MICROCREDIT EVANGELISM, HEALTH, AND SOCIAL POLICY

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The awarding of the 2006 Nobel Peace Prize to Muhammad Yunus, founder of the Grameen Bank, provides an opportunity to consider the use and abuse of microfinancing, especially because credit continues to be touted as a poverty-reduction strategy associated with health education and health care financing strategies. Not only is the Grameen diagnosis of poverty dubious, but many structural problems also plague the model, ranging from financial accounting to market failures. In Southern Africa, to illustrate, microcredit schemes for peasants and small farmers have been attempted for more than 70 years, on the basis that modern capitalism and peasant/informal system gaps can be bridged by an expanded financial system. The results have been disappointing. A critical reading of political economy posits an organic linkage between the "developed" and "underdeveloped" economies that is typically not mitigated by capitalist financial markets, but instead is often exacerbated. When applied to health and social policy, microcredit evangelism becomes especially dangerous.

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 Third World states, and to attach services such as health education and insurance to microcredit programs. Consider this claim by Muhammad Yunus: "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" (1, p. 214).

Grameen Bank, which specializes in group loans to low-income Bangladeshi women, was founded in 1976 by Yunus, a Vanderbilt University–trained

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economist. The winner of Norway's Nobel Peace Prize in October 2006, Yunus was celebrated for having built his bank's customer base to 2.5 million borrowers, with bank assets of $3 billion, serviced by 1,200 branches in 41,000 villages (2, p. 22). Grameen's profile is so high that not only have Bill and Hillary Clinton feted Yunus (while U.S. president, Bill Clinton advocated that Yunus should receive the Swedish central bank's Nobel Economics prize), but Venezuelan President Hugo Chavez has called Yunus an "example in the fight against poverty" (3).

Behind and beyond the Peace Prize lies 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, dangers also arise for those promoting grassroots capitalist entrepreneurialism, given the way that Grameen has structured its banking services. Southern Africa, for example, has regularly embarrassed anyone claiming that microcredit via group credit can solve poverty.

Yunus's own reaction to receiving 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 among impoverished women has attracted intense grassroots—and professional—criticism.

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 worldwide" (5, p. 1). Yet looking more closely, the 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 percent default rate, up from 0.1 percent in 1997 (2, p. 22). According to the *Wall Street 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 the tin roofs from delinquent women's houses, according to the *Wall Street Journal* report (5, p. 1)—improved repayment rates in the most crucial areas, where Grameen had earlier won its global reputation among 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 penalized them by reducing their ability to borrow in the 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. "Most of us in the trade probably had long suspected that something was fishy" (6). Ross Croulet, of the African Development Bank, agreed: "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" (7).

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 (8), which until then had 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 (2). 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 in turn could get the next loans.

But new competitors, adverse weather conditions (especially the 1998 floods), and a backlash by borrowers who used the collective power of nonpayment 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" (2, 9)—was reduced merely to an argument for access, not affordability. In that regard, Yunus is entirely different from all the rights-based social movements that have demanded "rights" in terms of *free* lifeline access to health care, education, housing, land, water, electricity, and the like.

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

- Return on assets ranging from less than 0.1 percent to a peak of 0.5 percent in 1998, before Grameen's crisis.
- An early 2000s return on equity of 2 percent (compared with Citigroup's 19%).
- 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 (2, p. 21).

But critiques are frequent, as well. In a review of the burgeoning literature on Grameen, Heloise Weber reports findings that "cross-borrowing is a part of survival strategies of the poor (i.e., where money is borrowed from one NGO [nongovernmental organization] to pay off the other)," and 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" (10, p. 7). And a World Bank study reports that "microcredit-induced self-employment is a complement to child labor and that self-employed activity financed by a microcredit program may facilitate child employment" (11, p. 48).

