Microfinance: The Light that Faded
マイクロファイナンス：薄れゆく光

Mark N. Zion
ザイオン・マーク

***Abstract*:** The challenges for global civilization today are gargantuan, with the world's population careening toward 8 billion and with half living on less than a few dollars a day. Development programs have had trouble coming to grips with what can effectively be done to bring people along. In this article I will discuss a little of the clashing ideologies in the debate of what to do. Microfinance, originating in Bangladesh in 1974, has been almost universally accepted as a solution; these banking programs lend small amounts of money, on average about $26 USD, at a low rate of interest, to assist the poor in small businesses. Real gains have been made in the past thirty years that may lead to a better future, if only those in wealthy nations can get beyond their tendency of seeing the world as a place for limitless financial profits.

***Keywords*:** Neoliberalism, the Modernization Theory, Grameen Bank, Muhammad Yunus, Brac Bank.

***要旨*:** 世界の人口が 80 億人に迫り、その半数が一日数ドル以下で生活する中、現代のグローバル文明社会が直面する課題はとてつもなく巨大である。人々の支持を得て効果を上げるために何ができるのか、開発プログラムはその見極めに苦心してきた。本稿は、何をなすべきかを議論する上で衝突するイデオロギーについて若干の考察を試みる。1974 年にバングラデシュで始まったマイクロファイナンスは、一つの解決策としてほぼ世界的に受け入れられてきた。それは、低金利で少額（平均 26 米ドル程度）を貸し付けることで貧困層の小規模事業を支援する、金融プログラムである。過去 30 年間で重要な成果を上げており、それがより良い未来につながる可能性はある。しかしそのためには、富裕国の人々が、世界を際限のない利益を得るための舞台として見る傾向から脱却する必要がある。

***キーワード*:** 新自由主義、近代化論、グラミン銀行、ムハマド・ユヌス、ブラク銀行

1. Introduction

Today nearly four billion people, or one-half of the world's population, live on less than $2.50 a day, with about 1.3 billion living in extreme poverty, on less than $1.25 a day, from a recent study from UNICEF.[1] The world has also seen an astronomical income gap continue to grow, thanks in large part to "free market capitalism" (Yunus 2017:5):

> In January 2017, Oxfam announced that the ultra-privileged group that owns wealth exceeding that of the bottom half of the world's population has shrunk to just eight people—even as the number of people in the bottom half has grown to about 3.6 billion.

People in wealthy countries have tended to see poverty challenges as something to be fixed through the correct combination of treatments, usually over a short period of time. Dani Rodrik, in *The Globalization Paradox* (2011), described this mindset: Solution "X," the mathematical symbol for the unknown. If only X were found, everything would be okay (2011:59-66). The great challenges of poverty, disease, and water sanitation, however, cannot be easily reduced to a four-step approach, summed up in one-sentence platitudes.[2] No one is unconnected with these challenges either, since taxpayers in wealthy countries financially support policies of the IMF, the World Bank, UNICEF, and a host of other international bodies. Further, all wealthy countries benefit enormously from economic globalization, and so are deeply connected with the poor in unseen—even ignored—ways, but it is often at an increase of their suffering (Bales 1999:3-4):

> Slaves in Pakistan may have made the shoes you are wearing. Slaves in the Caribbean may have put sugar in your kitchen and toys in the hands of your children. In India they may have sewn the shirt on your back or polished the ring on your finger.

Most feel a pang when reading this and yet can we know why the world has so much poverty?[3] Since 1944, with the creation of the IMF and the World Bank, organizations that were designed for currency stabilization and development, initially on a small scale (Rodrik 2011:xvii), the world has had about seventy-five years of addressing poverty issues, from small private non-profit organizations to such huge international agencies as UNICEF and the International Red Cross and Red Crescent, often under extremely unstable social environments, from dictatorships to socialist regimes. For nearly a generation now (from c. 1990) the simple answer has been to hook all nations up to the international "free market" (Stiglitz 2003:12).

While restructuring societies, transforming inner life, or hooking people up to the crushing global market, the usual solutions, have proven more ephemeral than once believed, Muhammad Yunus has offered a more modest and concrete approach and one that has proven remarkably nimble and viable: Microcredit. Called “micro” because its focus is not on “global” or “macro” solutions, but on something much smaller—small loans in community-based programs where people can take small steps toward improvement (Yunus 2017:1):

> The impact of microcredit in enabling millions of people to lift themselves out of poverty helped to expose the shortcomings of a transitional banking system that denied its services to those who needed them most—the world’s poorest people. This is just one of the many interrelated problems suffered by the poor: lack of institutional services, lack of clean drinking water and sanitary facilities, lack of health care, inadequate education, substandard housing, no access to energy, neglect in old age, and more.

In this article I will discuss a little of the ideological minefield one enters when attempting to understand approaches to poverty, based on two seminal works—one against development intervention and the other in favor of it (Banerjee and Duflo 2011:4-11). Since humanity is group-oriented by nature, people tend to look at the world through the lenses (or ideologies) of their group and these have gotten in the way of real solutions. I will conclude with the relatively new phenomenon of microcredit, which has muted the debate (and at times has reinforced it), since it straddles both sides. Yet, as huge multinational financial institutions with eyes fixed on the bottom line have latched onto the concept of microcredit, has it become a tool to help the poor or another means to exploit them?

2. Missions and ideologies

Free market fundamentalism, where the market determines economic policy, is an ideology at the heart of conflict between conservative and liberal approaches. This begs the questions: What is a free market, really? And who is imposing what a free market means? The conflict is real and answers very serious questions: What will the world be like in one hundred years? Will it be inclusive or extractive, with tiny islands of prosperity in seas of overwhelming poverty? Will humanitarian impulses gain in ascendance to bring everyone along?

Both sides in this debate can be right, at least some of the time (alas a stopped clock is also right at least twice a day), but it takes the hard work of analyzing particular programs to see whether their claims have any validity.[4] There is no evidence, for example, that IMF and World Bank programs of "structural adjustments," practiced for many decades now, actually help countries develop economically or even to reduce poverty (Stiglitz 2003:17). There is ample evidence that multinationals profit enormously from structural adjustments, with access to raw materials or cash crops at rock bottom prices, and where their investments are always repaid, often to the detriment of the poor themselves (ibid. 225).[5] This harsh capitalism, where the money always seems to flow to the top, has been built into the structure of economic globalization, but this "let them eat cake" mindset is relatively new.

