Reviews

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THANKOM ARUN

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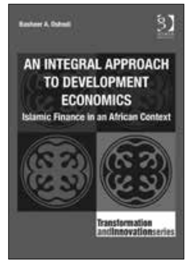

An Integral Approach to Development Economics: Islamic Finance in an African Context
Basheer A. Oshodi
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The subject area of development economics has always been an inquiry into the causes of poverty and underdevelopment, set in low-income economies. However, development economics has recently had to go through changes to accommodate the issues arising out of the neoliberal growth surge and emerging growth centres in the South. The practicalities of providing the right finance in a responsible manner have (re)surfaced as a challenge in international development, particularly in the setting of a new and varied fleet of innovative financing mechanisms. For instance, the recent growth of Islamic finance and the ideas on sharing risk between financial institutions and the individuals that use them, brings forth new perspectives of cultural influences on financial products and services. How Islamic finance, which has an implied moral backup in its approach, can be integrated into the debate on development economics is a key issue discussed in this book.

The book has grown out of the personal experience of the author in African development. Broadly, the work is critical of the Eurocentric nature of economic development theories, which have often been cited as unable to capture Southern realities. The book provides an alternative explanation based on the 'story of self, others and immediate social context' (p.18) to understand the African economic development experience. This approach is further developed on the basis of a moral core emanating from religious values, both Islamic and Christian, concurrently with homegrown features of the region. This alternative conceptual framework has been used in understanding the economic development of Nigeria and the efficacy of Islamic finance in that country.

Nigeria's economic development is analysed against the background of the high levels of poverty existing in the social and physical infrastructure. The book portrays the governance, poverty, and unemployment conditions in Nigeria, and argues that even the World Bank has underestimated the level of unemployment in the country due to perceptions of employment in the informal sector. The author claims that the modern economic development theories built on micro-variables are not grounded

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in nature. As an alternative, the book echoes the theory of 'Integral Dynamics' by Lessem and Schieffer, which draws on the natural theology, ethics, social science and technology, and commercial expediency of cultures and society, to reflect more accurately the way of life of the people. The case of the Chinyika Community in Zimbabwe is cited as a classic manifestation of this approach.

The book further attempts to theorize the African achievements, based on the ideas of Ibn Khaldun (1332–1406), one of the early market sympathizers who advocated a restricted role for the state as a facilitator for trade and production. Khaldun's work displays a celebration of brilliant ideas in the context of Africa. For instance, the modern-day ideas of specialization and their subsequent benefits were explained well in his work. No wonder, this book argues that Khaldun's work is the best success story of Africa, requiring further analysis in the context of modern economic development theories. The argument here is that the poverty benchmarks have been developed from views which are different from African realities, and the subsequent global policy initiatives affect the ability of African countries in their fight against poverty. Curiously, the argument is that despite growth in some countries, the global approaches have not served African countries as a whole, and this needs more discussion. The book is a sound introduction to the foundations of moral economics, drawing from different heritages and thinkers. This discussion sheds more light on the foundations of the Islamic economic system, derived from the Shariah, Islamic Law. The book says that the core foundation of religion is morality, and wonders how many Muslim-majority countries remain among the poorest, significantly behind in education and human skills.

Oshodi examines Umer Chapra's work with thoroughness. Chapra is a modern-day Islamic thinker who raised fundamental questions on efficiency and equity, and argued for a shift from market and state to humans for an answer. Oshodi's book provides a macro-picture of Islamic economic principles, useful in understanding the nitty-gritty of equity-based Islamic banking and its role in financial innovation. The Shariah-compliant Islamic banking system is spread across 500 institutions, worth over US$1.3 bn in 2013. Although the African financial system mostly follows Western practices, many countries, such as Nigeria, have introduced Islamic banking products into their financial systems in recent years. The inflow of more Islamic financial products enhances competition within the Islamic financial sector itself. The view shared in the book shows that Islamic products need to encourage development of a moral economic core beyond the current Shariah-compliant nature of the products. The book also raises the issue of appropriate regulations in achieving the primary goals of the Islamic economic system.

