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Journal of International Affairs; Fall 1998; 52, 1; ProQuest Central
pg. 47

Poverty Alleviation: Is Economics Any Help? Lessons from the Grameen Bank Experience

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Monsoons, floods, cyclones and tornadoes are natural disasters that, throughout history, have consistently been linked to life and death in Bangladesh. Is there something wrong with Bangladesh? It appears to be a country existing only to shuttle from one disaster to the next. Yet, it would be incorrect to argue that Bangladesh is simply a victim at the mercy of the whims of nature. A cyclone at 235 kilometers per hour or a tidal surge of 12 to 18 feet in a country where people are wealthy enough to build stable homes, and governments resourceful enough to build protective systems and strong embankments, will not cause human misery on the magnitude seen in Bangladesh. It is poverty that pushes countless poor Bangladeshis to seek their livelihood

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in increasingly risky areas of the country. While natural disasters do wreak havoc among the poor in Bangladesh and many other developing nations all over the world, they do not cause poverty. Abject poverty is a creation of mankind, not of nature.

The reason there is so much poverty in the world is that we have never correctly addressed it as an issue. The starting point

* The author was assisted in the preparation of this article by Chitra Aiyar, John Gardner Fellow at the Grameen Foundation USA.

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for most economic theories was an investigation into the causes of the wealth of nations. Only supplementary theories were created to look at the poverty of nations. This led to the creation of concepts, institutions, legislation and political programs befitting those theories. In traditional economics literature, poverty on the micro-level was seen within this framework. It was perceived to be caused by the failure of an individual to find a job, either due to his or her lack of skills or education (what is commonly referred to as "human capital"), or due to a lack demand for labor. The way to increase the demand for labor was to apply macroeconomic measures that increased overall economic growth. In addition, improving access to basic education and vocational training was seen as a means of addressing the issue of deficient human capital.

In this paper, I will argue that this approach to poverty reduction at the macro-level is inadequate. The primary causes of poverty are not lack of human capital or lack of demand for labor. Lack of demand for labor is only a symptom, not a cause, of poverty. Poverty is caused by our inadequate understanding of human capabilities and by our failure to create enabling theoretical frameworks, concepts, institutions and policies to support those capabilities. My main argument is that economics as we know it is not only unhelpful in getting the poor out of poverty; it may even be a hindrance. In this paper, I would like to explore those institutions that perpetuate poverty, share my experiences with an effective poverty alleviation institution, and present my thoughts on the future of poverty alleviation. Before addressing these points, however, I would like to provide a useful framework to define the concept of "the poor" more concretely.

Defining the Poor

The inability to reach the poorest of the poor is a problem that plagues most poverty alleviation programs. As Gresham's Law[1] reminds us, if the poor and non-poor are combined within a single program, the non-poor will always drive out the poor. To be effective, the delivery system must be designed and operated exclusively for the poor. That requires a strict definition of who the poor are—there is no room for conceptual vagueness.

Quite frequently in the development literature, one will

[1] Gresham's Law generally refers to the tendency for people to hoard the more valuable of two types of specie (currency), letting the inferior type circulate more freely. Here, it refers to the tendency of one group to "crowd out" another's ability to gain benefits from a program.

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encounter the words "rural" and "poor" being used virtually interchangeably. Another common practice is to speak about the "small" or "marginal" farmer, as if these were synonymous with "the poor." In reality, "the poor" may or may not include small and marginal farmers. This is fundamentally dependent upon the economic make-up of a particular country. For example, in Bangladesh, half the population is landless, and poorer than the small and marginal farmers.

The tendency of policymakers to identify a particular occupational group, such as farmers, artisans or small-scale producers, as representing the totality of the poor is equally misleading. Once again, in the case of Bangladesh, farming is a male occupation. As soon as we start substituting the word "farmer" for the word "poor," our thinking process unfortunately becomes drawn into exclusively male issues. Half of the population—the women—thus sinks into oblivion. If policymakers remember women at all, it is usually in their role as minor helpers of the male members of the household. Policymakers should avoid making sweeping generalizations that label groups of people as "poor" in order to allow them to call any project targeting a particular sector, occupational group or region a "poverty alleviation program."

Disaggregating categories like "farmers" or "small-scale producers" or "people living in northwestern Bangladesh" into groups of individuals considered to be "extremely poor," "marginally poor," "middle class" and/or "wealthy" takes considerable effort, at least in the initial stages. It also risks revealing that many programs aimed at the development of a particular sector or region are not poverty reduction programs at all. But if reaching the poorest of the poor is to become a priority in order to target needy populations more fairly and effectively, then defining the poor more rigorously by gradations, not occupations, is a necessary precondition.

