economic theory with observed data through the use of adequate econometric methods. Empirical papers cover topics such as estimation of established relationships between economic variables, testing of hypotheses derived from economic theory, policy evaluation, simulation, forecasting, methodology, econometric methods and measurement.

As a general interest journal, AREF emphasizes the replicability of empirical results. Replication studies of important results in the literature - both with positive or negative results - may be published as short papers in AREF. Authors are expected to make available their data set in case readers, editors or referees should want to replicate results reported in submitted contributions. AREF also welcomes book reviews, and special issues of international conferences and workshops.

Instruction to authors

African Review of Economics and Finance considers all manuscripts on the strict condition that they have been submitted only to *African Review of Economics and Finance*, that they have not been published already, nor are they under consideration for publication or in press elsewhere. Authors who fail to adhere to this condition will be charged with all costs which *African Review of Economics and Finance* incurs and their papers will not be published.

Contributions to *African Review of Economics and Finance* must report original research and will be subjected to pre-screening and subsequent review by referees at the discretion of the editors.

Please note that *African Review of Economics and Finance* uses Turnitin software to screen papers for unoriginal material. By submitting your paper to *African Review of Economics and Finance* you are agreeing to any necessary originality checks your paper may have to undergo during the peer review and production processes.

Submission

Papers for consideration should be uploaded electronically to the online submission system <http://www.upjournals.co.za/index.php/AREF/user/register>

If you already have a Username/Password for *African Review of Economics and Finance*: Go to the login page. If you are a new user, you need to register by clicking on the registration page. Alternatively, contributors can contact the editors through the Journal website: <http://www.african-review.com/>

File format would preferably be Microsoft Word. Papers will be anonymously refereed by acknowledged experts in the subject. Authors should submit an anonymised version of the paper and a title page containing full contact and affiliation information for all authors. All publication decisions are made by editors in the context of recommendations from referees.

Effective communication

The paper should be written and arranged in a style that is succinct and easily followed. An informative but short title, a concise abstract with keywords, and a well-written introduction will help to achieve this.

Simple language, short sentences and a good use of headings all help to communicate information more effectively. Discursive treatment of the subject matter is discouraged. Figures may be used to aid the clarity of the paper but only where this is more concise than verbal description. The reader should be carefully guided through the paper. Always think about your reader.

Manuscript submission guidelines

1. Originality and high standards of reporting results, data, and description of computer programmes is the standard hallmark. The information obtained by the author(s) must be sufficient for interested readers to be able to reproduce the results.
2. All articles are published in English. The first page of the typescript must contain: the full title; the affiliation and full address of all authors; a running title of not more than 75 letters and spaces. An abstract and up to five keywords for the purposes of indexing should be included, preferably chosen from the JEL Classification list. The abstract must not exceed 200 words and must précis the paper giving a clear indication of the conclusions it contains.
3. Manuscripts should not exceed 8000 words with line spacing of 1.5", including tables, graphs, figures, and references. Longer, more discursive papers are welcomed, where the topic and approach warrants a longer paper.

To be clear about the distinction, these are referred to as Extended Papers. These papers will be expected to deal with real theoretical contributions, and draw on a wider literature than the usual papers.

4. Tables, graphs, and figures should appear in the text and labelled in numerical order with Roman numerals. Tables, graphs and figures should contain sufficient explanation to allow them to be interpreted without reference to the main body of the text, including where relevant details of estimating equations on which empirical results are based. All lines should be clear. Avoid tedious mathematical expressions. Place derivatives and proofs in an appendix.
5. All illustrations should be suitable for printing in black and white, and should be numbered sequentially. Notes should make a specific point, and to be short and succinct.
6. Place references in an unnumbered, alphabetical order at the end of the text. References should be made only if they are cited in the text; and to works that are published, accepted for publication, or available through libraries or institutions.
7. Cite references in the text by citing the authors' names and the year of publication in parentheses e.g. Panagiotidis (2010), Panagiotidis et al (2010).