I enjoyed reading this book, particularly its suggestions for the scope for alternative approaches in international development, based on an integral research framework, and arguments derived from a wide range of approaches. Although this book is unique in treating the issue through a diverse range of lenses, readers may be confused by this multi-focal approach, and the book falls short in the same way. It failed to focus on the discussions linking economic development, moral economics, and Islamic finance. The contents of the book do not do justice to the title; one expects more substantial discussion on the integration of Islamic finance into development economics. For example, a critical view of the development economics literature on African development, and examination of the importance of basic principles of development based on morality in this context, would have provided more cohesion to the theoretical discussion. The ideas of Dani Rodrik are relevant here; this development economist from Harvard has voiced concerns about the contemporary consensual approach to development, a theme central to this book. Rodrik's argument is that the basic principles can be satisfied by a variety of settings and the most efficacious development policies vary between countries depending on local institutions, expectations, and circumstances. Considering the diversity of African settings, one would expect a critical discussion of the broader impediments in the region in the integrated economic models proposed in this book.

Professor Thankom Arun is with Lancashire Business School,
The University of Central Lancashire, UK

Confessions of a Microfinance Heretic
Hugh Sinclair
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Microfinance is one of the world's most celebrated institutions with US$70 bn in investments and more than 200 million people accessing micro-loans through at least 10,000 microfinance institutions (Reed, 2012; Roodman 2012b; Roy 2010). For the past 35 years, micro-lending has been upheld as a prominent poverty-fighting tool in many developing countries – the tool through which significant community improvement can be realized (Khan, 2009: 147; Yunus, 2007). The promise is to achieve a double bottom line: first, the financial sustainability of the lending institution itself; and second, the social benefit of providing loans to excluded business people. So there is a perception that the concept and people paid to carry it out can do no wrong.

In 2006 the Bangladeshi Grameen Bank and its found Professor Muhammad Yunus won the Nobel Peace Prize because of a promise that microfinance was there to help those excluded from conventional banks. However, in recent years, microfinance's goal to create inclusive financing has faltered (Roodman, 2012a). A precursor to Sinclair's book that exposes the dysfunction within the microfinance industry is Ananya Roy's *Poverty Capital: Microfinance and the Making of Development* (2010) which is an extensive evaluation of the professional persons in the micro-lending sector in Lebanon, Egypt, and Bangladesh, as well as in Washington, DC, with organizations such as the Consultative Group to Assist the Poor (CGAP), that question the morality of practitioners and policymakers in microfinance. Hugh Sinclair's book *Confessions of a Microfinance Heretic* (2012) converges with the growing body of literature critical of microfinance. It is becoming increasingly clear that some paid employees in microfinance have the capacity to misuse their power and to take advantage of poor clients in the pursuit of profits.

Sinclair's compelling argument limited by contextual analysis

Sinclair's book takes a cue from *Confessions of an Economic Hit Man* (2004) in which John Perkins blows the whistle on his career with a Boston-based consulting firm. Sinclair's is also a tell-all book and he gives a personal account of the issues he has had with microfinance institutions (MFIs) in Africa and a European investment vehicle that funds MFIs. A downside to this book is the personal narrative, which can be grating, but Sinclair has an important story to tell. His anecdotes underline a fundamental concern that some staff persons inside the microfinance industry are morally bankrupt.

The overall argument is that the professionals inside the microfinance sector are concerned more about profits than actually improving the lives of economically active poor people. His most compelling example is that of a microfinance investor vehicle, the Dutch-based organization, Triple Jump. Sinclair argues that well-paid executives, aware of illegal activity at a Nigerian MFI, preferred to overlook it if the MFI would repay the investment irrespective of the consequence it may have on the poor borrower. Sinclair is a whistle-blower when he takes a stand against Triple Jump's failure to correct its behaviour with its client. The exciting part of the story is that Sinclair, a whistle-blower, is fired but the courts find that Triple Jump did not follow Dutch labour laws and wrongfully dismissed Sinclair.

The book is structured on three case studies, Mozambique, Nigeria, and Mongolia, as well as the inner-workings at Netherlands-based Triple Jump, an investor in microfinance. The author does spend at least two-thirds of the book critiquing Triple Jump's problems with the Nigerian MFI, Lift Above Poverty (LAPO). Nigeria's LAPO is a well-known MFI because it was one of the pioneers of microfinance in Africa's largest country. The excessive interest rates charged by LAPO and the fact that it was using people's savings (not legally authorized to do so) were two serious issues. LAPO's poor governance and the fact that one of its auditors was a relative of a board member were problematic. Yet, the investors at Triple Jump did not react to any of these allegations. An unwavering support for the usury practices of LAPO is not impact investing. The negligence of investors that Sinclair uncovered points to the greed of those working in the industry to save their own jobs, and recoup their monies at the expense of protecting poor borrowers.