A History of the Grameen Bank

In 1971, I returned home to newly independent Bangladesh with a doctorate in economics from Vanderbilt University and joined Chittagong University as chairman of the Department of Economics. After Bangladesh won independence through a terrible war of liberation, I—along with many others—was full of optimism that the situation in the country would improve dramatically. However, my optimism was short-lived. The euphoria

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of creating a dreamland for 75 million people waned rapidly as the economy deteriorated due to economic mismanagement and corruption. The food distribution system, in particular, was extremely inefficient. By 1974, Bangladesh was suffering its worst famine in 30 years.

All the "brilliant" theories that I was teaching my students were of no assistance in reducing the hunger and starvation of millions of people. It became exceedingly difficult for me to focus on the hypothetics of classroom economics with my fellow human beings dying around me. At that point, I lost faith in textbooks and the world of abstraction. I wanted to understand the lives of poor people and confront the causes of what made them so vulnerable to famine. I wanted to avoid the tendency of viewing complex developments through a lens of overarching theoretical frameworks and focus instead on solving one small problem at a time. This was a much more effective approach because it was grounded in reality.

I went into the village of Jobra, just outside of Chittagong University, where I met a woman—a bamboo weaver. Her name was Sufiya Khatun. She was a widow with two daughters—her other five children had died. She made beautiful bamboo stools. Based on her work, I felt that she must have been making a decent amount of money. I was shocked when I discovered that she only made two cents (U.S.$0.02) each day. Two cents! And the reason for such a small amount? She was unable to afford the working capital necessary to purchase the bamboo from the market. Consequently, she had to borrow the money from a local moneylender. The money was lent on the condition that Sufiya sell back the stools at a price dictated by the moneylender.

Initially, I did not try to come up with a solution to this woman's problems. I simply saw why she suffered. The cost of the bamboo was five taka (worth about U.S.$0.20 at the time). She lacked the money, the start-up capital, to avoid exploitation by the moneylenders. Sufiya's life was miserable because she was condemned to an existence within a self-sustaining cycle: borrowing from the trader and selling to him—unable to receive the fruits of her labor. Yet, the dilemma of her struggle to survive day after day boiled down to a simple issue. All that was necessary was to lend her five taka and the problem would be solved. But how?

In 1976, I began a research project to find out how prevalent this practice of virtual bonded labor or enslavement to moneylenders was. I performed a quick survey in the village of Jobra. What was the amount of working capital necessary to free the stool makers from exploitation by traders and moneylenders?

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With the help of some assistants, I compiled a list of 42 people, and the grand total was U.S.$27. It is vital that this point be understood loudly and clearly: that for lack of U.S.$27, 42 persons were spending their lives engulfed within a vicious cycle of poverty. And this is not a situation unique to the village of Jobra, or to the country of Bangladesh, for that matter.

My initial response was to find a way to lend these people the U.S.$27 they needed. But I later realized that it would have been better to find a more sustainable solution, such as working with them to build a link with their local bank. In this manner, they would be able to borrow money whenever they wanted. Thus, I took responsibility for establishing a link between the poor of the village and the bank. However, when I explained to the bank manager what I had in mind, he was convinced that I was joking. When he realized that I was serious, he explained that banks cannot lend money to the poor. He argued that banks are reliant on collateral, which the poor cannot provide.

I proceeded to meet with higher officials in the bank and argue with them, without any luck. Finally, I offered myself as the guarantor of the loans. I was determined to show the bank officials that their fear was unfounded. I loaned money and people repaid me, convincing me that loaning to the poor entails no more risk than lending money to those who can provide collateral. Unfortunately, the banks remained unconvinced. They wanted me to demonstrate the success of the program over a larger area. Two villages, then 10, 20, 50 villages, then an entire district and, finally, five districts. Once again, the results were excellent.

Yet the banks refused to adopt this as part of their regular business, despite the fact that their default rates were many times higher than mine. Given the structural constraints embedded in the banking system, I decided to no longer rely on the existing banks, but rather to set up a separate bank for the poor. It took me seven years, but in 1983, I finally received permission to set up an independent bank. Today, the bank works in 37,000 out of a total of 68,000 villages in Bangladesh. It lends to 2.3 million borrowers, 94 percent of whom are poor women. Our repayment rate is 95 percent. In June 1997 we crossed the U.S.$2 billion mark in cumulative loans averaging less than U.S.$175.[2]

Since it was founded, Grameen Bank's aim has been to provide loans to the poorest of the poor in Bangladesh. Because, as was noted earlier, identifying occupations or geographic locations as

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2 See *Grameen Bank Annual Report 1996, Dialogue 34* (Dhaka: Grameen Bank, April 1998).