Ayn Rand (1905-1982), one inventor of this more recent articulation of today's tough-minded capitalism, had called for a separation of government from economic life: no public health insurance, no public schools, libraries, parks, no unemployment insurance, no subsidies to farmers, no taxes, prisons, nor police departments or fire departments. The private sector should be in charge of all these services; it is the economic philosophy of factory owners (Klein 2007:63).[6] These ideas remain at the heart of many conservative ideologies today,[7] usually under the label of *Neoliberalism*, and it has a huge following, from fanatics to moderates.

The University of Chicago's Milton Friedman (1921-2006)—whose economic theories had far-reaching consequences in Latin America during the 1970s and 1980s—justified support for autocratic governments that enabled big profits for large corporations (ibid. 91-93), an approach that fit in well with Cold War ideologies of undermining anything that smacked of socialism (government spending). It had devastating consequences in Chile after the brutal general, Augusto Pinochet (1915-2006), overthrew the democratically elected president Salvador Allende (1908-1973) (Pinochet ruled as a military dictator until 1990).[8] But even here "democratic change" was given lip service. Called the *Modernization Theory* today, its premise is that a "free market" automatically leads to democracy (Acemoglu and Robinson 2012:443-45); adherents point to South Korea, Taiwan, and Japan as examples (overlooking the special cases each of these represented—each relied on strong government support and planning).[9]

Ayn Rand remains a hero of libertarianism internationally. Her "great person theory," as Friedrich Nietzsche's (1844-1900), from her novel *Atlas Shrugged* (1957), has found a home in the hearts of those bent on "maximizing profits," the brave of heart who, despite their victimization by common people and labor unions, are creating the wealth of a society. Rand had also redefined the meaning of liberty—for her the freedom *from* government. For Martin Luther King, Jr. (1929-1968), and those that champion human rights, freedom is social equality, ensured by government initiatives (laws and law enforcement). Neoliberals want a limited government, one that hardly exists, or one that exists only to maintain military defense (Klein 2007:319), which itself should be controlled by private security corporations.

Anyone considering "macro" solutions to poverty will encounter the two important books that continue to define the debate: *The White Man's Burden* (2006) by William Easterly and *The End of Poverty* (2005) by Jeffrey Sachs. Both have their critics, as Paul Collier has written (Collier 2007:191-192):

> At present the clarion call for the left is Jeffrey Sachs' book The End of Poverty. Much as I agree with Sachs' passionate call to action, I think that he had overplayed the importance of aid. Aid alone will not solve the problems of the bottom billion—we need to use a wider range of policies… At present the clarion call for the right is economist William Easterly's book The White Man's Burden. Easterly is right to mock the delusions of the aid lobby. But just as Sachs exaggerates the payoff to aid, Easterly exaggerates the downside and again neglects the scope for other policies. We are not as impotent and ignorant as Easterly seems to think.

William Easterly is an economics professor at New York University and was deeply influenced by Milton Friedman's conservative economic philosophy and his protégé, Alan Greenspan, a belief that the free market, like a beautiful piece of machinery, automatically created wealth by allowing for fierce competition that chose winners and losers (Klein 2007:61). When free market forces are unleashed the economies of the world will do just fine and no aid will be necessary (China and India, which succeeded with little or no foreign aid, are often cited as examples).

Government interference with even small interventions—subsidies for fuel or food for example—can hurt more than help (Easterly 2006:212). Easterly divides aid agencies into two categories: Planners and Searchers. The Planners include most UN programs—since they huddle in offices in New York or Brussels far away from the problems and where no one is held accountable for the goals they formulate and attempt to implement. Usually, to highlight their lack of creativity, they use the same plans everywhere, a cookie-cutter formula (ibid. 15-17).

Easterly knows first-hand the horror of poverty from his work for the World Bank (1987-2001). Aid is sometimes necessary, he feels, but the people themselves must be involved in helping themselves. Grameen Bank and BRAC Bank in Bangladesh, which I will discuss in more detail below, are positive examples (of Searchers) of real help to the poor. The Bangladeshi people themselves created these institutions for their country, a model of the good things that can be done when the poor are allowed to make their own decisions. Unfortunately, the West (as Planners), in its hapless attempts to offer solutions, suffers from a delusional Savior-complex—it wants to be the hero in its own action movie (Easterly 2006:18):

> We all love the fantasy of being the chosen one. Is part of the explanation for the Big Plan's Western popularity that it stars the rich West in the leading role, that of the chosen people to save the Rest?
>
> Likewise, the critique of the Big Plan mainstream comes from dissidents on both the Left and the Right. The right-wing dissident says that hope for the poor will come mainly from homegrown markets… The left-wing dissident doesn't like the Western imperialists trying to remake the poor in the West's image. Both right-wing and left-wing dissidents are on the right track. The Searchers in the middle agree that neither the Big Plans of the Left nor those of the Right (neither foreign aid nor foreign military intervention) can end poverty in the Rest—let's just find some specific things that help poor people.

Muhammad Yunus, therefore, is the ultimate Searcher (Easterly 2006:58-59):

> …Yunus realized that very small loans to very poor people could make a big difference in their lives. Contrary to conventional wisdom at the time, he realized that the poor had a huge untapped demand for credit. He experimented, and found that microcredit borrowers would repay the loan in order to get access to future loans and also because of peer pressure from other microcredit borrowers.
>
> Microcredit is not a panacea for poverty reduction that some made it out to be after Yunus' discovery. Some disillusionment with microcredit has

> already come in response to these blown-up expectations. Microcredit didn't solve everything; it just solved one particular problem under one particular set of circumstances—the poor's lack of access to credit except at usurious rates from moneylenders.

Jeffrey Sachs' *The End of Poverty* (2005), on the other side, offered solutions often outside the comfort zone for many liberals, who tend to see the "free market" as inherently at fault for the great disparities of wealth. Sachs had affirmed the importance of sweatshops in development.

