Can Grameen Bank-style Microcredit Eliminate Poverty?

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What is microcredit? A Kenyan fisherwoman, backed by a modest loan from Kenya’s Yehu Bank, starts a business buying and marketing fish, hiring her husband and daughter, and then repaying the loan with interest from her increased income. That is the basic model. And here is the major claim for it made by Muhammad Yunus, “godfather of microcredit” and inspirer of the movement: “If we can come up with a system which allows everybody access to credit while ensuring excellent repayment, I can give you a guarantee that poverty will not last long.” Is this an amazing realization of Ayn Rand’s capitalism or advice from one of Dickens’ meaner characters?

In 1976 the Vanderbilt-educated economist founded the acclaimed Grameen Bank in Dhaka, capital of Bangladesh, where he is still its Managing Director. And the 2006 Nobel Peace Prize was recently awarded “to Muhammad Yunus and Grameen Bank for their efforts to create economic and social development from below. Lasting peace cannot be achieved unless large population groups find ways in which to break out of poverty. Microcredit is one such means.” Growth has been explosive. As of early 2006, 30 years after Yunus started, some 3,133 microcredit institutions reported reaching over 100 million “clients,” 73% of whom were among the world’s poorest when they took their first loan. Average loan size is $309 USD.

But Grameen’s approach has raised hotly debated issues of global justice. Is it a solution to poverty -- at last! -- or a neo-liberal shift of responsibility from collective action on social structures to the backs of individuals in poverty, using borrowed money?

Of the 73 percent of Grameen’s clients who are among the world’s poorest, 84.2 percent of them are women. Most microcredit institutions target women due to their centrality to families. Assuming five persons per family, the 81.9 million poorest clients that microcredit reached by 2006 in turn “affected” some 410 million family members, a figure advanced in favor of its poverty-reduction aspect. Over 50% of 5-year participants have lifted themselves out of poverty, Yunus claims. His message has engrossed audiences in development circles (the World Bank), among global corporations and banks (Monsanto, Citibank), and even among billionaires (the Gates Foundation) and other seekers for “new solutions” to poverty. Purged of outdated community organizing, costly government programs, and boring training, the Grameen focus is instead on funding "home-based production by the self-employed masses.” Loaned the capital needed, Yunus insists, clients’ innate "survival skills" will “empower” them as individual entrepreneurs to pull themselves out of poverty -- often giving jobs to family and neighbors in the bargain. Educated, mostly male agents make regular rural trips, lending to women and collecting repayments. Instead of collateral -- the big barrier to extending banking credit to the poor -- "microloans" are secured by the honor of a 5-woman Grameen peer group. If one defaults, no one in her lending circle will receive another loan until the debt is paid. The group’s collective liability serves as collateral and results in an unusually high 95% payback rate.

Results so far? Comprehensive studies are few and anecdotes can overstate gains. Microcredit programs have helped many women “pull themselves up by the bootstraps.” But claims to reduce aggregate poverty are unproven. A 1995 World Bank study found that Grameen “had no significant impact on women's wages in rural villages.”. And even after 8 years of borrowing, 55% of Grameen households still can’t meet basic nutritional needs. (Nutrition is not among Yunus’s criteria for graduating from poverty.) Recent much-cited research by the Canadian International Development Agency found most borrowers realized “only very small gains,” with the poorest realizing the least. Little relation was found between repayment rates and business success.
Can women with a little cash but without shoes pull themselves up by the bootstraps? Many use their loans to buy food rather than start businesses. One of the debates around Grameen pits its tough love approach against “full-service” attacks on poverty. Believing women can simply elect to be individual entrepreneurs, Grameen provides only credit. This practice backhandedly accepts poverty in order to motivate its clients to acquire other components of entrepreneurship. By contrast Pro Mujer and India’s Self-Employed Women’s Association, unions of poor women, offer credit as one of a range of services, including political organizing, training in leadership and business skills, and project assistance.

And there is the “microcredit” vs “microfinance” debate. “Microcredit” offers credit for self-employment to very poor persons, a banking function that may be capitalized annually (as in the case of Grameen) by donated funds, its main aim being to combat poverty, not to make money. “Microfinance” also offers credit but seeks sustainability after initial capitalization, in short, profitability (as in the case of Acción International, a network of Latin American institutions).

Among microcredit institutions is San Miguel’s own Fondo Revolvente de Apoyo (Revolving Fund for Support), currently administered by the Center for Global Justice. Founded in late 2005 and privately capitalized, the Fondo made its first loan of 50,000 pesos to the Integradora de Producción Rural, a network of over 20 agricultural cooperatives in Hidalgo state. A year later that loan was paid back in full and a new loan was made for 100K pesos, payable in a year. Both loans have helped construct hothouses for commercial production of tomatoes and nopal. In this period we at the Center have been proud to witness the start of the Integradora’s commercial production and marketing.

While like Grameen the Fondo counts on collective liability, it diverges sharply from all Grameen-style institutions in lending only to enterprises organized as worker cooperatives and not to individuals. This small change has momentous effects. Worker-owned co-ops are non-hierarchical enterprises collectively owned by their members who democratically distribute profits and choose managers and policies, one-worker-one-vote. The Center aims to pass administration of the Fondo to the co-ops using it, after adding cooperative development services to its offerings. The rationale for the Fondo’s cooperatives-only policy speaks to the core issue raised by Grameen’s poverty-reduction claims, namely: is poverty a failure of individuals to make use of the tools of capitalism or a necessary structure of capitalism itself?