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"poor" is problematic, Grameen has adopted the conceptually safer policy of defining the poorest sector of the population as some bottom percent of the population. Grameen's target is the bottom 25 percent of the population, primarily women, as they bear the greatest burden of poverty. We designed a simple test that would ensure that our target group is reached. All families wishing to join Grameen must prove that they own less than half an acre of land and that their total wealth does not exceed the value of one acre of medium-quality land.

Even among those who pass this means test, Grameen targets the poorest families first. In almost all cases we loan to the women in those families. Our internal audits, as well as external evaluations, indicate that we are indeed reaching our target group.[3] Since all the work of Grameen Bank is done at the doorstep of its members, it is very difficult to conceal one's economic status from Grameen.

However, in a Muslim country like Bangladesh, it is extremely difficult, at least in the initial stages, to involve women in development programs. Religious leaders frequently announce their opposition to Grameen once it comes to a village, and moneylenders spread frightening rumors regarding what will happen to a woman if she takes a loan from Grameen. Given the stigma attached, in most cases, it is only desperate women with little to lose who finally push their way through to form the first group of Grameen borrowers. These groups gradually set the level of economic conditions for future members. The less poor stay away because they do not enjoy being associated with the destitute women who joined the first group.

How Institutions Create and Sustain Poverty

In country after country, from Bolivia to the Philippines to South Africa, I have seen exactly the same phenomenon that I witnessed in Jobra—hard-working people condemned to a life of misery because they lack access to tiny amounts of capital. If it were possible to bring financial capital into the hands of the poor, it might be possible for them to enjoy the fruits of their labor. But in reality, most of the value-added of the poor is diverted to those

[3] Mahabub Hossain, "Credit for the Alleviation of Poverty: The Grameen Bank of Bangladesh," Research Report 65, (Washington, DC: International Food Policy Research Institute, 1988) and Baqui Khalily, Zahed Khan, and Shahidur R. Khandker, *Grameen Bank: Performance and Sustainability,* World Bank Discussion Paper 306 (Washington DC: October 1995).

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who control the means of production—in particular, commercial credit. The more concentrated access to capital is in an economy, the less benefit the poor get from their labor. Concentration of wealth—and the concomitant pauperization of the majority—occurs even in an environment of overall economic growth.

What, precisely, is this elusive economic machinery that allows one group to benefit from the labors of another? At the heart of the matter is the failure of economics to adequately address the social and political dimensions of any economic issue. Elegant economic theories have been extremely useful in understanding the forces that make up the economy. Unfortunately, this elegance lacks a social conscience: economists largely ignore the subject of the poverty. I believe there are three fundamental assumptions that have led economists astray. They are as follows: (1) that credit is a neutral tool; (2) that entrepreneurs are a small, select group of people; and (3) that capitalism is only reliant upon profit maximization. I will address each of these in turn.

Fallacy 1: Credit is a Neutral Tool

Economists have not adequately studied the phenomenon of poverty at the micro-level. Even those who have tend to shy away from saying the obvious—that the poor are poor because they are only able to secure a small fraction of the value they add to the economy. The reason for this, I believe, is that the poor have virtually no control over capital. As Sufiya's example illustrates, the poor work for the benefit of people who control the capital—either the factory owner, or more commonly in developing countries, the village or barrio moneylender. The poor are unable to establish control over capital because they usually do not inherit it and/or because they are not able to secure access to it from financial institutions. Indeed, they often inherit "negative capital" in the sense that their parents' debts to moneylenders are passed on to them.

Most economists have consistently failed to understand the social power of credit. In economic theory, credit has been assigned the docile, passive role of a lubricant. It is perceived as a neutral tool that stimulates commerce, trade and industry. Unfortunately, this perspective ignores the fundamental fact that credit creates entitlement to resources. A person who wishes to build a factory, purchase inventory, buy a store or undertake any other economic activity can do so provided he can convince a financial institution to grant him a loan. Consequently, within a social context, credit plays an extremely important role. Credit creates economic power,

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which, in turn, creates social power. Indeed, in developing as well as developed countries, the social power that goes with access to credit often allows the "borrowing class" to avoid having to repay their loans and the negative consequences that are supposed to follow default. In Bangladesh, for instance, loans to the wealthy are often rolled over, or forgiven entirely, in order to make life easier for our so-called "entrepreneurs." In developed countries, government bailouts of large corporations are often justified because of the social and economic dislocations that would result if they were to go bankrupt.