Sachs was Director of the Earth Institute of Columbia University and was head of the Millennium Project of the United Nations' advisory council, a project whose goal was to end extreme poverty by 2015 (the one billion people living on less than a dollar a day). His book sparked an intense debate about poverty regarding successful interventions that continues today (William Easterly wrote his book to critique it). Affluent nations have committed a yearly 0.7% of their GNP to the Project—the United Nations Millennium Development Goals 2030 continues many of the earlier goals.[10]

Yet, according to both Easterly and Sachs, but for different reasons, the challenge of truly addressing poverty requires a new way of looking at the world and the people who may need assistance. Ideologies have gotten in the way (Sachs 2005:81; 189):

> Clinical economics is needed to replace the past twenty years of development practice, known widely as the structural adjustment era. This era, ushered in by the conservative turn in the United States under President Ronald Reagan and in the United Kingdom under Prime Minister Margaret Thatcher, was based on a simplistic, even simpleminded, view of the challenge of poverty. The rich countries told the poor countries: "Poverty is your own fault. Be like us...and you, too, can enjoy the riches of private-sector-led economic development."
>
> Western governments enforced draconian budget policies in Africa during the 1980s and 1990s. The IMF and World Bank virtually ran economic policies of the debt-ridden continent, recommending regimens of budgetary belt tightening known technically as structural adjustment programs. These programs had little scientific merit and produced even fewer results. By the start of the twenty-first century Africa was poorer than during the late 1960s,

> when the IMF and World Bank had first arrived on the African scene, with disease, population growth, and environmental degradation spiraling out of control.

Sachs is ebullient about microcredit as an important tool, since most recipients are women (95% of Grameen Bank's customers are women), whose awakened awareness from their newly found economic autonomy brings real social change (Sachs 2005:14):

> The jobs for women in the cities and in rural off-farm microenterprises; a new spirit of women's rights and independence and empowerment; dramatically reduced rates of child mortality; rising literacy of girls and young women; and crucially, the availability of family planning and contraception have made all the difference for these women. There is no single explanation for the dramatic, indeed historic, reduction in desired rates of fertility; it is the combination of new ideas, better public health for mothers and children, and improved economic opportunities for women. The reduced fertility rates, in turn, will fuel Bangladesh's rising incomes. With fewer children, a poor household can invest more in the health and education of each child, thereby equipping the next generation with the health, nutrition and education that can lift Bangladesh's living standards in future years.
>
> Bangladesh has managed to place its foot on the first rung of the ladder of development, and has achieved economic growth and improvements of health and education partly through its own heroic efforts, partly through the ingenuity of NGOs like BRAC and Grameen Bank, and partly through investments that have been made, often at significant scale, by various donor governments that rightly viewed Bangladesh not as a hopeless basket case but as a country worthy of attention, care, and development assistance.

3. Non-profit microcredit

Muhammad Yunus as a young economics professor had a strong practical streak and he wanted to understand what the poor needed to better their lives. Since he did his dissertation on water reservoirs, he often visited the countryside near his job at

Chittagong University (in Chittagong, Bangladesh) to see how farmers were coping with irrigation challenges. After the famine that devastated Bangladesh in March 1974, he visited Jobra, a small village nearby, where he started his first "lending." The only way for farmers to have two crops a year (instead of just one) was to irrigate from wells during the dry season. Two seasons of crops could vastly improve their lives. Mr. Yunus lent the money farmers needed for wells. Though they flourished with two seasons, the farmers quietly forgot about the money he lent them (there was no formal agreement).

Mr. Yunus' next effort unwittingly launched the microcredit revolution. While out walking in the village one day, he met Sufiya Begum weaving bamboo stools along the sidewalk and selling them for two cents each. She told him of the exorbitant interest rates moneylenders charged her (on twenty-seven cents) to buy the bamboo for that day. Sometimes it was 10% interest a day, which amounts to an astronomical 3,600% a year. As the researchers, Abhijit V. Banerjee and Esther Duflo, *Poor Economics* (2011), whom I will refer to in more detail below, wrote: "If you borrowed 100 rupees ($5.10 US) and kept it until the tomorrow, you would have to pay 104.69 rupees (4.69% a day), after a year, 1,842,459,409 rupees ($93.5 million USD PP). So the equivalent of a $5 loan, if it goes unpaid for a year, leaves a debt of nearly $100 million" (Banerjee & Duflo 2011:158).

Mr. Yunus decided to help and lent twenty-seven cents to each of the forty-two women, and he charged them two cents each for interest. All repaid him, plus the interest. Sufiya, with one of the first microcredit loans in history, later started a successful peddling business. The big bang of microcredit began. Today, in 2019, it services nearly seven hundred million customers, mostly women, dispensed by over three thousand microcredit organizations of various sorts. Abhijit Banerjee and Esther Duflo wrote of the motives underlying microcredit (Banerjee & Duflo 2011:207-208):

> The basic premise of Yunus' view of the world, shared by many in the micro-finance movement, is that everyone has a shot at being a successful entrepreneur. More specifically, there are two distinct reasons the poor may be particularly likely to find amazing opportunities. First, they haven't been given a chance, so their ideas are probably fresher and less likely to have been tried already. Second, the market so far has mostly ignored the bottom of the pyramid. As a result, it is argued, innovations that better the

> lives of the poor have to be low hanging fruit, and who better than the poor themselves to think of what they could be?

Neoliberals tend to admire microcredit programs—it is everything they treasure, a free market solution that creates profits for everyone.

Mr. Yunus, however, saw microcredit as just one tool that might be helpful to the large number of people that commercial banks refused to service. Grameen Bank's website today shows over two dozen humanitarian organizations geared for development assistance, from educational programs to telecom groups and textiles factories;[11] microcredit is barely mentioned.[12] Mr. Yunus calls these "social businesses," which have an underlying goal of shifting the underpinnings of current economic life (based on harsh neoliberalism) toward a more humane ethic (Yunus 2017:237):

> Thus, microcredit is not just about giving tiny loans to poor women. It is a challenge to the entire financial system. Grameen Bank does everything that the traditional banker used to claim was impossible. It is a simple truth that, if you go by the same road, you'll reach the same destination. If you want to reach a new destination, you'll have to find a new road; if the new road does not exist, you'll have to build it. The road is the means, not the end. In the existing financial system, the road has become the end, while the destination is forgotten.

