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MICRO CREDIT SNAKES AND LADDERS BETWEEN SOUTH AFRICA'S 'TWO ECONOMIES'

When Muhammad Yunus, founder of the Grameen Bank, won the 2006 Nobel Peace Prize, a renewed evangelical wave of support for micro credit swept the world.

In South Africa, the hype provided an opportunity to reassess the way the government's Accelerated and Shared Growth Initiative for South Africa (AsgiSA) conceptualized financial market access. AsgiSA unveiled the state's commitment to the 'two economies' thesis in several ways, but none was more explicit than the citation of credit as a ladder between the two economies.

Before addressing these, consider the backdrop. Whereas Thabo Mbeki may claim that 'the modern industrial, mining, agricultural, financial, and services sector of our economy… has responded and continues to respond very well to all these interventions', we should first show how deepened integration into the world economy has left South Africa much more vulnerable, volatile and unevenly developed than Mbeki would concede. That in turn will permit us to interrogate whether, as he claims,

> The successes we have scored with regard to the 'first world economy' also give us the possibility to attend to the problems posed by the 'third world economy', which exists side by side with the modern 'first world economy'… Of central and strategic importance is the fact that they are structurally disconnected from our country's 'first world economy'.[1]

It is not difficult to rebut Mbeki's claim that South Africa's advanced capitalist economy has responded well to neoliberal policies (introduced, in fact, not by the ANC in 1994, but instead by the Nationalist Party in the early 1990s late-apartheid era). In six ways, rebuttals can be suggested:

- Can SA brag about macroeconomic stability? In reality, the currency has fallen by more than a quarter on four occasions (the most of any currency), and indeed the crash from R6/US$ to R8/US$ in mid-2006 was the world's worst performance of major countries that year. The volatility is due to the relaxation of exchange controls beginning in 1995.
- Does the interest rate allow for real growth and development? Beginning in 1995, South Africa's real interest rose to the highest levels in the country's modern history.
- Are the trade deficit and current account deficit being resolved? As interest rates rose, the currency periodically strengthened to the point exports were uncompetitive and imports cheap. Added to the outflow of profits and dividends, the trade and current account balances were dangerously out of kilter with the world financial system, reaching -5% of GDP by the mid-2000s, as high a deficit as Thailand suffered just prior to its 1997 meltdown.
- Can SA solve deindustrialisation, and limit financial speculation? Given the inflow of both relatively inexpensive East Asian goods and the much higher rates of return to be found in financial sector investments, the productive sector appears set to continue shrinking, while finance, insurance and real estate speculation earn far higher profits.
- Will private investment play a positive role? The 'capital strike' underway by big business continues to beggar the country's

1. *Mbeki, T. (2003), 'Steps to End the Two Nations Divide', ANC Today, 3, 33, 22 August.*

investment rate.

- Can job losses be stemmed? Given the import tsunami as well as the import of far more capital-intensive manufacturing goods (that replace workers), there are far fewer formal sector jobs today than in 1994.

Given that these (and many other) problems in South Africa's 'first economy' are typically ignored, the following pages document that micro credit is an attractive palliative, a lubricant for ongoing superexplotiation.

The Microfinance Promise

Returning to AsgiSA, consider just a few of the ways credit is invoked in the document (Republic of South Africa, 2006):

> One key mechanism is to use the leverage of the First Economy to address the Second Economy. There are two key examples in AsgiSA. The first is to leverage the increased levels of public expenditure, especially investment expenditure, to promote small businesses and broad-based empowerment addressing such issues as access to finance…
>
> Expanding women's access to economic opportunities… Ensuring they have access to finance (micro to mega bucks); Fast-tracking them out of the Second Economy… Leveraging components of BBBEE: Provisions for access to finance for women and youths; Funding commitments for housing and small business loans…
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> The National African Chamber of Commerce has committed to establish 100 000 new small and medium enterprises per year, and government will support these efforts. A key challenge in this regard is to address the gap in loans between R10 000 and R250 000. One such effort is a new partnership between Khula and Business Partners in a R150-million fund for business loans of this size. Another is a planned fund for women entrepreneurs, which is the result of a collaboration between the DTI, Eskom, Umsobomvu and the Women's Development Bank…
>
> A commitment in the Financial Services Charter of R5 billion to

> small business loans is still to be finalised as a programme, but we expect progress shortly under the new leadership of the Charter. We also plan to accelerate the roll-out of the Apex (SAMAF) and Mafisa programmes of loans under R10 000…
>
> A final set of Second Economy interventions is centred on the challenge of realising the value of dead assets – land, houses, livestock, skills, indigenous knowledge and other assets that have intrinsic value not currently realized.

Hernando de Soto's oft-cited idea is that for poor people, property rights can bring to life this 'dead capital', but micro credit is required to translate assets into collateral, and then into finance, and then into investment capital, and finally into a successful entry to the market economy.

A great deal of the faith in micro credit expressed in AsgiSA and similar 'two economy' strategies is based upon the experience of Grameen Bank, which specialises in group loans to low-income Bangladeshi women. Grameen was founded in 1976 by Yunus, a Vanderbilt University-trained economist. Yunus was celebrated for having built his bank's customer base to 2.5 million borrowers, with bank assets of $3 billion, serviced by 1200 branches in 41,000 villages (Mainsah, Heuer, Kalra and Zhang, 2004:22). Grameen's profile is so high that not only have Bill and Hillary Clinton feted him (while President of the US, Clinton advocated he receive the Swedish central bank's Nobel Economics prize). In addition, Venezuelan President Hugo Chavez has called Yunus an 'example in the fight against poverty' (Associated Press, 2006).

But behind and beyond the Peace Prize lie a complicated and contradictory set of political motives and implications. The Norwegian elite — who awarded the Prize — have important ideological and practical interests that bear consideration. For those promoting grassroots capitalist entrepreneurialism, dangers arise, given the way Grameen has structured its banking services. South Africa, for example, has embarrassed anyone claiming micro credit via group credit can solve poverty.

