

The Debt Cycle of the Rural Poor

A case study from Madagascar

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Vicious Circle of Indebtedness in the Case of Madagascar

- Credits in cash or staple food
- taken by the majority of small farmers
- given by money lenders
- at usurious interest rates
- lead to a vicious circle of increasing indebtedness.

Who are the victims?

- Farmers, workers, civil servants, small enterprises, servants
- High risk group: Abandoned wives and mothers
- Indicator for social destabilisation: more and more middle class people are highly indebted.

How many people are affected by severe indebtedness?

- Rural areas:
In the average 50% to 80% of households per village
- Urban areas:
Indebtedness seems to be the general rule among small employees and civil servants.

Which situations lead to indebtedness?

- Period of „soudure“ (time before harvest, when family food stocks are exhausted)
- cases of sickness
- ceremonies and celebrations
- expenses for education
- for civil servants and workers: each end of the months

Who are the moneylenders and profiteers?

- Small traders, collectors of cashcrops (in Madagascar mostly of Chinese or Pakistani background)
- more and more speculators of Malagasy background

How does the vicious circle work?

- People take credit in form of rice or money from a moneylender.
- They give security in form of buildings, land or livestock.
- They repay credits in agricultural products (rice, vanilla, coffee) or in cash.
- Interest rates 50% to 100% per month

Driving Factors in the Socio-Economic Environment

- Insufficient salaries in urban areas
- Low prices for agricultural products and high dependency of small farmers from collectors of cash crops
- Poverty and debts force farmers to sell immediately after harvest at low prices and/ or to use part of the harvest for repayment to moneylender at bad prices.

Consequences: Destruction of Livelihood (Subsistence)

- Heavily indebted households work mostly for the profit of moneylenders
- Lost of fertile land, house and livestock.
- Independent farmers become tenant-farmers or landless labourers.
- Malnutrition, bad health, descolarisation
- Increasing criminality

What can be done?

Empowerment of the Indebted

- Indebted people learn to understand the cycle of indebtedness
- They organise saving groups and ricebanks (In the Miandrivazo region; 81 local organisations with 6 to 20 members in 2 years)
They free themselves from the dependence of the moneylenders

What can be done?(continued)

Organisational development and empowerment allow pressure on local government:

- against corruption and violence by police
- for better schools according existing laws
- for drinking water
- for local security

Proposals for discussion

- The debt circle and usury credit systems are a most important reason of rural poverty.
- This problem is overlooked by development agencies, including the World Bank, and is not taken seriously by governments.
- As long as people have not freed themselves from indebtedness development can not take place.