

# Savings on a Passage to India: From Debt to Equity in a Subprime World

 TRANSFORMING BUSINESS

by Peter Heslam



A few years ago, the London Institute for Contemporary Christianity (LICC) partnered with Grove Books to publish Peter Heslam's booklet *Globalization*. Launched at a joint LICC-Faith in Business conference on this theme, it swiftly became a Grove bestseller. Peter's new booklet, *Transforming Capitalism*, is enjoying even greater sales but a free copy is included with this edition of *FiBQ*. Here Peter gives subscribers a foretaste and illustrates how its message resonates with the past but addresses the present.

**W**e need a new vision for the economy. That is what the economic crisis of 2007-9 tells us. Despite the freedoms and opportunities capitalism has brought to millions, half the world still lives on less than US \$2 per person per day; CO<sub>2</sub> emissions are increasing; and personal and national debt have reached unprecedented levels.

Against this background of gain and loss, the booklet sets out a vision for 'transforming capitalism'. The term has a double meaning - the transformation of capitalism, and capitalism that has transformative impact.

This may seem an unrealistic vision. From all points on the political spectrum, the argument has been made that government bailouts of banks and accompanying regulation spell the end of capitalism.

But while much time has been spent debating capitalism's demise, insufficient time has been given to considering the other meaning of the phrase 'the end of capitalism,' which is about purpose or vocation. This is to ask the question, 'What is business for?', as business is the central institution of capitalism.

In addressing this question from a Christian perspective, the booklet reflects on a purpose of business that is fundamental yet often overlooked: the creation of wealth through the service of people and the planet they inhabit.

Creating wealth in this way is no easy vocation. It demands creativity, knowledge, skills, attitudes, habits and virtues. Even so, business has traditionally been denied recognition as a true profession and its two key qualities of 'entrepreneurship' and 'thriff' have had unpleasant connotations. But both qualities, when understood biblically, are crucial, not only to economic recovery in rich countries but to economic development in poor ones.

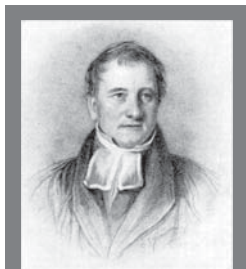
The current subprime crisis in India illustrates this. Whereas the initial impact of the 2007-09 crisis was felt by the relative poor in wealthy countries, the current crisis is hitting those threatened with absolute poverty in developing countries. And the fact that its epicentre lies in a region of India beset with chronic poverty - Andhra Pradesh - and in an apparently benevolent sphere - microfinance - only highlights its malevolence.



1. See my article 'Banking on the Poor: The Banker who is Changing the World One Micro Loan at a Time', in *FIBQ*, 10.3, pp. 33-4.

▶▶ The rise of microfinance is, in many ways, a developmental and commercial success story<sup>1</sup>. But the biblical doctrine of the fall suggests that we live in a subprime world, in which no cultural goods are immune from distortion, nor even extortion. Both have played a role as officials have channelled development finance into ineffective microfinance schemes and as unscrupulously commercial microfinance institutions (MFIs) have plied vulnerable clients with unserviceable loans, sometimes merely to finance consumption. Using draconian methods to extract interest payments, they have allegedly driven many such clients to suicide.

The resulting crisis gives credence to the claim made by Indian social entrepreneur Vijay Mahajan, currently president of the Microfinance Institutions Network, that the poor need savings more than loans.



Pastor with a purpose: Scottish parish minister Henry Duncan (1774-1846), the father of savings banks

In the west, the term 'savings bank' conjures up antiquated images of piggy banks and National Savings certificates. But in many low-income countries, the chief lenders to small- and medium-sized enterprises are members of the World Savings Bank Institute (WSBI).

This highlights a principle once thought axiomatic to finance but more recently dismissed as 'boring banking' – undertakings to *lend* money ought to be tied to undertakings to *save* it. Financial institutions targeting low-income borrowers should embrace the challenge and opportunity of this by expanding their savings services.

In doing so, they can find inspiration from history. At a recent summit to celebrate the bicentenary of the global savings bank movement, senior banking figures, including representatives of the WSBI, paid respect to the person they revere as the movement's founder: Henry Duncan (1774-1846), a church minister in a remote Scottish village.

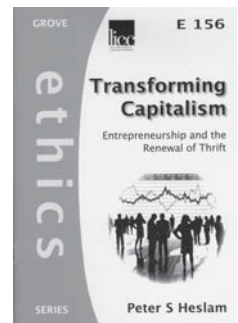
On arriving in the Dumfriesshire parish of Ruthwell, Duncan was so abhorred by the poverty he encountered that he imported Indian corn to sell at cost price. But realising

this was only a partial solution, he added 'social entrepreneurship' to his pastoral duties, convinced that the poor are best served when they are helped to help themselves. He created jobs for women by importing flax for spinning and weaving. And in 1810, in a tiny cottage within sight of the Solway Firth, he founded a savings bank.

The scheme caught on in other villages as Duncan, who was gaining a reputation as a creative genius, used a newspaper he had founded to promote it. Spreading rapidly throughout the UK and beyond, it triggered a locally-based financial revolution. Its impact is reflected in the name of the Grameen Bank, the world's largest MFI, which was launched in Bangladesh by the Nobel Prize-winning economist Muhammad Yunus: Grameen means 'village'.

Both subprime crises have been caused, in part, by behaviour the biblical ban on usury was designed to prevent - the rich encouraging the poor to borrow beyond their means. In the aftermath, the genius of savings banks (in all three senses) repays consideration. Duncan's discovery that the most effective way to tackle poverty is from the bottom up, using a local, relational, people-orientated, equity-based, self-help strategy suggests alternative banking and development models for our time that reflect biblical norms.

Such models will allow thrifty entrepreneurs, including those in deprived regions, to create jobs and prosperity through productive enterprise. Their qualities and habits will give them the means to withstand the proverbial rainy days to come, whether in the drizzle of Dumfriesshire or the monsoons of Andhra Pradesh. Free from the snares of over-indebtedness, they will be able use their gifts for the glory of God. For this is the end of capitalism. ■



Dr Peter Heslam directs *Transforming Business*, a project at Cambridge University on enterprise solutions to poverty.