Grameen Bank began with a focus on the "working poor," those who had already started small businesses on their own but who had to pay high interest rates to rent the stalls, the carts, stands, or to buy vegetables or weaving materials. BRAC (Bangladesh Rural Advancement Committee) Bank, also founded in Dhaka, went a step further as it developed its mission from its inception in 1972. Its founder, Sir Fazie Hasan Abed, focused on those in abject poverty who were mostly dependent on others; none had little businesses nor ever dreamed of having one.

BRAC began by "lending" animals (not money), mostly pairs of cows or goats or even small flocks of chickens. Studies on the results have been impressive, if not astronomical. Researchers found that people who participated were 10% richer after two years. This shows they are going forward rather than backward, and these are the people nearly everyone else ignored (Banerjee & Duflo 2011:212). Just tending animals was therapeutic and they found they could earn a little money from the milk, eggs, and offspring. Today, BRAC is the largest development organization in the world, with offices in thirteen countries in Asia and Africa. As Grameen, BRAC prods people, usually those without hope, to put their feet on the first rung of the ladder to a better life (ibid. 204):

> The bigger point is that a little bit of hope and some reassurance and comfort can be a powerful incentive… As a result, there are always worries about being overindulgent to the slothful poor. Our contention is that for the most part, the problem is the opposite: It is too hard to stay motivated when everything you want looks impossibly far away. Moving the goalposts closer may be just what the poor need to start running toward them.

Non-profit microcredit developed five simple goals: 1) Focusing on the working poor, who make between $1,000 to $5,000 USD a year; 2) Requiring no collateral; 3) Requiring "group-lending," to small communities of like-minded people; 4) Lending at lower rates of interest than commercial banks (or moneylenders); 5) Focusing on needs as a humanitarian organization. Microcredit programs have had such high repayment rates (worldwide some have calculated it at 95%) because the "group" itself is the collateral (Yunus 2017:88). That is to say, the group, usually consisting of at least twenty women, is responsible for repaying the loans, not the individual. This ingenious innovation has made microcredit what it is today.

Group loans lower interest rates because the cost of collecting loan payments is lowered. A loan officer does not require any special investigative skills but simply visits each group during its weekly meetings to collect; this makes it possible to collect from hundreds of people a day. Collection raises the loan's cost—the reason interest rates may be up to 4,000% a year in developing countries. Moneylenders in India, as one may well imagine, have developed some exotic (and scary) ways to collect.[13]

Another chore of commercial banks is to collect information regarding prospective clients, another reason why they had not been lending to the poor. A loan professional requires a great deal of time (and money) to find out where the clients live, whether they have jobs, or the number of defaults on previous loans (Banerjee & Duflo 2011:163-164). In developed countries, collection of information is easier because of online access to credit, mortgage, and bankruptcy records. Not so in developing countries, where the poor have almost no electronic footprint. Microcredit, with its philosophy of group participation, cuts down on the high cost of collecting information since the women (and sometimes men) usually know each other well and where detailed information is not required.

Public shame, then, if one does not pay, with the harm it can do to the group, have been powerful forces to guarantee on time payments. While Grameen and BRAC require loans to be used for business ventures—raising chickens, breeding animals, sewing clothing, pedal cabs, vegetable stalls, basket weaving stalls, noodle shops, small stores—Spandana, a non-profit microcredit organization in India founded by Padmaja Reedy, allows women to use the money for anything. Ms. Reddy feels that just the chance to buy schoolbooks, new school uniforms, or to have money for their daughters' dowries, helps the poor by "moving the goalposts closer."

Despite the fact that the interest rates for microcredit are much lower than traditional moneylenders, however, usually at 25% a year in Asia, similar to credit card rates in developed countries, even in areas of India where microcredit is available only about 25% of borrowers participate in a microcredit program. Most still borrow from traditional sources: one's family, small shop owners, and moneylenders, since these allow more flexibility. Microcredit programs place people in a group where everyone knows everyone else's financial business—and where members are required to attend regularly (usually weekly) and to even collect from other group members (ibid. 158). Needless to say, this can be intimidating.

The group's sense of obligation is also restrictive. The group, which democratically decides on membership, may be reluctant to take in new borrowers, those whose members do not know well (or people they do know well but whom they dislike), since if one member defaults, others have to pay for the person or lose future loans (ibid. 167). All microcredit programs, whether non-profit or for-profit, have a policy of "Zero-Default." Since they are risk adverse, entrepreneurs are unlikely to participate, though they may borrow occasionally from them to give them a start. Interest rates can vary a great deal depending on region. It is comparatively low in South Asia, where microcredit began, at about 25%, as I mentioned, but it can be as high as 70% in Latin America.

Grameen, BRAC, and Spandana are the shining examples of venerable non-profit humanitarian organizations, but commercial banks have also gotten into the microcredit business to make a profit. Still, they lend to the poor, based on group participation, but are less inclined to have any humanitarian impulses (I will discuss the pitfalls in more detail below). The World Bank reported that microcredit, whether non-profit or for-profit, has helped the United Nations reach many of the Millennium Goals for 2015.[14]

We have only anecdotal evidence, by and large, for any kind of revolutionary successes, since microcredit organizations have been reluctant to open their books to researchers. Further, it is difficult to calculate just how much a community has benefited. Should one begin at "zero economic growth" to calculate? That is to say, how does one determine "normal" economic activity had there been no microcredit programs in a given area? Banerjee and Duflo spent many years researching microcredit programs in sixteen countries and have confirmed real successes. One study, done over fifteen months in Hyderabad, India, showed that people were more likely to start a business in the regions that offered microcredit programs than people from the same economic status where it was unavailable. But it was not that much higher: 5% versus 7%. This is not a revolution by any means, but it is also not insignificant. It further brings home the fact that issues of poverty are complex and that magic bullets do not exist, but this is not to say that nothing can be done. In the developing world, a little help can go a long way.