Dzodzi Tsikata and Joanna Kerr argue that the advent of widespread micro-credit is consistent with the overall neoliberal attack on women's standards of living (12, p. 17):

> 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 privatization 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 globalizing 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 prioritize 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 (an economist who supports Grameen), 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" (13). Quddus continues: "Others have pointed out that microcredit 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" (14). In the same spirit of commodifying everything under the sun, in 1998 Yunus set up a relationship with Monsanto to promote biotech and agrochemical products, which, *New Internationalist* reported, "was cancelled due to public pressure" (15). As Sarah Blackstock observed in the same magazine in 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" (16).

I witnessed this skill when Yunus visited Johannesburg and conferred with Women's Development Banking leader Zanele Mbeki (now South Africa's First Lady) and grassroots activists in 1994. By then, decades of evidence had accumulated across Southern Africa about microcredit programs, 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 microcredit. From that point through the post-independence period, land reform and a generous social policy were often counterposed to microcredit, in the expectation that free markets would pull women and peasants out of poverty. With the aid of microcredit, the state could lower expectations about genuine citizens' rights. In Southern Africa, especially Zimbabwe, these examples have universal features consistent with the critiques of microcredit presented above.

SOUTHERN AFRICAN LESSONS

In Zimbabwe, social policies adopted during the first decade of independence (1980–1990) reduced infant mortality from 86 to 49 per 1,000 live births, raised the immunization rate from 25 to 80 percent 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 toward international trade, investment, and financial flows was directly correlated with economic collapse, and then a disastrous return to cronyism and economic dirigisme after 2000 (17). Microeconomic neoliberalism, no matter how ineffectual, soon crowded out social policy. In the specific case of rural microcredit 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 microcredit, social policies that might have synthesized with a new rural agro-economy were never implemented.

The seeds of the rural problem were sewn much earlier, 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 remarked: "At the risk of being criticized for seemingly over-playing 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" (19, p. 54). A small proportion of farmers were located on slightly better soil in "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 Bank lending), coercive systems can be brought to bear. As early as the 1930s, credit-linked irrigation programs in the Tribal Trust Lands relied on "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 explained, "Credit for capitalization of farming was a critical issue to settler racism, in ways that registration of title and marketing were not" (20, p. 167). In 1959 the African Farmers Union declared serious grievances regarding a 10 percent tax, since white farmers did not pay such a levy in exchange for their credit, and when the grievances were ignored by the colonial regime, loan repayment levels declined significantly (20, p. 167). By then, African financing cooperatives had emerged, with 52 cooperatives representing 4,500 black farmers in 1962, in part because of U.S. government financing, at a time of extremely vocal nationalist organizing 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 (10%) than were available to white farm borrowers (6.5%) (21, p. 40).

The point is that by introducing microcredit as a technical “fix,” several critical features of power were amplified: a buffer class of master farmers was created, 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 percent of Tribal Trust Lands where the Act was being at least partially implemented (22). Before long, there were increasing numbers of defaults—particularly by rural traders—with nearly 10,000 individual peasants in arrears to the government by 1964. According to the Whitsun Foundation (a business think tank), “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 Zimbabwe achieved majority rule in 1980, a major new microcredit 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 to by Robert Mugabe at the 1979 Lancaster House compromise political settlement. The World Bank program ultimately reached 94,000 Communal Area households, but within a decade the result was a peasant default rate of 80 percent. Repayment affordability was a huge factor, since a typical lender’s overhead and collection costs represented 15 to 22 percent of the amount of a small loan, including incorporation of a 4 percent default rate. In Zimbabwe, servicing loans of even just a few hundred U.S. dollars represented enormous burdens when, according to an Agriculture Ministry survey in 1989, the average net crop profit per hour of labor was just $0.15 (18).

Given the extremely high default rate, the main World Bank officer responsible for the Agricultural Finance Corporation (AFC) program (Robert Christenson) continued to promote agricultural credit, but less in the form of traditional small farmer loans through the state AFC and instead using two other routes: group lending schemes, and pressure on commercial bankers to begin lending to the top 10 percent of Communal Area farmers who at the time produced some 90 percent of the maize crop (18). There was no indication that the latter approach would succeed, however, because precisely at the time the World Bank wanted to put emphasis on a more selective approach to credit provision, the commercial credit markets dried up entirely. This occurred because in 1991 the Bank’s macroeconomic structural adjustment team had 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 in urban areas for housing (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" (23). Aware of the danger, a 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, as explained by 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"—in which peer pressure does not effectively ensure repayment—was demonstrated in one farm group, for which Michael Drinkwater reported that "a full 40% of the money recovered by the AFC was actually profit owed to [a minority of] farmers marketing surpluses" (27, p. 216), following which many of the farmer leaders simply emigrated from the area rather than face the group's debts. Indeed, although the World Bank 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" (23, p. 146).