Thus, decisions about who will get credit, how much and on what terms are crucially important social questions. A lending institution can make or break an entire segment of society by favoring or rejecting it. Making access to commercial credit available to small-scale retail establishments can, for example, completely change their relationship with wholesalers and manufacturers, allowing them more choices and the ability to take advantage of economies of scale. The same goes for those involved in cottage industries, transportation and agriculture. In short, anyone possessing access to credit is better positioned to take advantage of potential economic opportunities. In a given society, if one can find out who is receiving how much credit today, it will be fairly easy to predict the socioeconomic configuration of tomorrow.

Banks have made an institutional decision that they can do business only with those who can provide collateral. In so doing, they have written off millions of poor people, declaring them to be "not creditworthy." Few care to challenge this assumption because economics has failed to recognize the social power of credit. But why have economists remained silent when banks have insisted on the extremely harmful generalization that the poor are not creditworthy? Perhaps it is simply because no one asked whether there are ways to determine creditworthiness other than by the ability to produce collateral—that is, the ability to demonstrate pre-existing wealth.

Of course there are other ways to determine if somebody is creditworthy, but the conservative culture of the banking industry has for the most part not shown enough flexibility or imagination to identify them. As a result, banks impose a kind of financial apartheid without having to face any of the social objections that were raised about racial apartheid.

As was shown earlier in this paper, Grameen's success in making loans available to the poor and achieving high repayment rates confirms the fact that loans do not need to be tied with collateral

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in order to be repaid. But Grameen Bank is not just a traditional bank that happens to serve a poor population. The mere relaxation of the constraining factor—the collateral requirement—does not convert a traditional program into an effective poverty alleviation program. In order to be successful, both as a poverty alleviation program and as a bank, Grameen Bank has had to ensure credit discipline.

Credit without strict discipline is nothing but charity. Charity does not help overcome poverty—it can only offer temporary relief. Charity usually comes in the form of small packages offered on a one-time basis. This reinforces both the tendency among the poor to consume and the perception of development planners that the poor cannot invest and/or save. If, on the other hand, assistance is provided in larger amounts, at predictable times, even as a loan, it is much easier to plan, invest and save—and thereby begin to break the cycle of poverty.

Moreover, charity tends to create a condition in which the recipients become dependent on it, eroding their will and/or capacity to help themselves. Indeed, the usefulness of charity is limited precisely because it does not provide the poor with the tools they need to help themselves. Providers of public or private charity often punish those who try to break the cycle of dependency, such as in the United States, where welfare recipients who start small businesses with micro-loans see their benefits reduced by amounts greater than their earnings as well as having their health benefits taken away. Thus, the safest way to remain a charity recipient is to display as much passivity and as little initiative as possible.

At Grameen, credit discipline is achieved through a system of "social collateral." Borrowers are landless women who form groups of five to receive loans. The poorest two women receive their loans first. The other women in the group do not begin receiving their loans until the first two begin regular payments. This creates an environment of peer pressure when a member willfully tries to violate Grameen Bank rules and peer support at times when a member falls into difficulty in pursuing their economic activity. Grameen has witnessed thousands of cases of borrowers introducing their group members to new customers for their products, giving them good advice on how to run their business and helping them find ways to learn useful skills through apprenticeships as well as through formal and informal training courses.

Grameen has also seen millions of loans which other banks would have written off being paid back, with interest, because

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one borrower helped a peer facing a genuine problem (such as poor health or losses following a natural disaster) bounce back. Peer pressure has also been helpful in encouraging a willful defaulter to take responsibility for repaying. The poor have a more sophisticated understanding of what it takes to run a business and maintain credit discipline in their villages than Grameen does. The peer groups allow the bank to benefit from this knowledge, at minimal cost, and, as a result, Grameen does not have to offer a repayment incentive system that has an increased cost which would have to be passed on to the borrowers or paid for by a donor.