4. For-profit microcredit

Muhammad Yunus had claimed that microcredit "opens up the door for limitless self-employment, and it can effectively do it in a pocket of poverty amidst prosperity, or a massive poverty situation" (Yunus 1999:156); his statement, needless to say, was overly optimistic. Yet the context is important: The world needed a Muhammad Yunus, who gave a strong jolt of idealism that solutions were possible and this added to the sense of expansiveness and optimism after the Cold War ended, fueling an ethic of international cooperation and one world together. Mr. Yunus' original vision centered on a non-profit entity, though, one supported by international donors and grants from charitable foundations and from governments. This flew in the face of neoliberalism's market fundamentalism. Friedrich Hayek (1944) and Milton Friedman (1962) had said that only for-profit financial entities, privately owned, could create sustainable prosperity. Everything had to be market-driven (Bateman 2019:50):

> Neoliberal financial theory, not surprisingly, also provided much of the theoretical impetus behind the 1990s drive to commercialize microcredit. Yunus' original non-profit microcredit model was summarily abandoned and replaced with a new market-driven microcredit model. The move to

> commercialize and privatize the global microcredit model began in the early 1990s…The new commercialized microcredit model would bring about the vastly increased supply of microcredit required to turn every poor individual into a successful micro-entrepreneur. The end result, according to its leading lights in the microcredit sector (most notably Otero and Rhyne, 1994, and Robinson, 2001), would be a "new world" of "healthy" MCIs contributing to massive poverty reduction.

As neoliberalism jelled internationally after the end of the Cold War, when it seemed to be a new "end of history" philosophically, international aid and lending organizations, with the World Bank and the IMF leading the march, known today as the Washington Consensus (Klein 2007:204), promoted microfinance to "bring capitalism down to the poor" (Bateman 2018:44). It snowballed, with even Professor Yunus creating a for-profit branch of Grameen Bank: Grameen II Project. The criticisms of microcredit I discuss below are a sobering reminder that free market solutions fall short in lifting the poor out of poverty and are by no means an effective way to bring everyone along. Of course, the world needs to believe in *the* solution, or that some solution is possible. Sadly, by and large, commercial microcredit became more about profits than development. Still, many have been helped that would not have otherwise benefited.

First, microcredit has become part of a free market ideology. The switch from solutions to profits (or profits as the solution) involves each of us, since on a passive level people in developed countries have become accustomed to considering poverty from one vantage point; social conditioning has disinclined large numbers from being open to more foresighted answers. This full-blown cultural sensibility is buttressed by those that benefit the most: The huge businesses that sell microcredit and which have no incentive to change, since their profits from it have become spectacular (Blankenburg 2019:256). The lock on policy is all but absolute.

The Cold War's (c. 1947-1992) *Domino Theory* is a fitting parallel: the fallacy that most of the free world could easily fall to Communism. It had no basis in reality and cost the United States over eighteen trillion dollars (in 2018 dollars), to say nothing of the enormous loss of life from the wars in Korea (1950-53), Vietnam (1955-75), and other hot spots. We know from the Cold War that an ideology has a built-in, almost imperceptible, system of rewards and punishments: financial and status rewards for conformists and adherents and punishment, usually exclusion, for heretics. The Committee on Un-American Activities (c. 1938-1955), which saw Communists everywhere, is a grim reminder that competing opinions threaten those caught up in an ideological fever and those with power can come down hard on dissent.

The great tragedy is that an effective tool for helping the poor, if only modestly, was hijacked by the mighty more interested in furthering their sphere of influence for greater profits. Since neoliberalism today is so pervasive, few have been able to effectively challenge it. Even academics are on board, since these very financial institutions fund a great deal of their research.

The IMF, as the world's largest lending agency, dishes out the same formulaic neoliberalism everywhere: 1) cut deficits; 2) raise taxes; 3) raise interest rates; and 4) privatize utilities and resources—exactly the opposite approach it was founded on, under John Maynard Keynes' (1883-1946) theories (1926). Joseph Stiglitz, winner of the 2001 Nobel Prize in Economics, has written: "An ideology is a belief-system one holds despite the obvious clash with reality...This [ideology] is called 'Market Fundamentalism'" (Stiglitz 2003:222):

> The IMF felt it had little need to take these lessons [of the harm to East Asia in 1997-98]...because it knew the answers; if economic science did not provide them, ideology—the simple belief in free markets—did. Ideology provides a lens through which one sees the world, a set of beliefs that are held so firmly that one hardly needs empirical confirmation.... For believers in free and unfettered markets, capital market liberalization was obviously desirable.... Evidence that it causes instability would be dismissed as merely one of the adjustment costs, part of the pain that had to be accepted in the transition to a market economy.

Grameen Bank, a publicly supported non-profit organization, threatened neoliberals, fired up by a missionary zeal to convert the poor to capitalism. Organizational egotism has been a challenge, too, since it is hypersensitive to any competing approach. Recent studies have shown this group narcissism clearly: Large aid organizations often suck up 90% of funding for development projects in administrative costs (Acemoglu and Robinson, 2012:452), and so only about 10% of the money allotted actually reaches the poor.[15] The goal, then, is often institutional preservation. As for-profit microcredit began churning out profits, these institutions have also used every means to protect their interests.

From 2003, after Brazil elected Luiz Inácio da Silva, known to the world as Lula, non-profit microcredit programs took off, funded by the public (Feil and Slivnik, 2019:93) and were among the most successful in the world. Microcredit in Brazil, though, was just one part of an array of tools that included "Bolsa Família" (Family Allowance), small monthly stipends to families whose children attended school regularly; together these cut the numbers of those in extreme poverty by half in ten years.[16] It was decidedly not a free market solution. Its success came from the hard work of pulling everyone together for real and long-term solutions, not for a profit, except for social improvement.