Yunus's own reaction to the awarding of the Nobel Peace Prize was telling, at a Dhaka press conference: "Now the war against poverty

will be further intensified across the world. It will consolidate the struggle against poverty through micro credit in most of the countries" (Reuters, 2006). On the contrary, this seemingly benign, three-decade old attempt to foster entrepreneurship amongst impoverished women has attracted intense grassroots – and also professional – criticism.

Grameen Critiques

On the one hand, when the *Wall Street Journal* profiled Yunus on its front page five years ago it started in a celebratory manner: "To many, Grameen proves that capitalism can work for the poor as well as the rich," having "helped inspire an estimated 7,000 so-called microlenders with 25 million poor clients worldwid" (Pearl and Phillips, 2001:1). Yet looking more closely, the *Journal's* reporters conceded the prevalence of Enron-style accounting. A fifth of the bank's loans in late 2001 were more than a year past-due: "Grameen would be showing steep losses if the bank followed the accounting practices recommended by institutions that help finance microlenders through low-interest loans and private investments." Indeed by 2001 Grameen itself conceded a 6.9% default rate, up from 0.1% in 1997 (Mainsah, Heuer, Kalra and Zhang, op. cit).

According to the *Journal,* a typical Grameen gimmick was to reschedule short-term loans that were unpaid after as long as two years, instead of writing them off, letting borrowers accumulate interest through new loans simply to keep alive the fiction of repayments on the old loans. Not even extreme pressure techniques — such as removing tin roofs from delinquent women's houses, the *Journal* reported (Peral and Phillips, op. cit.) — improved repayment rates in the most crucial areas, where Grameen had earlier won its global reputation amongst neoliberals who consider credit and entrepreneurship as central prerequisites for development. (Yunus later adjusted his loan products to establish a "flexible" loan to cover those with poor repayment records, and penalised them by reducing their ability to borrow in future.)

At that point, in late 2001, leaders of the microfinance industry expressed their sense of betrayal. "Grameen Bank had been at best lax, and more likely at worst, deceptive in reporting its financial

performance", wrote World Bank microfinance promoter J. D. von Pischke (2001). "Most of us in the trade probably had long suspected that something was fishy". Agreed Ross Croulet (2001) of the African Development Bank: "I myself have been suspicious for a long time about the true situation of Grameen so often disguised by Dr. Yunus's global stellar status".

The true situation was a function of both exogenous and endogenous factors. Several years earlier, Yunus lost the bulk of his international donor support, reportedly $5 million a year (Jackelen and Rhyne, 1991), which had until then reduced the interest rate he needed to charge borrowers and still make a profit. Grameen had become "sustainable", self-financing, with costs to be fully borne by borrowers. Yunus had also battled backward patriarchal and religious attitudes, including a 1995 loan repayment boycott by Bangladeshi men opposed to women's rights (Mainsah, Heuer, Kara and Zhang, op. cit.). To be sure, his hard work extended credit to millions of people, mainly women. The secret was that poor women were typically arranged in groups of at least five: two got the first tranche of credit, leaving the next three or more as "chasers" to pressure repayment, so that they could in turn get the next loans.

But new competitors, adverse weather conditions (especially the 1998 floods) and a backlash by borrowers who used collective power of nonpayment together coincided with Grameen's need to impose dramatic increases in the price of loans. It is here that Grameen Bank's main philosophical position – "We consider credit as a human right" (Yunus and Jolis, 1998) – was reduced merely to an argument for access, not affordability. In that regard, Yunus is entirely different from all the rights-based social movements which have demanded "rights" in terms of *free* lifeline access to healthcare, education, housing, land, water, electricity and the like.

Nevertheless, claims of Grameen's financial success are impressive:

- return on assests ranging from under o.1 percent to a peak of 0.5 percent in 1998 before Grameen's crisis;
- an early 2000s return on equity of 2 percent (compared to Citigroup's 19 percent);
- lending productivity of 200 members per employee;

- recovery of up to 20 percent of bad debts, which themselves were less than 5 percent of outstanding loans during the early 2000s (Mainsah, Heuer, Kara and Zhang, op. cit.).

But critiques are frequent, as well. In a review of the burgeoning literature on Grameen, Heloise Weber (2001:7) reports findings that "cross-borrowing is a part of survival strategies of the poor (i.e., where money is borrowed from one NGO to pay off the other)", that there are other "adverse social implications as a result of the credit intervention, such as an increase in violence at the community level, particularly against women, an increase in child labour and further impoverishment resulting from a rising spiral of debt", and that, even according to a World Bank study, "micro credit-induced self-employment is a complement to child labour and that self-employed activity financed by a micro credit program may facilitate child employment" (Khandker, n.d.:48).

Dodzi Tsikata and Joanna Kerr (2002:17) argue that the advent of widespread micro credit is consistent with the overall neoliberal attack on women's standards of living:

> Evidence from around the world, and in particular from South Asia, indicates that credit does not necessarily have a positive impact on social relations. Evaluations of major credit programs indicate that a large proportion of loans to women are appropriated by their male family members. Loans may be targeted to women, but commonly taken and used by husbands - women then become the buffers between their spouse and the lending institution, with often stressful and violent results. Even where incomes have increased among women, research has found that women's work-load, alongside a debt load has increased. Improved confidence, mobility, control over assets, or freedom from violence are by no means guaranteed outcomes of women's access to credit or even increased incomes.
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> It should also be stressed that micro-credit or loans for small businesses do not necessarily improve the lives of the poor. However, this anti-poverty approach is one that has been heralded by the international community as an important means to fight poverty. Within this so-called inherently benign new trade and investment agenda of privatisation and open markets, micro credit is perceived

> as a complementary tool for the poor. By providing small amounts of capital, small businesses and entrepreneurs are supposed to be better able to compete in, or create, new markets and therefore benefit from globalising economies. From Hillary Clinton to Muhammad Yunus (the charismatic head of Bangladesh's Grameen Bank), advocates for micro-credit tout this strategy as poverty's magic bullet. However, lack of credit is not necessarily the cause of poverty nor is credit necessarily the ingredient for overcoming poverty.
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> As the earlier discussion on the gender dimensions of poverty illustrates, gender shapes the ways poverty is created and escaped from. Participatory research conducted in Ghana found that when rural female farmers had to prioritise between accessing credit or improving their health services, they overwhelmingly chose the latter. When these women ranked credit against increasing availability of time, more time was preferred. Ironically, prior to the ranking exercise, community members said that credit was the most important ingredient to improving their livelihoods. Yet when measured against other factors such as health and time, credit was much less important. From another perspective, credit is actually debt, and while on one hand it can improve opportunities, it is just as capable of reducing choices when one is faced with inflexible loan repayments and a failing business.