Fallacy 2: Entrepreneurs are a Special, Select Group of People

Attention to poverty in the developing world falls under the discipline of "development economics." Unfortunately, "development economics" remains basically an after-thought or a reinterpretation of the main body of economic theory, targeted to countries that won their independence in the 1950s and 1960s. The shortcomings of the core theories, and their particular inapplicability to the reality of developing countries, limits their usefulness. According to production theory, which plays a central role in the analytical framework of economics, the typical "person" is viewed as a laborer. The basis for production theory is the production function: given a certain technology, an entrepreneur strives to optimally mix labor and capital to maximize output. This fundamental conceptualization neglects the possibility (and, in the case of developing countries, the predominant reality) of the self-employment of the masses. Entrepreneurs are considered to be an unusually gifted group of people. Everyone else involved in the private sector is considered to be a wage laborer working under them. This idea appears to economists to be an innocent piece of abstraction. Yet, it is damaging because the creativity and ingenuity of each human being is slowly and subtly eroded. The potential within each individual to turn into an entrepreneur disappears. Wage-employment becomes the only legitimate source of employment for all but a small class of people—usually people who own or have access to large amounts of capital.

Nonetheless, in many developing countries, the overwhelming majority of people make a living through small-scale self-employment. Because economists are unable to fit this phenomenon into their rigid framework, the vast majority of unregulated, tiny, family-owned businesses in developing countries are lumped into a category called the "informal sector." It is also

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called the "black market" and the "unregulated economy." The activities of the informal sectors are difficult to measure because they do not lend themselves to analysis by the same tools used to measure output and productivity in the "formal sector" of large factories, agri-business and so on. Economists and planners talk about how to replace the informal economy with an expanded formal economy as quickly as possible as part of a drive to "modernize" developing countries, without considering the potential negative consequences of doing so.

Instead of supporting the creativity and energy of the people by implementing policies and institutions which allow the informal sector (I prefer the term "people's economy") to flourish, policymakers try to fit them into boxes or analytical frameworks that were created by academics who, for the most part, have never operated a business in the formal or informal sector. Yet, it is the people—and not the planners and the economists—who have created the informal sector. The informal sector is the sum total of all the efforts of millions of poor people to create their own jobs, since the formal sector was unable to do so. In the people's economy, the poor can use their own "survival skills"—and potentially earn enough to escape poverty if they work hard and somehow avoid the exploitation of moneylenders. In the formal economy, those who lack formal education are forced to work in the lowest-paying jobs in someone else's factory, often without any opportunity to either use or further develop their skills or get promoted.

With self-employment rarely given much attention, economics have largely ignored the institution of the family as a production unit. Analysis has centered on the "firm." But in developing countries, most production in the rural areas is based around the family rather than the firm. When the unit of analysis is the family, inter-relationships within the family—the sharing of work and decisionmaking, as well as the tradeoffs between education and work for the children—become important economic as well as social questions. Instead, traditional analysis centers on relationships among shareholders, management and workers—concepts that are not particularly relevant in the context of family or home-based production.

Most economists suggest that generation of employment is the solution to the problem of poverty. Under certain conditions, however, employment can perpetuate poverty, especially in the short and medium-term. Employment may mean a life condemned to squalid city slums or working for two meals a day for the rest of one's life. Wage employment offers no guarantees

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towards the reduction of poverty. The removal or reduction of poverty entails a continuous process of wealth or asset creation, so that the asset-base of a poor family, particularly their access to productive assets from which they can generate additional income and wealth, becomes stronger at each economic cycle. A poor person cannot ensure a larger share of return for their work because their initial economic base is paper-thin. Only when one can gradually build up an asset base can one command a better share for one's work. A job may keep a person poor if their earnings do not generate enough of a surplus to meet their basic needs.

Self-employment, supported by credit, has more potential for improving the asset base of a family than wage employment. In addition, the capital cost of generating each wage-employment job is often quite high. With the ever-increasing size of the labor force, it seems unlikely that developing countries can raise investment to such a level that sufficient wage employment could be generated to absorb the labor force. Thus, there is a strong case for self-employment based on sound economic reasons. Moreover, promotion of self-employment for low-income people can be used as a poverty reduction strategy in industrialized countries. Over the last ten years, this approach has been tried in more than twenty U.S. states, with generally good results. Today, there are more than 50 programs in the United States that use the same "peer lending" approach as we do in Bangladesh.[4] Creating favorable conditions for making a living through self-employment is a more empowering way of solving the problem of unemployment than instituting a system of welfare payments.

In addition, when plans are made for creating jobs for the unemployed, policymakers often unconsciously think about job facilities for men. It is assumed that women will busy themselves with household chores while the men participate in the job market. Only when they have been divorced, abandoned or widowed do they enter the labor force, and then usually to take jobs that men are unwilling to take. Rarely is it considered that there is no single chore within the household that a Bangladeshi woman, for example, does not know or does not do. The skills that women attain from doing household work can often be channeled into income-generating activities when supported by credit. Making handicraft items from bamboo and cane, like sieves, baskets and mats, rearing poultry and domestic animals like cows and goats,

[4] Elaine Edgecomb, Joyce Klein and Peggy Clark, "The Practice of Microenterprise in the U.S.: Strategies, Cost and Effectiveness" (Washington, DC: The Self-Employment Learning Project/The Aspen Institute, 1996).