Brazil undermined neoliberalism with an alternative model, away from the free market hocus-pocus of an "invisible hand" leading the way to a poverty free world.[17] Another Brazilian non-profit microcredit program, Crediamigo, is the largest in Latin America, with two million customers in 1,989 cities (ibid. 97). Loan officers are civil servants—not those whose salaries are based on commissions—laboring for public banks and preaching a gospel of inclusion (ibid. 96). Programs like these really have democratized credit, in line with Muhammad Yunus' original vision and all were state initiated: "The key factors…are the extent of state funding (keeping interest rates low) and state direction (ensuring as much as possible that the poor only move into potentially sustainable businesses are provided with much support thereafter)" (ibid. 107).[18] Mr. Yunus had seen the dangers of commercialized microcredit in 2008:[19]

> I'm urging all microcredit practitioners to remain true to the essence of the microcredit movement, which dedicated itself for more than 31 years to expanding the reach of microfinance in order to put poverty in the museums where it belongs.

Second, commercial microcredit has been destructive of a local economy and a country's capacity to develop financial institutions on its own, with local funding. Most (well over half) of microcredit today is offered by huge multinational institutions that have little regard for a local economy, except to extract profits from it.[20] This prevents poorer countries from maturing and keeps them dependent.

Yet, was there a flaw in the idea of microfinance that Mr. Yunus himself had envisioned with regards to its effect on a local economy?[21] *Say's Law*, also called "Law of the Markets," from Jean-Baptiste Say's (1767-1832) *A Treatise on Political Economy* (1803), formulated this apothegm: "Supply creates its own demand." Microcredit's underlying premise has been that loans to basket weavers, street vendors, and bakers of pastries will create a higher demand for these products. But in reality, microcredit tends to saturate the small market for these items and lowers everyone's income, since all are forced to lower costs to compete. It was the "false belief that an increased local supply of simple items and services would never run up against a local demand for restraint" (Bateman 2019:49).[22] Brazil had learned how to use microcredit effectively by guiding loan recipients through government programs into more varied and productive areas, ones that society needed—but this was ignored because it was outside the Washington Consensus' doctrine of market fundamentalism.

Further, since these microcredit programs are profitable for the huge financial institutions, money that could go to more risky—but potentially more productive—businesses is diverted. Money is instead lent to a small group of impoverished people (whose repayment rate is still over ninety percent) (Bateman, Blankenburg, and Kozul-Wright, 2019:9). The consequence is that "this locks in place an unproductive atomized local economic structure that…can only serve to hinder and block the effort to achieve sustainable economic development and growth (ibid. 53)." Well-educated people in plush offices in major financial centers, then, have replaced local moneylenders, those ruthless exploiters, but is this an improvement? At the very least, the moneylenders were still "local," who may even buy from the people they are lending to.

Finally, commercial microcredit has increased debt among the poor (Bateman 2019:54), making the poor even poorer in many instances, through following its own logic in the prevailing consumerism of our time. Loan officers working for international institutions urge the poor to take out more loans for higher salaries (since the officer is paid by commissions on loans) (Feil and Slivnik, 2019:107).[23] This also happened in the United States during the subprime era: Excessive lending that led to the worldwide economic meltdown of 2008-2009. Lenders in the United States lent to anyone and everyone, before selling the debt to financial institutions; when the poor defaulted the entire system collapsed. Extreme deregulation, many say, caused this catastrophe (Kozul-Wright 2019:29). Corporations profit enormously from microcredit, but it is often through old-fashioned exploitation, as Bateman, Blankenburg, and Kozul-Wright (2019:9) have pointed out:

> With a great many more instances of looting, profiteering and outfight fraud emerging across the Global South involving many of the supposedly more ethical MCIs (Microcredit Institutions) (Sinclair 2012). One thing thus

> began to become clear: the global microcredit industry had effectively been taken over by greedy individuals, opportunistic so-called “social entrepreneurs,” aggressive private banks, and hard-nosed investors. The global poor were no longer the primary intended beneficiaries of commercialized microcredit sector, but were increasingly viewed as merely its hapless victims.

This begs the question: Why is non-profit and government supported microcredit different from free market microcredit? The answer is obvious—it lies both in the intention and the goal. The original idea was to give people a nudge for a better life, and this would improve their country and the world. The latter is part of an older system of piracy—the search for profits and when profits (or even winning an ideological war) are the only goal, almost any abuse can be justified.

5. Conclusion

Muhammad Yunus has said: “The poor themselves can create a poverty-free world. All we have to do is to free them from the chains that we have put around them!” In considering solutions to poverty, giving people a chance is certainly part of the answer and microcredit, as envisioned by Muhammad Yunus, does just that. No one can deny its real benefits. Yet, one has to be ideologically crazed not to be sympathetic to what the poor are subjected to from assaults by wealthy nations: The great forces of globalization that have left parts of the world much poorer, environmental degradation through climate change that hurts them more than in developed countries, and even as targets of conversion to economic ideologies. Once it was uncompromising missionaries who declared the poor’s native religions were demonic and pointed them to the only way to salvation. Today, though of a different strip, the wealthy and the powerful are still showing the way. Market fundamentalism, while creating unimaginable wealth for the top twenty percent of the world, is also a great hindrance for a better future for everyone. Can it be recreated in a way that lifts everyone? The poor of the world, of course, will have to answer that question. I close with a quote from Jeffrey Sachs (2005:365):

> Mahatma Gandhi and Martin Luther King, Jr. did not wait for the rich and powerful to come to their rescue. They asserted their call to justice and

made their stand in the face of official arrogance and neglect. The poor cannot wait for the rich to issue the call to justice. The G8 will never champion the end of poverty if the poor themselves are silent. It is time for the world's democracies in the poor world—Brazil, India, Nigeria, Senegal, South Africa, and dozens of others—to unite to issue the call to action. The poor are starting to find their voice, in G3 (Brazil, India, South Africa), the G20 (a trade grouping that negotiates within the WTO), and elsewhere. The world needs to hear more.