Although such criticism of Grameen "is still a minority view" and Yunus performed "miracles" in rolling out credit to the masses, according to Munir Quddus (2000), the hype needs more investigation: "The very nature of setting up groups leaves out the very poor who would be perceived by fellow members to have no ability to generate income and therefore high risk." Quddus continues: "Others have pointed out that micro-credit simply deepens the exploitation of the women since the rates of interest charged by the bank in real [after inflation] terms are quite high; consequently, credit often worsens the debt situation and gives the husbands even more leverage."

Gaining leverage over women – instead of giving them economic liberation — is a familiar accusation. In 1995, *New Internationalist* magazine probed Yunus about the 16 "resolutions" he required his borrowers to accept, including "smaller families". When *New Internationalist* suggested this "smacked of population control", Yunus replied, "No, it is very easy to convince people to have fewer

children. Now that the women are earners, having more children means losing money" (Teara, 1995). In the same spirit of commodifying everything under the sun, Yunus set up a relationship with Monsanto to promote biotech and agrochemical products in 1998, which, *New Internationalist* (1998) reported, "was cancelled due to public pressure". As Sarah Blackstock (1999) observed in the same magazine the following year: "Away from their homes, husbands and the NGOs that disburse credit to them, the women feel safe to say the unmentionable in Bangladesh – micro-credit isn't all it's cracked up to be… What has really sold micro-credit is Yunus's seductive oratorical skill".

This skill I personally witnessed when Yunus visited Johannesburg and conferred with, amongst others, Womens Development Banking leader Zanele Mbeki (now South Africa's First Lady) as well as grassroots activists in 1994. By then, decades of evidence had accumulated across Southern Africa of micro credit programmes, including those that adopted Grameen's "joint and several liability" group credit strategy. Indeed, dating to the 1930s, there are records of colonial management of the mainly peasant economy of rural Zimbabwe using micro credit. From that point through the post-independence period, land reform and a generous social policy were often counterposed to micro credit, in the expectation that free markets would pull women and peasants out of poverty. With the aid of micro credit, the state could lower expectations on genuine citizens' rights.

South African Experiences

In South Africa, micro credit has failed in part because a much more variegated financial system permitted a slight increase in formal sector banking facilities to the black majority after the end of apartheid, hence truncating the ability of microlenders to establish economies of scale from the outset (Porteous and Hazelhurst, 2004). But as deracialisation of finance ensued (Bond, 2005), so too the state's deregulatory orientation created severe microfinance problems, as acknowledged even by the African National Congress Economic Transformation Committee (ANC ETC, 2005):

> Rather than promoting asset creation, an unregulated micro-lending industry can promote the liquidation of assets to support consumption.

> Rather than promoting employment and economic security it could promote unemployment and economic insecurity by thriving on the extension of unsustainable debt burdens among low-income workers, thus generating economic disempowerment… The commercial micro-lending sector has rapidly reached the limit of its expansion. The nature of its business model is such that it can only extend financial services to the salaried workforce. The vast majority of the 'unbanked' fall outside this category. Furthermore, the objectives and institutional culture of the high street lender can hardly be considered appropriate for the implementation of an asset-based community development strategy.

By then it was clear that the gradual expansion of social policy to the black majority and the slight increase in state welfare transfers were not improving the country's exceptionally high inequality and poverty rates (ANC ETC, op. cit.). As the ANC ETC conceded, "remittances, grants and survival strategies do not necessarily lead to the accumulation of income generating assets, and it is this that microfinance interventions need to address." Yet microfinance organisations (MFOs) were simply unable to foster "income generating assets" during the first decade of liberation:

> Various models of MFO have been developed internationally, the most famous of which is the Grameen Bank in Bangladesh. Over the last ten years many of these models have been adapted to the South African context. However, few have yet attained a scale of operation that is required. Even fewer have succeeded in becoming financially sustainable. While there may have been regulatory impediments to achieving these ends, there are also some who argue that such institutions are inappropriate to the South African context.

There are two reasons usually given: one is that unlike Grameen, the South African microfinance organisations have extremely high staffing costs, for as Ted Baumann (2003) notes, "Although their clients are drawn from the poor communities and microenterprises, their staffs are solidly emplaced in a middle-class material environment little different from developed countries." The second reason, Baumann continues, is that the majority of rural people (as well as urban slum residents and shackdwellers) are unable to generate surpluses sufficient to make repayments on credit:

> Unlike peasantries elsewhere in Africa, South Africa's rural poor lack access to basic means of production, such as land, because of unresolved issues of comprehensive settler dispossession. They live in crowded rural villages squeezed between commercial farmland (no longer exclusively white) and tourist-oriented game reserves. In the urban areas, opportunities for self-employment are severely constrained by South Africa's manufacturing and retail sectors, the most advanced in Africa, which relegate small-scale trading and manufacturing to the margins. Because of their lack of access to productive resources, South Africa's poor are almost totally dependent for their survival on the output of the formal economy. The things that sustain and enhance life are only available as *commodities*. The poor, however, are structurally excluded from access to the cash necessary to obtain these. One outcome of this situation is poor households' dependence on state transfer payments, such as pensions, disability and childcare grants, and inter- and intra-household transfers. This is especially marked in rural areas.

