

Essay: ANIS221  
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**As part of the pro-poor agenda exemplified by the UN's Millenium Development Goals, micro- credit strategies have become a popular tool for addressing poverty in both rural and urban situations and have now been adopted by the World Bank as a key strategy for relieving poverty. Almost unanimously the Grameen Bank in Bangladesh is praised as the leading example of the success of micro-finance schemes, particularly through its assistance to women, although recently there are debates as to how broadly micro-credit schemes do achieve their goals. Critically examine how micro-credit works and why Grameen Bank has been able to be so successful: what are its strengths and weaknesses in terms of helping the poor? Discuss challenges facing micro- credit programs and the difficulties in replicating the Grameen Bank's success elsewhere.**

This essay will examine and discuss how microcredit works and the successes and failures of the Grameen Bank, and its strengths and weaknesses in helping the poor. The Grameen Banks fundamental mission is to help the poorest of the poor through small microcredit loans. The bank, for the most part, has been very successful in helping the poor, especially woman get out of poverty. In spite of microcredit success and adoption around the world, it is not without criticism as it has failed in some key areas. The most damaging of these weaknesses is the setup and delivery of the loans, which instead of fostering cooperation has led to, in some cases, group social pressure and the exclusion of the poorest. These successes and challenges are also echoed else where in the world. In South Asia microcredit schemes have had similar problems to Bangladesh micro-finance schemes, but Egypt had experiences a good level of success with the idea.

Prof Muhammal Yunus began the Grameen Bank with the idea of extending credit to the poorest of the poor. Since then, the bank has become a driving force in poverty alleviation in Bangladesh. The most amazing strengths of the bank has been its impressive repayment rate to a group of people who, years before, were considered too poor to afford such loans. The banks credit recovery rate is on average around 95 per cent (Sarker, 2009 pp.3-4) . A possible reason is a system of responsibility, the program members form their own groups of five woman. Then the bank uses a system of group liability and collective responsibility to keep borrowers accountable. In this sense

all group members become responsible for the loan and ensuring that each member will pay on time. Otherwise it may jeopardize their ability to get a loan in the future. This makes the group member selection process an a vital first step, and because members come from the same area they are able to better assess peoples ability to pay (Wood and Sharif, 1997 pp. 212-221).

The repayment success of Grameen Bank is based on a community screening process. This process has weakness. It creates not a bank for the poor but of the richest of the poor. Large parts of the poor, mostly in rural Bangladesh, remain very poor because of this process. This is because they are deemed by the banks own community governed selection process to be too financial vulnerable to secure credit (Wood and Sharif, 1997 pp. 252-253). A study of two northern Bangladesh villages both involved in microcredit programs found that out of the two villages, the richer one had more participants. The study found that those in the most need of assistance, the vulnerable poor, are excluded from the program altogether. Although the study did show that those that could participate in the program were better off, it highlights a weakness in the system (Rahman, 1999 pp. 60 and 74). Individual borrowers are under constant peer pressure to make their weekly repayments. If individuals don't make payments other group members may go to drastic measures, like pulling down someones house, as a warning other members (Rozario, 2001 p. 67). Those better off, the rich of the poor decide where the money goes and those considered too poor, or are considered incompetent, are excluded. The exclusion of the poorest is a significant weakness in the microcredit system. The problem with this system is that it assumes that the very poor could not repay the loan. The reality is that the very poor can and do repay debt (Rozario, 2001pp. 66-73, Wood and Sharif, 1997 pp. 274-275, Jain, 1996 p. 82).

One of the great strengths of the Grameen Bank is its ability to reach and help the poor.

The bank has become crucial in Bangladesh development program. The bank, built on the research and experiences of Prof Yunus, has been very successful in creating a decentralized structure, based

on a good client delivery system. Abu Elias Sarker explains that one of the reasons for the banks success is its ability to value the informal economy and social networks rather than the traditional means of collateral (Sarker, 2009 p. 3). To give guidance to the banks goals of alleviating poverty it set up a framework. Sixteen Decisions that developing communities can used for education purpose and for the bases of a social framework. These decisions are designed to better the lives of the poor through community education and credit supported (Bank, 1998: website). Through these decisions the Grameen Bank has had many positive affects on local communities. Agriculture, an area supported by the bank, has seen a 30-40 per cent increase in crop output. A study found that half of the people it surveyed had broken through the poverty line. Once out of the poverty cycle these families will keep increasing their output and thereby increasing their wellbeing. These families, especially woman, will support local social development activities thereby increasing the wellbeing of the whole community (Sarker, 2009 pp. 5-6).