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" (28, p. 109). In reality, as the Bank conceded in another 1995 report, "the development of a market-assisted land redistribution process will be a complex and challenging task" (29, p. 36), 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 that was profoundly biased in favor of large-scale farming controlled from 1890 to 2000 by white settlers. Microcredit 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 maneuvers), speculative financial markets, hostile weather, and external attempts to alter the chosen configuration of land, environment, cultural norms, material inputs, crop choices, and so on. 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—widespread default—resembles the historical experience in other Southern African countries where credit was pushed, instead of land reform or expansive social policies.

Microcredit has also failed in South Africa, 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 (30). But as deracialization of finance ensued, so too the state's deregulatory orientation created severe microfinance problems, as acknowledged even by the African National Congress (ANC) Economic Transformation Committee in 2005 (31):

> 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 dis-empowerment. . . . 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 (32). As the ANC conceded, "remittances, grants and survival strategies do not necessarily lead to the accumulation of income generating assets, and it is this that micro-finance interventions need to address" (31). Yet microfinance organizations (MFOs) were simply unable to foster "income generating assets" during the first decade of liberation (31):

> 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.

Two reasons are usually given. One is that unlike Grameen, the South African MFOs have extremely high staffing costs, as Ted Baumann 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" (33). The second reason, Baumann continues, is that the majority of rural people (as well as urban slum residents and shack dwellers) are unable to generate surpluses sufficient to make repayments on credit (33):

> 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 with other Third World and African microlenders, the South African microfinance institutions (MFIs) have more women borrowers, Baumann concedes these structural shortcomings (33):

- 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 [gross national income]. 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 microcredit (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, microcredit will continue to be pushed by neoliberals. Based on the Lesotho case, James Ferguson notes (34, p. 58):

> In a Lesser Development 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.

Dani Nabudere, following surveys in several Southern African countries, concludes (35, p. 22):

> 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.

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

MICROCREDIT EVANGELISM AND HEALTH SERVICES

The use and abuse of Grameen-style microcredit is increasingly relevant to health services, ranging from education to insurance. Consider a half-dozen simple illustrations of the ways in which advocates are taking advantage of microcredit through both group meeting opportunities and financial resource flows.

1. The charity NGO CARE is committed to "Microcredit 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/AIDS," aimed at 7,200 women and children "whose migrant husbands and fathers put them at greater risk of contracting HIV/AIDS" (36).

2. 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 2,000 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" (37).

3. 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 the U.S. government's Bureau for Population, Refugees and Migration established a microcredit 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." Microcredit 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, microcredit 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" (38).

4. According to Freedom from Hunger's Christopher Dunford, "Microcredit 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 microcredit institutions alike could be greatly reduced with the use of effective family planning methods" (39, p. 16);

5. There are many new opportunities to use microcredit as a substitute for state or donor assistance in reproductive health education, according to the Microcredit Summit Campaign: "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 contraceptives" (40, p. 10).

6. Most ambitiously, perhaps, according to the director of the Microcredit 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" (41).

According to Katherine Mohindra and Slim Haddad, "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" (42, p. 353), with microcredit the primary tool. But as noted above, whether microcredit can deliver on resources and autonomy is still contested, and depends on local power relations in particular circumstances.

What of the explicit downsides to microcredit: high risk, arrears, social conflict, defaults? As Dunford concedes, "In some countries, the HIV/AIDS epidemic is so severe that it threatens microcredit 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" (39).