The result is a failing industry, a problem unveiled when in 1998 interest rates rose 7 percent over the course of two weeks during a run on the currency, leaving microcredit borrowers with serious repayment problems and bankrupting several schemes. Although in comparison to other Third World and African microlenders, the South African microfinance institutions (MFIs) have more women borrowers, Baumann concedes these structural shortcomings:

- South African MFIs are at the bottom of the scale in terms of average number of clients and the number of offices serving them…
- The South African group operates from a much lower asset base than all other categories, except their African peer group…
- The South African group carries a much lower absolute loan portfolio on average than all categories of MFIs, except their African peer group, which is a little over half the size of the South African group…
- The average loan balance per client for the South African MFI group is on the low end of the scale, even in African terms, except for their direct peer group of small African MFIs targeting the very poor…
- There is enormous disparity in terms of average balance per

client as a percentage of per capita GNI. The South African MFIs are the lowest of any category—the only group in single figures—and only one quarter of the level of their African peer group...
- In every expense category, the South African MFI group is significantly out of line with other categories of MFI…
- Financial expense as a percentage of total assets is also significantly higher than other MFI groupings, reflecting South Africa's high real interest rates...
- Personnel expense as a percentage of total assets is the most seriously inflated ratio in the case of South Africa, being 5 times the world average, 3.4 times the African average, and nearly 3 times that of the African peer group…
- Unsurprisingly, given their relatively small scale, their inflated staffing and expense ratios, and the low average loan balances in proportion to per capita GNI, operating expense ratios in the South African MFI group are radically out of line with all other categories of MFI.

In short, even enthusiasts of micro credit (such as the ANC Economic Transformation Committee and Baumann) have had to acknowledge the structural constraints in a highly unequal society and dysfunctional economy such as South Africa's. Yet almost as a matter of faith, micro credit will continue to be pushed by neoliberals. Based on the Lesotho case, James Ferguson (1990:58) shows that

> In a Less Developed Country (LDC), where the cash economy is on such a precarious basis, there must be [according to the Bank] 'a conspicuous lack of credit for the purchase of farm inputs,' and it is obvious that 'credit will play a critical role in all future major agricultural projects.' It is never explained exactly why the need for credit is so critical. It is true that most Basotho invest very little in agriculture probably due to their intelligent appreciation of the low potential and high risks of capital intensive farming in Lesotho but this is usually not a matter of being unable to obtain the cash to make such an investment. Most families have access to wage-earnings or remittances, and this money most commonly comes in large lumps which could easily be used for agricultural inputs, but for the most part is not. Yet in the 'development' picture, the need for credit is almost an axiom. Needing credit is part of what it means to be

an LDC.

Simba Manyanya and I have found similar evidence in Zimbabwe's seven-decade long experiment with microfinance (Bond, 1998; Bond and Manyanya, 2003). Following surveys in several Southern African countries, Dani Nabudere (1989:22) concluded,

> The argument which then holds that the rural poor need agrarian reform in order to improve their own lot, but on the basis of credit which will enable them to improve their productivity and modernise production, has to be repudiated for what it is: A BIG LIE!... A correct policy must aim at *empowering* the people to use the land to produce food and other products for their *own needs* and those of the country. If such reform is to be tied to the *debt bondage* of foreign monopoly demands, even in the food sector, the land may be placed in the hands of the poor, but the benefits will accrue to the commodities markets, the banks and the petro-chemical industries which will maintain the credit channels to exploit the countryside.

As we will conclude now, when problems of structural disempowerment and malfunctioning markets that bedevil credit systems are added to the overall retreat of the Third World welfare state, then the challenge of social policy becomes yet more formidable, the more that microcredit hype spreads.

Conclusion

The criticisms of micro credit drawn from diverse sources are not meant to discount the importance of financial markets in capitalist development, or to deny the prospect that some schemes are worthy and effective. The criticisms do, however, offer warning to economic development specialists and social policy advocates, against believing the hype associated with micro credit as an overarching strategy to end poverty, change power relations or stand in for decent social policy.

If these warnings are validated by experiences, e.g. from Southern Africa, what, then, explains the upsurge in micro credit evangelism? There are, naturally, a variety of incentives for individuals to evan-

gelically promote micro credit, sometimes to disguise other agendas. The highest-profile South African proponent is probably Zanele Mbeki, but her Womens Development Banking not only finances rural women, according to the oil company BP, a supporter. It has also made "investments in high-growth businesses" such as Ceasars Gauteng casino and "Siza Water Company, the first privatised water company" in KwaZulu-Natal Province (BP, n.d.) – both of which are counter-examples of poverty eradication.

There are even more dangerous micro credit agendas which are macroeconomic and macrosocial in nature. As Weber (2001:8) argues,

> micro credit may be motivated primarily by its capacity to perform a 'dual function' in global political economy. Firstly, as a financially steered targeted poverty reduction strategy, microcredit, via its implications for policy facilitates financial sector liberalisation as well as extends the policy of trade in financial services to the local level. Secondly, microcredit minimalism has a disciplinary potential that renders it particularly conducive to functioning as a political safety-net. In the latter case, it offsets 'income-insecurity' and absorbs surplus labour in growing informal sectors. Appropriated as a *political* safety-net, microcredit dampens or contains resistance to the implementation of neoliberal policies at the national and local levels.

Skill in substituting micro credit for genuine social policy, Blackstock (1999) explains, allows Yunus and leading imitators "to ascribe poverty to a lack of inspiration and depoliticise it by refusing to look at its causes. Micro-credit propagators are always the first to advocate that poor people need to be able to help themselves. The kind of micro-credit they promote isn't really about gaining control, but ensuring the key beneficiaries of global capitalism aren't forced to take any responsibility for poverty" . As Doug Henwood (1998:314) concluded in his survey, "The appeal of microcredit schemes like Grameen — which have been adopted enthusiastically by the likes of the World Bank, Hillary Clinton, and Citibank — is that they are a low-cost, nonthreatening substitute for real self-organisation and for expensive public programs like education, health care, and infrastructure investment".