Examples of Reference list at the end of text are as follows:

- **Articles:**

Alagidede P., and Panagiotidis, T. (2009). Calendar Anomalies in the Ghana Stock Exchange. *Journal of Emerging Market Finance* vol. 8, no1, pp. 1–23.

Ntim, C. (2015). Board diversity and organizational valuation: unravelling the effects of ethnicity and gender. *Journal of Management and Governance* vol. 19, no 1, pp. 167-195.

- **Books:**

Obeng-Odoom F. (2014). *Oiling the Urban Economy: Land, Labour, Capital, and the State in Sekondi-Takoradi, Ghana*. Routledge, London.

Hawawini G, Swary I. (1990). *Mergers and acquisitions in the U.S. banking industry: Evidence from the capital markets*. North-Holland: Amsterdam.

- Reference to chapter in an edited book: -Brunner, K., Melzer, A.H. (1990). Money Supply. In: Friedman BM, Hahn FH. (Eds), *Handbook of monetary economics*, vol.1. North-Holland:Amsterdam; pp. 357-396.

- Citing and listing of Web references: The full URL should be given. Any further information, if known (Author names, dates, reference to a source publication, etc.), should also be given. Web references can be listed separately (e.g., after the reference list) under a different heading if desired, or can be included in the reference list.

Endnotes - A limited number of explanatory endnotes is permissible. These should be numbered 1, 2, 3, consecutively in the text and denoted by superscripts. They should be typed on separate pages at the end of the text.

Manuscripts - short papers or notes. Short papers or notes should be as short as possible, and should not be longer than 2000 words. The specifications from the previous section apply in all respects. Short papers or notes may offer comments on other papers published by this Journal, as well as offer original contributions.

Letters to the Editor - Letters are intended to be short unrefereed contributions dealing with, for example, an opinion on some aspect of research or current thinking, a debate carried out in the pages of the journal, recent discussions on e-mail networks and obituaries. Not all contributions will be published as space is limited and valuable. The ultimate decision about publication will be the Editor's. Depending on other items in the issue, no more than four pages per issue will be devoted to these letters. Letters should begin with the text "Dear Sir" and the author's name, affiliation and country should appear at the end.

Proofs - Proofs will be sent to the corresponding author for correction. The difficulty and expense involved in making amendments at proof stage makes it essential for authors to prepare their manuscript carefully: any alterations to the original text are strongly discouraged. Our aim is rapid publication: this will be helped if authors provide good copy following the above instructions, and return their proofs as quickly as possible.

Publication charges - *African Review of Economics and Finance* does not charge submission fees. There are no page charges for *African Review of Economics and Finance*.

Article access - As an author, you will receive free access to your article from the publisher. Print copies of the volume in which your article appeared can be obtained at a cost from the publishers.

Copyright and authors' rights

To assure the integrity, dissemination, and protection against copyright infringement of published articles, you will be asked to assign us, via a

Publishing Agreement, the copyright in your article. Your article is defined as the final, definitive, and citable Version of Record, and includes: (a) the accepted manuscript in its final form, including the abstract, text, bibliography, and all accompanying tables, illustrations, data; and (b) any supplemental material hosted by Wits Central Printing Press. Our Publishing Agreement with you will constitute the entire agreement and the sole understanding between you and us; no amendment, addendum, or other communication will be taken into account when interpreting your and our rights and obligations under this Agreement.

Editorial Policy

The main features of the *African Review of Economics and Finance* are the following: High Quality Contributions and Double Blind Refereeing Process. This implies that articles accepted for publication in the journal will be in accord with high methodological standards involving the sophisticated use of economic reasoning, use of appropriate statistical techniques, and thorough analyses of data. All manuscripts shall be subject to an editorial pre-screening process to assess suitability for the journal. Subject to the pre-screening, manuscripts shall be processed in a single anonymous peer review system, using independent expert referees. Final responsibility for the selection and acceptance of articles rests with the Editors. Submission of an article to the journal indicates formal acceptance by the author(s) of these peer review conditions and procedures.