Notes

[1] Please see: https://www.dosomething.org/us/facts/11-facts-about-global-poverty

[2] Acemoglu and Robinson, *Why Nations Fail* (2012), wrote: "History is the key, since it is historical processes that, via institutional drift, create the difference that have become consequential during critical junctures" (Acemoglu & Robinson 2012:432). These "processes" produced systems that were either "extractive" (authoritarian, where all wealth automatically went to the top) or "inclusive" (pluralistic, where both wealth and power were collective). Others point to more spiritual or psychical reasons as the cause of continued poverty. Hernando de Soto, the Peruvian economist, believed that the poor first needed a sense of dignity (de Soto 2003:6). By owning a title to a deed of land, among other affirmations, they will have the confidence to make the first step on the ladder out of poverty. This more spiritual sense of dignity has been part of liberal critiques since Karl Marx (1818-1883) inaugurated it. Acemoglu and Robinson's thesis is similar to many others that were articulated just after the Cold War (1992) about the possibility of democracy taking root in countries that were part of the former Soviet Block, which had destroyed all intermediaries between the citizen and the state as a matter of policy: trade unions, opposition parties, religious communities, even clubs. These intermediaries, so threatening to Communist leaders, form the foundation of democratic institutions. Robert Putnam, *Making Democracy Work*: *Civic Traditions in Modern Italy* (1993), showed that three separate cultures developed in Italy, with varying degrees of trust among the population: Sicily, with the area in the south of Italy, had been authoritarian and had beaten the people down. Where no trust is possible, organized crime is usually rife. Central Italy developed a family based trust, reflected in the number of small family businesses, while northern Italy developed a deep trust among people unconnected through family ties and where both democracy and economic prosperity soared. How can democracy (and prosperity) take hold in countries where trust is not a given, crippled by generations of authoritarianism, when even Italy struggles with areas essentially non-democratic?

[3] Today Karl Marx is associated with totalitarianism, but his theories were for elevating human dignity through a more complete democracy. Marx felt that slavery, technically illegal by the late 19th century, continued in the crowded mills and mines of his time. These workers owned neither their time nor their work—both were merely capital for the capitalists. These poor souls were alienated from their true selves—Marx here applied the concept from Jean-Jacques Rousseau (1712-1778) to show an inward as well as an outward oppression. As Enlightenment thinkers before him, Marx challenged the social structure he believed crippled human dignity, but took salvation from it a step further. What would an ideal society look like? Marx felt it was a "community" where people shared property (capital) equally—private ownership had made people unequal and failed to give equal dignity to everyone.

[4] *The End of Poverty*, pp. 354-58: "By now the anti-globalization movement should know that globalization, more than anything else, has reduced the numbers of extreme poor in India by two hundred million and in China by three hundred million since 1990. Far from being exploited by multinational companies, these countries and many others like them have achieved unprecedented rates of economic growth on the basis of foreign direct investment (FDI) and the exported growth that followed."

[5] *Globalization and Its Discontents*, p. 207, "Looking at the IMF as if it were pursuing the interests of the financial community provides a way of making sense of what might otherwise seem to be contradictory and intellectually incoherent behaviors...moreover, the IMF's behavior should come as no surprise: it approached the problems from the perspectives and ideology of the financial community."

[6] The IMF and the World Bank have required countries receiving loans to "privatize" (sell) public assets. In 2000, for example, the Bechtel Corporation of California came to own Bolivia's water—even its rainwater—from a World Bank privatization requirement. The people of Cochabamba began street protests against this that eventually brought down the government. (Evo Morales, the first indigenous president of Bolivia, was elected in 2006). The Bechtel Corporation had appealed to the World Court to get its money back but dropped the appeal after Evo Morales was elected (Klein 2007:573-76).

[7] This simple equation (the government out of the economy) creates upheavals even today. It brought fire to conservative governments in America and Great Britain during the 1980s and influenced World Bank and IMF policies—which up until recently have tended to give more support to dictators than to democratically elected governments in the developing world. Please see a recent study from Northwestern University: http://faculty.wcas.northwestern.edu/~scn407/documents/NelsonandWallace-IMFandDemocracyRIOFINAL.pdf).

[8] The military coup in Chile in 1973, when General Augusto Pinochet overthrew the elected government of Salvador Allende, gave the "Chicago Boys," a pejorative nickname for their gangster-like single-mindedness, a chance to implement their ideas. They created an economic plan called *The Brick* for a free market transition from a government-controlled economy. The results, I should add, were disastrous for the Chilean people, with 85% suddenly falling like a brick below the poverty line. In one year, the price of bread increased by 3,700%. All this while the rich got much richer.

[9] Please see *Why Nations Fail* by Daron Acemoglu and James A. Robinson, "The Irresistible Charm of Authoritarian Growth," pp. 437-446 for some of the ways in which nations around the world have produced economic growth through extractive means, but without democratizing.

[10] https://sustainabledevelopment.un.org/post2015/transformingourworld (Article 43).

[11] Please see: http://www.grameen.com

[12] When I visited Grameen Bank in February 2012 to meet Mr. Yunus, during a volunteer trip to build houses with students, I was led to the back of the office building that houses all the projects to some modest offices and living quarters where Mr. Yunus lived. I spoke at length with the very friendly dean of the nursing college, connected to the University of Glasgow. She herself was Scottish. A spray and energetic women, she explained the program that offered scholarships to prospective young women in the countryside, who now live in dormitories on the campus in Dhaka. Since Mr. Yunus was returning from an overseas trip that very evening, she encouraged me to return the next day to meet him. That evening, however, I was so stricken with dysentery that I ended up in the hospital for four days. I was touched by the openness of the people at Grameen. These are people, "of the people," available even to strangers arriving unannounced.

[13] Because it is considered bad luck for someone to see the genitals of a eunuch, moneylenders hire them to expose themselves to tardy customers. This, however, is one of the more gentle ways of collecting, to say the least. One can only imagine the thuggery involved in collecting. Those familiar with gangster pulp fiction and films understand these are often brutal.

[14] Sachs 2006:211-212): 1) Eradicate extreme poverty and hunger; 2) Achieve universal primary education; 3) Promote gender equality/empower women; 4) Reduce child mortality; 5) Improve maternal health; 6) Combat HIV/AIDS, malaria, other diseases; 7) Ensure environmental sustainability; 8) Develop a global partnership for development.

[15] Acemoglu and Robinson point to one study from Afghanistan, regarding a grant of millions of dollars for new housing: "Many studies estimate that only about 10 or at most 20 percent of aid ever reaches its target. There are dozens of ongoing fraud investigations into charges of UN and local officials siphoning off aid money. But most of the waste resulting from foreign aid is not fraud, just incompetence or even worse: simply business as usual."