In addition to their state-shrinking functions, including the new focus on micro credit for the health and water sectors, these programmes

are also problematic because they are *perceived* (even if often incorrectly) as a means of lowering the cost of lending through economies of scale and group pressure substituting for the bank-client relationship. The World Bank's emphasis on group lending is partly based on the principles that risk can be reduced through peer pressure, and administrative costs of lending passed to the group of borrowers itself. This has been justified by the World Bank (1991:135) as an *efficiency* measure in historical context:

> The letter of credit, a contract that emerged in the Middle Ages in Italy, increased the scope of exchange and contributed to the expansion of international trade. By better defining creditors' rights in regard to a firm's assets, public liability companies - an innovation in late eighteenth-century England - allowed firms to take risks and attract resources to activities that otherwise could not have developed. Since the 1970s, leasing contracts have allowed enterprises to reduce the risks associated with large investments in equipment. In Bangladesh, the Grameen Bank found innovative ways to lend to low-income groups while keeping defaults low. This was achieved by establishing contracts that made the community, not only the borrower, responsible for payments.

But as we have seen, the terms of these arrangements — especially the issue of subsidies — remain highly contested. Even group credit proponents Henry Jackelen and Elizbeth Rhyne (1991) concede that Grameen's group lending philosophy relied for many years upon subsidies of over US $5 million per year, since management "sees itself in the role of transferring benefits from donors to the most disadvantaged sectors of society." And yet even if that was the rhetoric at one point, and if Yunus was weaned off subsidies by the late 1990s, it was evident from the *Wall Street Journal* investigation in 2001 that sustainability was not easy to achieve given high and durable poverty as well as exogenous shocks.

Yunus' diversification into many additional lines of business has, at least, been profitable. The expansion of cellphone services in Bangladesh no doubt had much to do with the impressive network of barefoot bankers Yunus had introduced across the countryside. But in this respect, too, his networks reached high up into the global elites, and the Nobel bid was strongly supported by friends in the Norwegian ruling class. These included a former top finance ministry bureaucrat and leading officials of Telenor, Norway's phone

company. Telenor owns 62% of GrameenPhone, which controls 60% of Bangladesh's cellphone market.

However, matters of this profile cannot be reduced to narrow interests. At a time when the centre-left Norwegian government has a high profile for partially cancelling illegitimate Third World debt and threatening to defund the World Bank, both of which have been pressed by an impressive activist community, the people who make these decisions were conscious of how important it is for Norway to project the possibility of capitalism with a human face.

Similarly, World Bank president Paul Wolfowitz went to Andhra Pradesh in mid-2006 to witness the "transforming power" of microfinance and "realised this program was opening opportunities for poor women and their families in an entire state of 75 million people." As Walden Bello rebutted that micro credit "is not the key to development, which involves not only massive capital-intensive, state-directed investments to build industries but also an assault on the structures of inequality such as concentrated land ownership that systematically deprive the poor of resources to escape poverty. Micro credit schemes end up coexisting with these entrenched structures, serving as a safety net for people excluded and marginalised by them, but not transforming them" (Bello, 2006). Hence, as Alexander Cockburn (2006) put it, Yunus won a Nobel Peace Prize "for neoliberalism":

> But in terms of hot air, any sentences linking 'peace' with 'Henry Kissinger' aren't immeasurably more vacuous than the notion that microloans can help – to use the language of the Nobel Committee's citation – 'large population groups find ways in which to break out of poverty'… The microloan business is fast becoming a gigantic empire, bringing back into control the very banks and bureaucracies women have been trying to bypass. Microcredit is becoming a macro-racket… The trouble with publicly-subsidised credit programmes is that they're public and they're large and run contrary to the neoliberal creed. That's why Yunus got his Nobel prize, whereas radical land reformers get a bullet in the back of the head.

It is indeed here, in the neoliberal realms of nominally apolitical poverty "alleviation", self-help ideology and poor people's cost-cutting — by utilising women's ability to pressure each other to repay

(and if that doesn't work, barefoot bankers tearing off their delinquent clients' roofs) — that micro credit is a serious threat to the general cause of social policy.

In short, the micro credit hype is not always a ladder between the mythologised two economies, it is, very often, a financial snake pulling people back down, first through debt peonage, and secondly as a substitute for social policy.

Indeed, no one has put the most maniacal-libertarian case for micro credit quite so clearly as Yunus (1998:214) himself: "I believe that 'government', as we know it today, should pull out of most things except for law enforcement and justice, national defense and foreign policy, and let the private sector, a 'Grameenised private sector', a social-consciousness-driven private sector, take over their other functions."

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Patrick Bond

MICRO CREDIT EVANGELISM HEALTH AND SOCIAL POLICY

It is not uncommon for neoliberal policy advocates to use poor people's (often socially-constructed) desire for credit to justify shrinking the already beleaguered welfare policies of the Third World states, and to attach services such as health, education and insurance to micro credit programmes. Consider this claim by Muhammed Yunus (1, p.214): "I believe that 'government', as we know it today, should pull out of most things except for law enforcement and justice, national defense and foreign policy, and let the private sector, a 'Grameenized private sector', a social-consciousness-driven private sector, take over their other functions."

Grameen's profile is so high that not only have Bill and Hillary Clinton feted him (while President of the US, Clinton advocated he receive the Swedish central bank's Nobel Economics prize). In addition, Venezuelan President Hugo Chavez has called Yunus an 'example in the fight against poverty' (3).

Behind and beyond the Peace Prize lie a complicated and contradictory set of political motives and implications. The Norwegian elite have important ideological and practical interests that bear consideration. For those concerned with preserving, rebuilding or establishing welfare states and expansive health policies, the impact of the Award will not be helpful and may indeed be disastrous. Moreover, for those promoting grassroots capitalist entrepreneurialism, dangers also arise, given the way Grameen has structured its banking

services. Southern Africa, for example, has regularly embarrassed anyone claiming micro credit via group credit can solve poverty.

Yunus's own reaction to the awarding of the Nobel Peace prize was telling, at a Dhaka press conference: 'Now the war against poverty will be further intensified across the world. It will consolidate the struggle against poverty through microcredit in most of the countries' (4). On the contrary, this seemingly benign, three-decade old attempt to foster entrepreneurship amongst impoverished women has attracted intense grassroots – and also professional – criticism. *[The critiques have been mentioned in the essay by the same author in this volume.]*

Southern African Lessons

In Southern Africa, especially Zimbabwe, the lessons from micro credit have universal features consistent with the critiques of micro credit.