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as well as growing vegetables and fruits all can open the doors to earning for women. And their increased earning translates into more social power within their families and communities.

If we seek to help the poorest, we must focus our attention on women. Women experience hunger and poverty in much more intense ways than men do. Women traditionally stay home and run the family with virtually no resources. At least in Bangladesh, if any member of the family has to starve, there seems to be an unwritten rule that it should be the mother. It is the mother who suffers the traumatic experience of not being able to feed her children in times of famine and scarcity. Consequently, given the opportunity to fight against hunger and poverty, poor women are often far more tenacious and resourceful than poor men.

The experience of development programs around the world has shown that many development objectives can be met faster, and more cost-effectively, when the empowerment of women is given high priority. Poor women borrowers of Grameen Bank and other microcredit programs have demonstrated an intense drive to move up: their commitment has shown that, for the most part, they are hard working and willing to make sacrifices for the well-being of their children. Credit provides women with an income-generating activity without the usual sacrifices required under a wage-employment situation. For one thing, a woman does not usually have to leave her home and her children. She also does not need to learn a new skill or adapt herself to a new job. She can do whatever she does best—and earn money for it.

At Grameen, we follow the principle that the borrower knows best. We encourage our borrowers to make their own decisions after consulting with the other members of their peer group. When a nervous borrower asks a member of the Grameen staff to suggest good business ideas, the staff member is trained to respond that Grameen has a lot of money, but no business ideas. All business proposals have to come from the borrower. Consequently, not only do women generate income, but they also become empowered in the process. The social impact of Grameen speaks for itself. Grameen's 2.3 million borrowers have shown that any individual has the potential to be an entrepreneur. A study comparing two groups of women—women who joined Grameen as poor 8 to 10 years ago and women in similar economic conditions 8 to 10 years ago—found that 57 percent of surveyed Grameen borrowers had escaped poverty and only 15 percent were extremely poor after eight or more years of borrowing. Among the other group of women (those who did not join Grameen), 54 percent remained in extreme

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poverty and only 18 percent had come out of poverty.[5]

Typical programs offered by traditional development institutions lack clarity and precision in their approaches to empowering the poor. The sudden burst of enthusiasm for elaborate training programs launched by government decisionmakers, aid agencies, nongovernmental organizations and international consultants is a clear example. This emphasis on training may be explained in three ways. First, traditional approaches to development operate under the assumption that a lack of skills is the most important obstacle in overcoming poverty. If individuals can acquire a skill, it naturally follows that they will no longer remain poor. Second, ensuring a role for training maintains a steady flow of funds to the institutions and consultants that provide the training. This provides them with jobs without any clear accountability for producing a result beyond numbers of people who are receiving "training." Thus, they have an incentive to create a dependency on training among the poor. But in fact, impact studies on the effectiveness of training on the incomes of the poor are rarely done, and when they are, they often overstate its impact. The third reason for focusing on training is that actors promoting development simply do not know what else can be done.

As a result, training programs are usually ineffective and, in some cases, counterproductive. However, poor people are offered incentives to participate in training programs. For instance, immediate financial benefits in the form of training allowances, or indirect benefits such as access to loans, are distributed only after receiving training. Thus, even when programs attract the poor, the beneficiaries may not be at all interested in the training itself. In other cases, training programs do not reach the poor, who are too busy to spend their time undergoing training that is only marginally relevant to their needs.

Rather than building people up, training programs have a tendency to destroy people's natural capacities. Often, the result is that the recipients feel inadequate and useless. Training, *per se*, is not bad. In fact, it is extremely important in helping people find a way out of their economic difficulties. The fundamental problem lies in the assumption that lack of skills causes poverty. It is important to create a situation where the beneficiaries feel the need for training, look for it on their own and are willing to pay for it, even if it is only a token amount. Paying poor people to receive training is not helpful. If a person is willing to pay, she/he

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5 Helen Todd, *Women at the Center: Grameen Bank Borrowers After One Decade* (Boulder: Westview Press, 1996) pp. 37-38.

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can then get what she/he wants. If training is free, the poor will receive what someone else thinks is best for them. That is precisely the problem with many traditional development programs.