In discussing complex issues, Sinclair writes clearly but he does give many personal opinions. Often what he says is not rooted in any theories which would have helped to ground some of his ideas – even if he is writing for the everyday person. It is not clear what he studied at university and what theories have influenced him as a professional in microfinance. It is also important to note that the lack of a historical analysis in which to situate the cases he discusses leaves the reader wanting more. To put things in context, the rebuilding process following Mozambique's civil war, which lasted decades (1977 to 1992), killed at least 1 million people and displaced millions more, is well under way, but it takes time. Maputo is not a 'war-torn, dirty or chaotic dump' as Sinclair claims it to be. After all, following his field work in Chokwe, Sinclair and his Mexican friend Jose Manuel were able to catch live music and enjoy sushi in Maputo (p.49). Most readers will want to have more contextual analysis.

Who are the blind, die-hard microfinance zealots?

I am not sure one can homogenize the microfinance industry as one monolithic group in quite the way Sinclair has done. In the 1970s, global South economists like Muhammad Yunus, formerly of the Grameen Bank, were distressed by under-development of their homelands. The Bangladeshi consensus was to co-opt Western-style banking from the neoliberal politics of the time and to make it more collective. Microfinance blogger David Roodman has also made the salient point that one cannot lump all those people working in microfinance in the same corrupt tent. There are far too many types of organizations and models for which Sinclair continues to work.

At the annual micro-credit summits, the diversity of ideas is overwhelming. I remember as a student at the 2002 Boulder course that there was a divide among practitioners. For me, this divide was known as the 'Dunford camp' or the 'Peck/Rhyne camp'. The Dunford camp referred to Dr Chris Dunford, who was the former President of Freedom from Hunger, an American NGO, with the credit with education (CWE) programmes. When I worked at OIC International, we used the Freedom from Hunger's credit with education model in Guinea because it fit best with an African-American mandate to use integrated approaches to economic exclusion. The Peck/Rhyne camp refers to Robert Peck-Christensen and Beth Rhyne, both interested in commercial microfinance and part of Accion, which pioneered the concept of commercial banks down-scaling microfinance. The debate over whether microfinance is social finance or commercial banking continues. Economist Jonathan Morduch, who has studied the economics of microfinance has stated,

> Advocates who lean left highlight the bottom-up aspects, attention to community, focus on women and, most importantly, the aim to help the underserved. Those who lean right highlight the prospect of alleviating poverty while providing incentives to work, the nongovernmental leadership, the use of mechanisms disciplined by market forces on-going subsidization (1999: 1570).

The 'new wave' of commercial microfinance seems to dominate thinking in the industry (Bateman, 2010). But Sinclair's confessions do make one start to question the sector's unyielding support for the commercialization of microfinance (Ryhne and Otero, 2006; Drake and Rhyne, 2002). Microfinance has become so commercialized that investors like Triple Jump prioritize profit-making over helping people. LAPO's managers will never default to its investors because they want to receive cheap investments to increase their own profits. However, these kinds of organizations are not the only ones making micro-loans. Credit-plus organizations like Pro Mujer combine credit with human rights training for indigenous women in Latin America and are not only focused on profitability. There are alternative organizations which are mission-driven, such as NGOs, CBOs (community-based organizations), cooperatives, credit unions, women's associations, and self-help groups, which do not conform to commercialization exclusively.

Conclusion

In this book, Sinclair scrutinizes microfinance staff and investors from within and makes the claim that employees in microfinance are engaging in unacceptable practices that go against microfinance best practice. *Confessions of a Microfinance Heretic* is one of the only books where an insider reveals his experience within the industry. Sinclair has exposed the corruption within microfinance by employees who are charged to do well for those people in the world who need help. Despite some of the downsides to the way the book was crafted, Sinclair does make us think about power relations within MFIs. What we have learned is that paid employees in the micro-banking arena are far more concerned about self-preservation than the poor borrowers. Even though Sinclair's righteousness is jarring at times, he is the only insider to date to take risks and expose the illegal practices within microfinance to the public.

Caroline Shenaz Hossein is Assistant Professor of Business and Society, York University, Toronto.

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