In Zimbabwe, social policies were adopted during the first decade of independence (1980-90) that reduced infant mortality from 86 to 49 per 1,000 live births, raised the immunisation rate from 25% to 80% and life expectancy from 56 to 62 years, and doubled primary school enrollment. Unfortunately, a rollback first associated with an early dose of structural adjustment in 1984 and a subsequent shift during the 1990s towards international trade, investment and financial flows was directly correlated with economic collapse, and then a disastrous return to cronyism and economic dirigism after 2000 (17). Microeconomic neoliberalism, no matter how ineffectual, soon crowded out social policy. In the specific case of rural micro credit services, a clear trajectory emerged after independence, taking peasants through failed neoliberalism, nationalist populism around land, and an ever-deepening rural crisis (18). Most importantly, by avoiding genuine land reform and instead pushing a substantial share of the peasant population impossibly deep into debt through micro credit, social policies that might have synthesized with a new rural agro-economy were never implemented.

The seeds of the rural problem were sewn when Zimbabwe was known as Rhodesia, in the wake of the 1890 white settler invasion mandated by Cecil John Rhodes. With their conventional brutality,

British colonists drove peasants from the land, relegating most black Zimbabweans to the country's least agriculturally suitable sites, the "Tribal Trust Lands" (renamed "Communal Areas" in 1980), in the same basic arrangement as South African "Bantustans" during apartheid. Consistent with strategies derived from modernization theory, the colonial government then attempted to introduce markets via credit. The Advisory Committee on Economic Resources (19, p.54) remarked: "At the risk of being criticized for seemingly overplaying the theme of credit, we must once again state how much importance we place upon the provision of adequate, soundly administered credit for the stimulation of both the petty and the somewhat more expansive activities of the rural producer." A small proportion of farmers were located on slightly better soil in so-called "Purchase Area" sites where land was titled. Hence farmers could be drawn into selective market processes, since their land could be put up as collateral.

Even without collateral (as with Grameen), coercive systems can be brought to bear. As early as the 1930s, credit-linked irrigation programmes in the Reserves relied upon "stop order" repayments that took the form of deductions from produce sales. In 1947 Parliament passed legislation enabling Purchase Area farmers to formally borrow from the state Land and Agriculture Bank. But loans to black farmers would always be far smaller (at roughly £50 each) than those received by white farmers, given that, as Angela Cheater (20, p.167) explained, "Credit for capitalization of farming was a critical issue to settler racism, in ways that registration of title and marketing were not". The African Farmers Union declared serious grievances in 1959 regarding a 10% tax, since white farmers did not pay such a levy in exchange for their credit, and when they were ignored by the colonial regime, loan repayment levels declined significantly (20, p.167). By then, African financing cooperatives had emerged, with 52 representing 4,500 black farmers in 1962 in part because of U.S. government financing, at a time of extremely vocal nationalist organising and protest. Agricultural firms also supplied credit to black farmers, with working funds drawn from the banks and guaranteed by the government, but at far higher interest rates than were available to white farm borrowers (10% compared to 6.5% for white borrowers)(21, p.40).

The point is that by introducing micro credit as a technical "fix", several critical features of power were amplified: a buffer class of master farmers was sought; intense economic discrimination in everyday life filtered through into the credit system; and the terms of credit, as well as repayment itself, became a site of class/race conflict. These lessons continued into the early 1960s, when the Rhodesian regime and the World Bank attempted to impose individual titles on communally-grazed land through the Native Land Husbandry Act, generating sharp resistance from peasants residing in the roughly 40% of Reserves where the Act was being at least partially implemented (22). Before long, increasing numbers of defaults ¾ particularly by rural traders ¾ occurred, with nearly 10,000 individual peasants in arrears to the government by 1964. According to the Whitsun Foundation (a business thinktank), "Cooperative officers spent an increasing proportion of their time as debt collectors to the detriment of their other cooperative functions… The poor level of repayments almost brought the demise of the cooperative movement" (21, pp.29,36). The loan schemes were then placed under the Rhodesian Internal Affairs department, which also had many policing functions.

Shortly after majority rule in 1980, a major new micro credit initiative was launched with $66 million in World Bank financing, instead of the far-reaching land reform that the liberation movement had struggled for. "Willing seller, willing buyer" was the new land policy, in part because of the restrictions agreed on by Robert Mugabe at the 1979 Lancaster House compromise political settlement. The Bank program ultimately reached 94,000 Communal Area households, but within a decade the result was a peasant default rate of 80%. Repayment affordability was a huge factor, since a typical lender's overhead and collection costs represent 15-22% of the amount of a small loan, including incorporation of a 4% default rate. In Zimbabwe, servicing loans of even just a few hundred US dollars represented enormous burdens when, according to one Agriculture Ministry survey in 1989, the average net crop profit per hour of labour was just $0.15 (18).

Given the extremely high default rate, the main Bank officer responsible for the AFC programme (Robert Christenson) continued to promote agricultural credit, but less in the form traditional small farmer

loans through the state Agricultural Finance Corporation (AFC), and instead using two other routes: group lending schemes, and pressure on commercial bankers to begin lending to the top 10% of CA farmers who at the time produced some 90% of the maize crop (18). There was no indication that the latter approach would succeed, however, because precisely at the time the Bank wanted to put emphasis on a more selective approach to credit provision, the commercial credit markets dried up entirely. This occurred because the Bank's macroeconomic structural adjustment team had in 1991 forced short-term interest rates up to abnormally high nominal levels (in excess of 40%), thus drawing funds into money markets and effectively destroying locally-oriented credit schemes, whether in the rural areas through the commercial banks, or for housing in urban areas through building societies, or for emergent small business.