Grameen loans cannot address poverty’s structural causes. For example, today’s rural poverty in Mexico, a typical case, can be traced to explicit acts. Opening Mexico to cheap, subsidized U.S. corn has killed internal markets, impoverishing villages. Loosening collective “ejido” control of the land has dispossessed communities of this source of income as the wealthy buy it up. Privatizing utilities and lowering spending on education and farm support have deepened desperation. Individual entrepreneurship and marketing, mostly in the informal economy, cannot undo such policies of neo-liberal globalization.

By contrast, to start a co-op is to lay a brick in building “another world.” The key is to replace passive individual choices among market-supplied options with democratic, that is, collective economic action. Grameen’s success probably emanates from its collective responsibility for loan repayment. Yet its recipients are almost always individuals, despite the bank’s name which means “village.” Supplied with capital, recipients can hire the labor power of others so as to derive profit from it by rules of the current capitalist game -- with its inevitable class polarization. Far from abolishing poverty, then, such loans make use of its elements -- landlessness, unemployment, exclusion from the money economy -- to motivate the odd individual escaping it. Grameen-style microcredit thus repeats the old Monopoly game scramble for higher rungs on the pre-established social ladder: property owner, investor, boss, worker, unemployed, poor.

There is a better way. This is not the place to lay out the argument in detail but lets take some
fundamentals. Instead of being hired by capital, why can’t workforces reverse the process -- as many are doing -- by jointly hiring capital (from sources like the Fondo), thereby allowing workers to retain the profits they produce? Because such a strategy meets needs democratically it attacks poverty at its roots. Loans to individuals would be weapons against poverty if its roots were in some feature of individuals -- laziness, too many children, acting irresponsibly, and now lack of capital, according to neo-liberal dogma. But what if polarization of those in workplaces is what renews poverty? Then individual loans -- far from attacking that cause -- perpetuate it! Such loans climb onto and do not alter the Monopoly game “structure”-- as each generation plays the old “boss” and “worker” roles, recreating both the “ladder” and unemployment. Collective, non-hierarchical practices can alone address such structures.

There is a familiar objection at this point: “How long must we wait for your great revolution to dismantle the ‘ladder’? Doesn’t grinding poverty of today demand action of us now, even if it is small?”

It does indeed, but it should be action that, far from undermining poverty’s cause, simultaneously both alleviates it and uproots that cause. Loaning to co-ops does that by slowly building “another world.” That kind of non-violent enterprise-by-enterprise revolution in the present is morally preferable to waving the magic wand of state power in a far-off future. Notice that if economic habits are at fault then government programs are not the primary remedy. On this we diverge from Grameen critics Feiner and Barker. Their remedy -- “expanding the state sector to provide the rudiments of a working social infrastructure” -- is of course a helpful adjunct, but changing economic practices themselves will alone directly disengage poverty’s engine. Much of Mexico’s desperation would be relieved by undoing NAFTA, admittedly a government act. But the major political forces needed for that long-term job can be mobilized by demonstrating that democratic enterprises can meet our needs -- and that can be done now.

The Fondo offers a form of microcredit, then, only in holding groups responsible for repayment. Unlike all forms of microcredit its aim is poverty reduction through social change. It seeks to model non-violent construction of an alternative “solidarity economy” within but separate from the capitalist one. At work one would pool labor with others. For consumables, one would buy only from non-exploitative sellers. For savings and investment, one would form a member-run credit union resembling the Fondo. As they prove themselves, democratic practices would replace current ones with worker and consumer co-ops, fair trade stores, credit unions, local currencies, and all manner of neighborhood and civic associations, inevitably renewing political democracy at the grassroots.

Migration of workers and consumers to the solidarity economy, attracted by its capacity both to meet human needs and satisfy global justice, will progressively transform the current one.

“The poor will always be with you,” the good books says. Why? Poverty is neither a biblical curse nor a natural phenomenon: it is constructed by human acts and can be undone. Our option neither realizes Ayn Rand’s heroic capitalism nor follows the advice of Scrouge. Does it then take flight into utopian speculations suitable for Alice in Wonderland or the Wizard of Oz? No. Elements for building a peaceful world in which poverty’s motor is shifted to neutral already exist, often in overlooked practices under our noses. New economic choices could generalize these practices. Looming prospects of global economic crisis lend urgency to unveiling and studying such practices. Our commitment to democracy also demands it. True, there is no easy way to break old habits. But just reflecting on where we work, buy, and save is a first step.

NOTES
A shorter version of this essay, lacking footnotes, appeared in Atención, an English-language weekly in San Miguel de Allende, Mexico, February 2007. The authors are among founders of the Center for Global Justice, a research and learning center in San Miguel de Allende, Mexico, and they currently serve as Research Associates at the Center. Bowman is a former professor of French literature, Stone is a former professor of philosophy. They welcome comments and dialogue. Just email them c/o admin@globaljusticecenter.org

Microcredit Summit Campaign Report, www.microcreditsummit.org/
Grameen Bank (http://www.grameen-info.org/bank/GBGlance.htm)
Microcredit Summit, Op cit.
Grameen Bank website, Op cit.
“The boldest claim for microfinance -- that it can single-handedly eliminate a large share of world poverty -- outpaces, by a long distance, the evidence accumulated to date.” Quote from Professor Jonathan Morduch of New York University’s Wagner Graduate School of Public Service, New Yorker, ibid., p. 67.
Connie Bruck, Op cit.
Feiner and Barker, Op cit. See also Norman MacIsaac, “The Role of Microcredit in Poverty Reduction and Promoting Gender Equity,” South Asia Partnership Canada, Strategic Policy and Planning Division, Asia Branch Canada International Development Agency (June, 1997), www.acdi-cida.gc.ca/index-e.htm

New Yorker, Op cit.

For a compelling vision of how this might be done, see Gianpolo Baiocchi and Len Krimerman, “Reclaiming Public Revenues: Brazil’s Participatory Budget” Grassroots Economic Organizing (GEO at www.geo.coop).