The process usually works like this. A traditional development donor agency gives the implementing agency—be it a government, a nongovernmental agency or some other development institution—money. Then, the representatives of the donor agency provide the implementing agency with all the ideas, training and expertise. The borrower's job is to read the instructions every step of the way and follow them. The donor agency is eager to assume all responsibilities for the design of the program. It does not want to give any responsibility to the borrower, except, most likely, if the project fails. In the end, if the project fails, the donor blames the implementing agency, and the implementing agency in turn blames the intended beneficiaries, often citing their lack of skills. This process has repeated itself hundreds of times in Bangladesh and other developing countries.

Fallacy 3: Capitalism is Reliant on Profit-Maximization

I believe in the central thesis of capitalism—that the economic system must be competitive. Competition is a driving force for technological change and innovation. What I disagree with is the feature of profit maximization seemingly embedded in capitalism. Economic theory portrays the entrepreneur as one who ensures the optimal use of scarce resources to produce the greatest possible financial return, ignoring any social dimensions or returns. But even if the presence of social considerations is a small one in the investment decision of an entrepreneur, it is one that should be promoted for the greater interest of society. Economic theory cannot easily explain an entrepreneur or a firm taking a lower financial return in his business to ensure a higher social return. By contrast, sociologists have ready explanations as to why families accept lower-paying jobs in order to have more time together.

In the contemporary world, no visible competitor remains for capitalism. Communism, socialism and even social democracy are in retreat—to the extent they are believed in at all. The idea that the public sector should be an economic actor (rather than simply a rulemaker intervening as little as possible in economic affairs) is in disrepute. What does the future hold? With the demise of the public sector, is the only alternative left for the world a private sector that is based on profit maximization? That is certainly not an inspiring prospect.

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To find a competitor for capitalism as is currently practiced, one can go to the core of the philosophy of capitalism itself. Contrary to popular belief, it is not "free enterprise" which is the essence of capitalism, but rather freedom of individual thought and action. Somehow, we have managed to persuade ourselves that the capitalist economy must be fueled only by profit maximization. Since that belief is shared by many, it has become a self-fulfilling prophecy. Of course, it is easy to condemn the private sector for all its mistakes. What is truly unacceptable, however, is our failure to change things. The private sector, after all, is open to everyone, even to those who are not interested in making a profit.

Grameen's experience substantially affirms the notion that profit-maximization is not the only force stimulating free enterprise. Social goals can replace profit-maximization as a powerful motivating influence. Enterprises that are driven by goals to maximize social awareness and consciousness can present a formidable challenge to enterprises based on profit maximization. If we create appropriate financial and social incentives, socially conscious enterprises can become an effective force in the marketplace.

It is true that the market will need rules for the efficient allocation of resources. What I propose is that economists and policymakers replace the narrow profit-maximization principle with a more generalized principle; that is, that an entrepreneur maximizes a bundle consisting of two components: (a) financial returns ("profit"); and (b) social returns, subject to the condition that financial returns cannot be negative. In this model, investment decisions are taken within a range of options. On one extreme, the profit-maximizing capitalists will continue to be guided purely by the profit motive. On the other extreme are those entrepreneurs who are driven solely by social consciousness. As long as the enterprise remains financially viable (i.e., does not lose money), they choose to invest only if their investment maximizes social returns.

Under this principle an entrepreneur can run a health care service for the poor. Other enterprises could include financial services for the poor, educational institutions, training centers, renewable energy ventures, old-age homes, institutions for handicapped persons, recycling enterprises and the marketing of products made by the poor. This economic system would replace the current one in which there is a wide chasm between a capitalist system driven solely by a profit maximization motive and, charity to those who lose in the capitalist system. In this new system,

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society's predominant means of improving the plight of the poor is not private, public or corporate charity, but rather doing business with the poor in a way that gives them the opportunity to earn at least a small financial and a much larger social return.

Social Consciousness Driven Capitalism: The Grameen Approach

Grameen Bank is the embodiment of a successful capitalist enterprise that combines both the concept of financial returns and of social returns. It is not commonly known that Grameen Bank is a for-profit organization, owned by the poor people who borrow from it. Most people tend to assume it is a not-for-profit organization owned by an enlightened group of philantropists. However, Grameen is the first—and most important—undertaking within a growing network of for-profit, social-consciousness driven enterprises in Bangladesh that is nationwide in scope and impact. Even if some of the organizations Grameen establishes are initially not-for-profit, they are all eventually converted into for-profit enterprises owned by the bank's borrowers. Grameen Phone, Grameen Cybernet and Grameen Shakti (Grameen Energy) are three examples of successful business enterprises driven both by a profit motive and a social consciousness motive.