But this is a very rare concession in the evangelical section of the microcredit literature. Indeed, few if any rigorous studies document the relationships between financial vulnerability and health burdens. One attempt involved a microcredit program in the Dominican Republic that made small loans to individuals to start or expand small businesses in three communities: one with health promotion alone, one with microcredit alone, and one with both. "The community with parallel microcredit and health promotion programs had the largest changes for 10 of the 11 health indicators" (43, 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 microcredit and health promotion programs are unclear" in part because of "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 microcredit and health outcomes was conditioned by the word "may." Instead, what is revealed most by this case is the explicit "discipline" of *neoliberal* microcredit, 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" (43).

In the Dominican Republic study, the link between financial resources and health status was also made more explicit through the possibility of improved water supplies (43):

> 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 microcredit programs were operating. If purchase of purified water was a component of the decreased diarrhea prevalence, similar results from parallel microcredit 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 microcredit programs.

In reality, the provision of water through private sector sources—whether a major commercialized municipal operation or microsupply through purified (or nonpurified) water retail outlets—is so prohibitively expensive (compared with state-supplied water) that even the pro-privatization United Nations Development Program (UNDP) is forced into a contradiction, by first demonstrating that cost recovery on water is prohibitively expensive, but then insisting that microcredit is the solution (44, p. 106):

> 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.

The UNDP's *Human Development Report 2006* 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 microcredit" (45, 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 microcredit programmes offering extended loan repayment periods" (46, p. 125).

CONCLUSION

The criticisms of microcredit 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 health and social policy advocates against believing the hype associated with microcredit as an overarching strategy to end poverty, change power relations, improve vulnerable populations' health education, or stand in for decent social policy.

Given that these warnings are validated by experiences, such as from Southern Africa, what, then, explains the upsurge in microcredit evangelism? There are, naturally, a variety of incentives for individuals to promote microcredit, sometimes to disguise other agendas. The highest-profile South African proponent is probably Zanele Mbeki, yet her Women's Development Banking not only finances rural women, according to the oil company BP, a supporter, but has also made "investments in high-growth businesses" such as Caesars Gauteng casino and "Siza Water Company, the first privatised water company" in KwaZulu-Natal Province (46)—both of which are counterexamples of poverty eradication.

There are even more dangerous microcredit agendas which are macroeconomic and macrosocial in nature. As Weber argues (10, p. 8):

> Microcredit 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 microcredit for genuine social policy, Blackstock explains, allows Yunus and leading imitators "to ascribe poverty to a lack of inspiration and depoliticize 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" (16). As Doug Henwood concluded a decade ago, "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-organization and for expensive public programs like education, health care, and infrastructure investment" (47, p. 314).

In addition to their state-shrinking functions, including the new focus on microcredit for the health and water sectors, these programs 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 as an *efficiency* measure in historical context (23, p. 135):

> 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 concede that Grameen's group-lending philosophy relied for many years on subsidies of more than US$5 million per year, since management "sees itself in the role of transferring benefits from donors to the most disadvantaged sectors of society" (8). 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 (5) that sustainability was not easy to achieve given high and durable poverty as well as exogenous shocks.

Yunus's diversification into many additional lines of business has, at least, been profitable. The expansion of cell phone 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 percent of GrameenPhone, which controls 60 percent of Bangladesh's cell phone market.

However, matters of this profile cannot be reduced to narrow interests. At a time when the center-left Norwegian government has a high profile for partially canceling 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 Andra Pradesh, India, in mid-2006 to witness the "transforming power" of microfinance and "realized this program was opening opportunities for poor women and their families in an entire state of 75 million people." Walden Bello rebutted this, saying that microcredit "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. Microcredit schemes end up coexisting with these entrenched structures, serving as a safety net for people excluded and marginalized by them, but not transforming them" (48). Hence, as Alexander Cockburn put it, Yunus won a Nobel Peace Prize "for neoliberalism" (49):

> 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 using women's ability to pressure one other to repay (and if that doesn't work, barefoot bankers tearing off their delinquent clients' roofs)—that microcredit is a serious threat to the general cause of improving health services and related social policies.

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