[16] Please see a report from the World Bank: http://www.worldbank.org/en/news/opinion/2013/11/04/bolsa-familia-Brazil-quiet-revolution

[17] Joseph Stiglitz 2003:73: "Behind the free market ideology there is a model, often ascribed to Adam Smith, which argues that market forces—the profit motive—drive the economy to efficient outcomes, *as if by an invisible hand*."

[18] This inclusion included the following (Feil and Slivnik 2019:100): "(1) facilitation for opening checking accounts (with no fees charged, a procedure already being adopted by Banco do Nordeste's Crediamigo); and (2) the creation of legal measures that allowed for the "payday loan" or "salary loan" sector to expand. This particular measure aimed at the increase in the general credit supply, as Brazil has, even today, one of the lowest rates of credit to GDP in the world—around 55 percent in 2015."

[19] Please see the article from *Insead*, "Social Versus Commercial Enterprises" by Anne-Marie Carrick-Cagna: https://docplayer.net/51770722-Social-vs-commercial-enterprise.html

[20] Please see website for a sample of international microcredit institutions: http://www.microfinanceinfo.com/micro-financial-institutions/

[21] Researchers say that in the village of Jobra, Bangladesh, where Mr. Yunus began his first microcredit program, the rate of poverty since the 1970s remains unchanged (Bateman 2019:55). One reason is that very few of the microloans taken out for income-generating purposes actually went on to create successful microenterprises that created jobs.

[22] Bateman 2019:46: "This happens [lowering incomes] because the prices of goods and services supplied generally decline on account of the increased local competitions, and because turnover and revenue per individual microenterprise are also reduced as demand is shared out among a larger number of units…As should be readily apparent, this is not good for the poor."

[23] Bateman 2019:54: "New clients might be already over-indebted, have several microloans they are struggling to repay, or their business idea might be obviously unprofitable, but they are pushed to take on more microcredit nevertheless. In financial circles advancing credit under such circumstances is define as 'reckless lending' and it is unethical and often illegal."

References

Acemoglu, Daron and James A. Robinson (2012) *Why Nations Fail*: *The Origins of Power, Prosperity and Poverty*. London: Profile Books, LTD.

Bales, Kevin (1999) *Disposable People*: *The New Slavery in the Global Economy*. Los Angeles: The University of California Press.

Blankenburg, Stephanie (2019) "Delivering Development in 'The Time of Cholera:' A 'Bottom-Up' Agenda for Pro-Development Financial Resource Mobilization" in *The Rise and Fall of Global Microcredit*: *Development*, *Debt and Disillusion*. New York: Routledge.

Banerjee, Abhijit V. and Esther Duflo (2011). *Poor Economics*: *A Radical Rethinking of the Way to Fight Global Poverty*. New York: PublicAffairs.

Bateman, Milford (2019) "Impacts of the Microcredit Model: Does Theory Reflect Actual Practice?" in *The Rise and Fall of Global Microcredit*: *Development*, *Debt and Disillusion*. New York: Routledge.

Bateman, Milford, Stephanie Blankenburg and Richard Kozul-Wright (2019) "Introduction" in *The Rise and Fall of Global Microcredit*: *Development*, *Debt and Disillusion*. New York: Routledge.

Bateman, Milford, Stephanie Blankenburg and Richard Kozul-Wright, Eds. (2019) *The Rise and Fall of Global Microcredit*: *Development*, *Debt and Disillusion*. New York: Routledge.

Batstone, David (2007) *Not For Sale*: *The Return of the Global Slave Trade and How We Can Fight It*. New York: HarperCollins.

Collier, Paul (2007) *The Bottom Billion*: *Why the Poorest Countries are Failing and What can be Done about It*. Oxford: Oxford University Press.

De Soto, Hernando (2000) *The Mystery of Capital*: *Why Capitalism Triumphs in the West and Fails Everywhere Else*. New York: Basic Books.

Easterly, William (2006) *The White Man's Burden*: *Why the West's Efforts to Aid the Rest have Done so Much Ill and so Little Good*. New York: Penguin Group.

Feil, Fernando and Andrej Slivnik (2019) "Brazil: Latin America's Unsung Hero," in *The Rise and Fall of Global Microcredit*: *Development*, *Debt and Disillusion*. New York: Routledge.

Friedman, Milton (1962) *Capitalism and Freedom*: *Fortieth Anniversary Edition*. Chicago: The University of Chicago Press (2002).

Hayek, Friedrich (1944) *The Road to Serfdom*: *Text and Documents*. Chicago: The University of Chicago Press.

Keynes, John Maynard (1926) *End of Laissez-Faire*: *Economic Consequences of the Peace*. New York: Promethean Books (2004).

Klein, Naomi (2007) *The Shock Doctrine*: *The Rise of Disaster Capitalism*. New York: Metropolitan Books.

Kozul-Wright, Richard (2019) "Development Prospects in an Era of Financialization," in *The Rise and Fall of Global Microcredit*: *Development*, *Debt and Disillusion*. New York: Routledge.

Putnam, Robert R. (1993) *Making Democracy Work*: *Civic Traditions in Modern Italy*. Princeton: Princeton University Press.

Rand, Ayn (1957) *Atlas Shrugged*. New York: Signet.

Rodrik, Dani (2011) *The Globalization Paradox*: *Democracy and the Future of the World Economy*. New York: W.W. Norton & Company, Inc.

Sachs, Jeffrey D (2005) *The End of Poverty*: *Economic Possibilities for our Time*. New York: Penguin Group.

Stiglitz, Joseph E. (2003) *Globalization and Its Discontents*. New York: W.W. Norton & Company, Inc.

Yunus, Mohammad (1999) *Banker to the Poor*: *Microlending and the Battle against World Poverty*. New York: PublicAffairs.

Yunus, Mohammad (2017) *A World of Three Zeroes*: *The New Economics of Zero Poverty, Zero Unemployment, and Zero Carbon Emissions*. Brunswick, Victoria, Australia: Scribe Publications.

Received on 6 January 2019