Grameen Phone is a nationwide cellular phone company that is planning to serve one million subscribers in both the urban and rural areas of Bangladesh by the year 2003. Many Grameen borrowers will own and operate payphone franchises in the village, becoming the "telephone ladies" of their villages. A poor woman who has never seen a telephone, or an electric bulb for that matter, will own a cellular phone and begin selling phone services to the villagers to earn additional income. Ultimately, Grameen borrowers will become the owners of the telephone company itself by buying up the shares, as occurred in the case of Grameen Bank. Grameen Phone will be the only telecommunications company in the world owned by poor women. Importantly, all those involved in Grameen Phone make money: the foreign investors, the domestic investors, the international financial institutions, Grameen Bank, the poor who own the phones and the local people who are able to reduce costs and increase income by getting access to phones. But the primary objective of all the partners in this joint venture is to help 50,000 Grameen borrowers overcome poverty faster than they could otherwise.

Another company that Grameen has created is Grameen Cybernet. Started in 1996, it offers Internet access to over 3,500

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customers in Dhaka. As Grameen Phone continues to cover rural villages with its telephone network, Grameen Cybernet has begun to extend its services to the rural areas. Grameen negotiated an arrangement with Bangladeshi railways to lease its fiber-optic cable, which will allow for Internet access to most villages. The Internet will bring worldwide information and opportunities to remote villages. Small-scale producers, for example, can use the Internet to monitor the prices of raw materials and find customers. Small-scale investors (Grameen expects to turn its 2.3 million borrowers into investors in the next few years) can research companies and buy and sell stock from a computer terminal in their villages. Again, the company itself will be owned by the poor.

A third company is Grameen Shakti. Its purpose is to bring solar and other renewable energy into Bangladeshi villages (65 percent of which do not have grid energy) and power cellular phones, lights, radios, televisions and computers. Grameen Shakti will operate by creating micro-power companies owned and operated by the local poor. Normally, the poor and even the middle classes are unable to use solar energy because it requires paying for many years of energy use at the outset. Grameen Shakti and Grameen Bank will provide loans to people to buy the solar panels as well as guidance regarding how to use the energy to reduce expenses and increase income—by, for example, starting a business of recharging people's lanterns in their villages. As with the other Grameen enterprises, Grameen Shakti will earn money; producers of solar panels, like the Siemens Company, will find Bangladesh to be a profitable place to sell their products; and the Grameen borrowers who use the panels will enjoy a net profit. But the social returns of Grameen Shakti are perhaps even more promising. Among other things, children will finally be able to study at night, which ultimately could mean that they will reach higher educational levels; and indoor air pollution will decrease as wood-burning stoves are replaced with solar-powered electric stoves, leading to a decrease in respiratory problems—and eventually to lower health costs.

In conventional development strategy, power plants, telecommunication companies, large financial institutions and other forms of infrastructure are usually owned by either the richest in the country, multinational corporations, the government, or by some combination of the above. Inevitably, they serve their own interests before those of the poor (though a functioning democracy sometimes provides countervailing forces). At Grameen, we are trying to demonstrate that social consciousness-driven enterprises that involve the poor as

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suppliers, vendors, franchisees and owners can provide these services as efficiently as they are presently being provided, while also achieving significant social objectives.

Conclusion

In this paper, I have analyzed the limitations of economics in properly understanding how poverty is reproduced and how it can be alleviated. I have argued that economists have traditionally ignored the social power of credit; failed to recognize the potential of self-employment in the so-called "informal sector" as a means to reduce unemployment and poverty; lacked socially useful analytical tools; and narrowly interpreted capitalism to focus only on profit-maximization. These may seem to be arcane or semantic points, but in fact they play an important role in shaping the manner in which economists, policymakers and the general public perceive the world. This paper argues that a bipolar model with profit maximization at one end and charity on the other (giving hand-outs to the poor so they don't suffer too much) is inadequate and particularly ill-equipped to address the problem of poverty.

Grameen Bank represents a successful attempt at building a middle ground of capitalism based on both profit and social returns. We have tried to put these ideas into practice. After 22 years of experimentation with a new kind of model to help the poor get themselves out of poverty, we continue to improve our methods and test innovative ideas. Hopefully, the Grameen model of social consciousness driven capitalism will be replicated and eventually replaced with even more efficient programs that have a more significant social impact. ♔

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