Still, it is telling that the World Bank ultimately decided to base the expansion of group lending on a mandatory joint liability system, because it "has potential for reducing operating costs and enhancing repayment performance." Aware of the danger, one Bank analyst conceded that "it is clear that it is not a panacea" (24, p.5). One reason was that in Zimbabwe joint liability credit tends to be male-biased, since the groups are 'composed of farmers who are generally considered the most knowledgeable. The people taking a strong position in these groups are men,' as another Bank researcher admitted (25, p.5). Moreover, borrower groups formed not because of intrinsic locally-generated historic trust, but for the simple purpose of accessing credit, explained former Zimbabwe finance ministry chief economist Norman Reynolds (26, p.7):

> Group loans are made on the basis of joint liability. This legal form gives apparent security to the bank, but works poorly in practice. Groups are usually formed just to obtain credit and do not have the discipline derived from other common pursuits. Hence when one farmer defaults, the others are left in a quandary; to repay their loan, thereby in part acknowledging their membership and their liability for unpaid loans, or to default themselves. Even if defaults are met, the group will have been broken. The difficulty is that group credit is, in its single purpose form, a device to benefit the bank, not the borrower.

Hence one serious problem with group credit is that it can lead to farmers wasting their time and energy collecting debts from friends and family, not to mention heightened conflicts created in the process. Moreover, the "free rider problem" ¾ in which peer pressure does not effectively assure repayment ¾ was demonstrated in one farm group where Michael Drinkwater (27, p.216) reported that "a full 40% of the money recovered by the AFC was actually profit owed to [a minority of] farmers marketing surpluses," following which many of the farmer leaders simply emigrated from the area rather than face the group's debts. Indeed, although the World Bank (28, p.146) ultimately advocated joint-liability Grameen-style group credit, this was accompanied by the acknowledgment that

> In general, Zimbabwe's experience to date with group lending has not been favourable. The organisation of groups is initially expensive and time-intensive, with residential training in group organisation being provided for committee members and eventually, it is planned, for all members. Initial indications, after less than a season of operation, are that major problems have become apparent, which will require time and determination to tackle.

In other words, the long-term solution (more credit for groups) for a problem (excessive credit flows to individuals that resulted in default) caused by the AFC and World Bank, was prohibited by the very conditions imposed by the AFC and Bank to address the problem in the short-term. At least one result of the self-defeating strategy of market-based, credit-oriented land reform was the embarrassed, near-complete absence of rural finance in the World Bank's 1995 Country Economic Memorandum for Zimbabwe, following a dogmatic nod to neoliberal theory: "The improved availability of credit, whether in cash or in the form of production inputs, has been shown to be an important factor in the commercialisation of smallholder production" (29, p.109). In reality, the Bank (30, p.36) conceded in another 1995 report (30, p.36), "the development of a market-assisted land redistribution process will be a complex and challenging task", as if only just discovering the task at hand. Since 1995, the degeneration of rural financial markets followed a series of banking crises, institutional breakdowns, prohibitive interest rate increases and then hyperinflation, in part associated with the land invasions that began after Mugabe lost a national constitutional referendum in

2000 and unleashed a rural paramilitary on the residual white settler farmers, hence throwing all agricultural marketing and credit into disarray.

All of this led to the question: is credit the most useful input for African peasants, especially women? After all, multiple failures resulted from various attempts to monetize the masses of Zimbabwe, in the context of a rural economic structure profoundly biased in favour of large-scale farming controlled from 1890-2000 by white settlers. Micro credit exacerbated the plight of small farmers and exposed their vulnerabilities to the vagaries of state interference (including pricing policies influenced by large capitalist interests and bureaucratic manoeuvres), speculative financial markets, hostile weather, and external attempts to alter the chosen configuration of land, environment, cultural norms, material inputs, crop choices, etc. A top-down credit system such as promoted by the Rhodesian government, the Whitsun Foundation, the post-independence AFC, the World Bank, and other such agencies is not, the evidence suggests, a product greatly appreciated by small farmers of any type. Their response ¾ widespread default ¾ resembles the historical experience from other southern Africa countries where credit was pushed, instead of land reform or expansive social policies.

When problems of structural disempowerment and malfunctioning markets that bedevil credit systems are added to the overall retreat of the Third World welfare state, then the notion of adding health education and health services to microfinance is even more dubious. Yet that is precisely the direction of neoliberal health policy.

Micro Credit Evangelism and Health Services

The use and abuse of Grameen-style micro credit is increasingly relevant to health services ranging from education to insurance. Consider some simple illustrations of the way advocates are taking advantage of both micro credit through group meeting opportunities and financial resource flows:

- the charity NGO CARE is commited to "Micro credit and Health Education for HIV/AIDS-Affected Women and Children in the Valley of the Widows" of Niger which in practice means that CARE will "create 120 all-female Mata Masu Dubara savings groups, primarily made up of AIDS widows and women affected by HIV/AID" aimed at 7200 women and children "whose migrant husbands and fathers put them at greater risk of contracting HIV/AIDS" (37);
- the NGO Innovations for Poverty Action (IPA) and the Green Bank in the Philippines "examine the efficiency, impacts, and take-up of health insurance and preventative care" through marketing this service to 2000 microentrepreneurs in northern Mindanao on the basis of "randomly generated variation in premiums" to understand "the nature of any adverse selection problem, since we will be collecting data that is unobserved by the insurer. IPA will also test the psychological (marketing) impact on take-up of insurance by randomly assigning two frameworks of marketing brochures; one with the photograph of happy and healthy family, another with the photograph of fatal motorcycle accident" (38);
- the International Medical Corps (IMC) moved into Eritrea in the wake of its border war with Ethiopia in 2002, and in order "to complement its primary health care, capacity building and community-based care initiatives", the IMC and US government's Bureau for Population, Refugees and Migration established a micro credit project: "By supporting the productive, commercial and service enterprises in the area, IMC would help create favorable conditions for local community participation in the community health program as well as in overall development and rehabilitation activities"… Micro credit in even this difficult context allegedly works "synergistically with primary health care programs; creates more favorable economic conditions; builds social networks; empowers vulnerable populations; and promotes self-sufficiency. And with high repayment rates, micro credit projects themselves can be virtually self-sustaining". So as "to link the project more directly with health care capacity-building initiatives, IMC gave priority to community-based health workers as well as other volunteers in the community-based development activities" (39);
- according to Freedom from Hunger's Christopher Dunford, "Micro credit institutions increasingly recognize their dependence

on the health of their clients and their clients' families. Many acknowledge the challenging circumstances for clients playing the triple roles of wife, mother and businesswoman. Local public health officials confirm that much of the risk to clients and micro credit institutions alike could be greatly reduced with the use of effective family planning methods" (40, p.16);