Microcredit has been a vital tool to equality and female empowerment. Empowerment has been a key area to judge the success of microcredit programs (Selinger, 2008 p. 28). Woman play a vital role in the Grameen Bank's strategy to reduce poverty and bring gender equality. The bank noticed, early in its establishment, that females used the loan more efficiently than males, to provide opportunities for the household. The goal of gender equality has allowed many of the banks female borrowers to have a voice and get a better deal in deciding their own lives. The Bank extends credit to females thereby inviting them into the capitalist system and a chance out of poverty. This has been a driving force empowering females in Bangladesh to change a heavily laden patriarchy culture (Amin and Sheikh, 2011 pp. 352-354). Traditionally social pressures ensured the gender equality gap in Bangladesh society continued. Men gained a high status by showing themselves as good providers and protectors. Females on the other hand played a role of seclusion with a families honorer rested on their actions. This made females poorer than men because they had less opportunities to generate extra income, that could help them escape the poverty trap. In the realm of

economics females were paid less and unable to get a loan, and lacked inheritance rights without help from a male (Bernasek, 2003 pp. 370 and 373). Modern attitudes towards females are different thanks to the bank approach towards lending. The bank focused on females started because it discovered that lending to woman would have greater benefits to the family than just lending money to the men. This was because females would focus on improving the education and the living arrangements thereby improving food and shelter for children (Amin and Sheikh, 2011 pp. 352-354). Women are the key to the Grumman Bank success in alleviating poverty.

Despite much enthusiasm with female empowerment through micro-credit there is evidence that females in rural areas experience greater gender inequality, and lack the equal power dynamics necessary to change the situation. Linda Mayoux argues that micro-credit may enforce traditional gender roles of woman's subordination. She argues that the system of credit delivery doesn't account for the complexity of connections that create social pressures to support or destroy traditional norms, this is one of the reasons research into micro-credit is difficult (Mayoux, 1998 p. 40). Part of the problem is the difficulty in assessing the impact of micro-credit programs. The level of female empowerment in rural areas is difficult to establish because of the veil of traditional gender roles. The assumption is that females who receive credit use the money to generate extra income and improve the welfare of the family. This will in turn will empower females because they are in a better financial situation leading to greater gender equality. In reality, for many rural women, it is the males who control the finances. Females just facilitate access to it, to the benefit of the traditional patriarchal system (Mayoux, 1998 pp 40-41).

One story told to anthropologist Rahman was of a woman 'in the next town over' who was unable to pay repayments. Because of her embarrassment and the shame she showed upon family, she decided to hang herself. At the time she was locked in the bank's offices (Rahman, 1999 p. 70). Although this story was likely a telltale, it highlights a lack of empowerment for females.

Concerning female rights and empowerment microcredit programs have done badly in crediting real change is the dynamics of welfare and gender equality. Although, at the same time, these programs have seen much success in changing social and cultural norms, more can be done in the rural country side. These females, being so far from the banks office, have to ensure somehow that they have support to empower themselves. This support should include some welfare and support for females who are victimized by their spouses and excluded by their banks peer group for being unable to make repayments.

While the Grameen Bank has had very success at alleviating poverty microcredit schemes have not worked everywhere. The banks microcredit system is popular, notably by the United Nations Millennium Development Goals, as it used a small amount of money to solve the large problem of poverty. However as this essay has pointed out there have been problems and challenges that have yet to be overcome (Rozario, 2001 p. 74) . In Asia there has been difficulty in replicating the Grameen Bank's approach to microcredit. Part of this difficulty is that females are successfully involved in the informal economy and only need a place to save their money. Females in "South Asia need safe, liquid, interest-bearing savings instruments more than they need credit" (Baruah, 2004 p. 611). South Asian females who use microcredit also face similar problems to Bangladesh females. They may be unable to make a repayment so they borrow from another lender to make payment thereby putting these females into a cycle of recycling debt (Baruah, 2004 p. 611) (Barush p 611). This weakness demonstrates the problems of copying the same microcredit system in Bangladesh to another part of the world. These programs should have a local focus and only set up after a long period of research. This is evident in Egypt where the program has been modified to suit the local culture.

The informal economy plays a different role in Egypt. It allows females to retain a sense individually while supporting the national economy like a filter system. Microcredit donations are

filtered through the banks which gives the illusion that the economy is growing faster than it really is. The problems experienced in South Asia and Bangladesh are then much less harsh in Egypt, as it has become an important source of finance within the national economy. Despite this questionable system, females have still managed to create a life for themselves with a little bit of extra money. Females use micro-finance to help build micro-entrepreneur enterprises within the informal economy. Allowing women to be more efficient, grow their business and contribute to the economy. (Elyachar, 2002 pp. 496-500).

Microcredit schemes have improved the lives of the poor in many areas. However as this essay has demonstrated there are many challenges to address. On a local level banks, such as the Grameen Bank, have weaknesses in effectively delivering methods to reach the poorest of the poor. Instead of empowering female these programs may re-force social norms of woman subordination to their spouses. Also, these programs create new social pressures on female to repay debt, or face harsh peer harassment. This essay then looked briefly on the larger scale of the difficulties in replicating the Grameen Bank success. Specifically comparing the troubles faced by South Asia females microcredit programs and the more successful Egyptian microcredit programs. The success of microcredit is undoubted but these programs are at risk of only helping the richest of the poor. New entrepreneurial ideas are needed to reach the poorest of the poor, and to return to the fundamental idea of microcredit. Giving the poor a chance out of poverty.

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