- there are many new opportunities to use micro credit as a substitute for state or donor assistance in reproductive health education, according to the Micro credit Campaign Summit: 'Microfinance programs often achieve financial selfsufficiency through interest paid on loans. They can generate sufficient income to sustain not only the financial services but also additional reproductive health education services offered by the same staff. Much of the cost of education is in bringing sufficient numbers of people together with an educator at set times and places, which is already achieved by the microfinance operations". Moreover, wealthier women will have fewer babies: "Increased income and assets due to microfinance should enable women clients to put what they learn from reproductive health education into practice, and to increase their consumption of primary health services and contraceptive" (41, p.10); and
- most ambitiously, perhaps, according to the director of the Micro credit Summit Campaign, Sam Daley-Harris, his agency "will train 36 in-country trainers in 18 countries and 72 microfinance institutions, to deliver health education to their clients on an ongoing basis. This project aims to empower 288,000 poor women and their 1.4 million family members with knowledge and skills to improve practices in reproductive and child health and prevention of HIV/AIDS by 2010" (42).

According to Katherine Mohindra and Slim Haddad (43, p.353), "women's health capabilities (i.e. opportunities to achieve good health), and ultimately their health functionings (e.g. being healthy), can be expanded via key determinants of population health, such as access to resources and autonomy", with micro credit the primary tool. But as noted above, whether microcredit can deliver on resources and autonomy is still contested, and depends upon local power relations in particular circumstances.

What of the explicit downsides to micro credit: high risk, arrears, social conflict, defaults? As Dunford (40) concedes, "In some countries, the HIV/AIDS epidemic is so severe that it threatens micro credit institutions through reduced loan portfolio growth, decreased client retention, increased portfolio delinquency and increased draw-down from savings deposits, as well as death of experienced staff or the burdens on them of caring for dying relatives."

But this is a very rare concession in the evangelical section of the micro credit literature. Indeed, few if any rigorous studies document the relationships between financial vulnerability and health burdens. One attempt involved a Dominican micro credit program which made small loans to individuals to start or expand small businesses included three communities, one with health promotion alone, one with micro credit alone, and one with both. "The community with parallel micro credit and health promotion programs had the largest changes for 10 of the 11 health indicators" (44, p.185). However, as the Dominican case revealed, 'the intertwining between microeconomic development and health as well as the implications for the organization and operation of micro credit and health promotion programs are unclear" in part because "the loss of efficiency and focus that can occur when a microcredit or a health organization adds other components from a different discipline". In this report, every correlation between micro credit and health outcomes was conditioned by the word "may". Instead, what is revealed most by this case is the explicit "discipline" of *neoliberal* micro credit, because "Commercial interest rates are charged on the microloans in order to replicate the actual loan market. In that way the microloan recipients will become accustomed to the conditions of the commercial loan market in case they eventually have sufficient collateral to qualify for a commercial loan for their ongoing business needs" (44).

In the Dominican Republic study, the link between financial resources and health status was also made more explicit via the possibility of improved water supplies:

> Home purification methods are unlikely to produce the same degree of safety across a community as provided by commercially purified water. Commercially purified bottled water is widely available for purchase in the Dominican Republic. There may have been

> a direct health advantage for families with the financial resources to purchase purified water when compared to families using home purification methods. While the motivation may have been identical, the financial freedom to utilize the more expensive (and probably more effective) option of commercially purified water could have produced the larger decrease in diarrhea prevalence in Las Filipinas 2, where both the health promotion and micro credit programs were operating. If purchase of purified water was a component of the decreased diarrhea prevalence, similar results from parallel micro credit and health promotion programs cannot be expected where commercially purified water is not available. Or, from a larger perspective, the general availability within the community of effective resources for improving health could be an important component in the interaction between parallel health promotion and micro credit programs (44).

In reality, the provision of water through private sector sources – whether a major commercialized municipal operation or microsupply of water through purified (or nonpurified) retail outlets – is so prohibitively expensive (compared to state-supplied water), that even the pro-privatisation United Nations Development Programme (UNDP) is forced into a contradiction, by first demonstrating that cost-recovery on water is prohibitively expensive, but then, second, insisting that micro credit is the solution:

How difficult is it for poor people to cover the costs of water and sanitation infrastructure? Consider an example from Bolivia and some cost estimates for water and sanitation from a project in El Alto:

- *Average monthly income:* $122 ($0.80 a day per capita).
- *Connection costs:* $229 for traditional water, $276 for sanitation (excluding trunk infrastructure).
- *Connection costs for condominial technology with community participation:* $139 for water, $172 for sanitation.

An important additional cost for poor households is the construction of a bathroom or similar in-house facility, including a toilet. In El Alto these costs averaged $400, plus 16 days of labour. These costs are typically not factored into costing exercises for water and sanitation. Even with microfinance available the costs were too high for most

poor people. But with hygiene education, the demand for toilets more than doubled. Where poor people struggle to cover charges, they should be helped through credit schemes. Bangladesh's Grameen Bank has been extending credit for water and sanitation, on a group basis, for years (45, p.106).

The UNDP's 2006 *Human Development Report* also assumes that the state should shirk its water provision duties and allow the market to take over: "In Kibera, Nairobi, constructing a pit latrine costs about $45, or two months of income for someone earning the minimum wage. To help poor households meet the financing requirements of improved sanitation, arrangements are needed that provide subsidies or allow payments to be spread over time through micro credit" (46, p.120). The same report claims progress in rural sanitation in Lesotho, where neoliberalism has shrunk state involvement: "The full cost-recovery and zero-subsidy policy has created incentives for innovation. But even basic latrines are still beyond the means of the very poor. Only recently have measures been put in place to reduce the costs of latrines through micro credit programmes offering extended loan repayment periods" (46, p.125).

Conclusion

The dynamics of poverty, health, neoliberalism and micro credit do not move in favour of the poor. Rather, micro credit puts extra burden on the income-starved poor. It is a serious threat to the general cause of improving health services and related social policies.

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Note: *This essay is a slightly abridged version of the original. The reference numbers are according to the original version.*