

NOTE

Microfinance—The Crisis of Faith

F C writes:

A new film about the Grameen Bank will fuel the current crisis of faith in microfinance.

But now it looks as if the crisis of faith in microfinance threatens the whole concept as a development tool—and even worse, its founding pioneer, the Nobel laureate Mohammed Yunus himself. Meanwhile the Bangladesh Central Bank removed Mr Yunus from the Grameen Bank, apparently on charges that he had served the bank for 10 years longer than the stipulated age of retirement of government servants in Bangladesh.

Alongside the crisis in India, a Danish investigative journalist, Tom Heinemann, has made a film looking at microfinance and Yunus's Grameen Bank in Bangladesh. In addition to the now well-known criticisms of heavy-handed debt collection and high rates of interest and indebtedness, Heinemann has uncovered a complex financial transaction in the early 1990s at Grameen Bank. He says a significant sum of money is unaccounted for. He insists he has no evidence of any corruption, but he does have documentation that the donor, the Norwegian government aid agency, was very cross but agreed to keep quiet on the issue.

A version of the film was broadcast in Norway in late November and caused uproar in Bangladesh (when it appeared in Norwegian on *YouTube*). The Bangladeshi prime minister, Sheikh Hasina, weighed into the row in a press conference calling for an investigation into the Grameen Bank—which received millions in aid from several western countries in the early 1990s. She declared that the Grameen Bank had been "sucking money out of the people after giving them loans. There has been no improvement in the lifestyle of the poor so far. They were just used as pawns to get more aid."

Earlier this week, a longer version of the film was broadcast in Denmark, despite last-minute representations by the public relations company Burson-Marsteller, which had been hired by Grameen Bank. Clearly Yunus is fighting hard to protect his reputation.

Meanwhile Heinemann's main aim is not to expose the feet of clay of this global icon of the struggle against poverty so much as to challenge the western donors' naive enthusiasm for microfinance.

A number of longstanding critics of microfinance, such as Milford Bateman, are interviewed in Heine-mann's film as well as those who are more supportive, such as David Roodman at the Center of Global Development in the US. The latter has put up a series of really thoughtful blogs on the growing dispute and his own criticisms of Heinemann's film.

The fact is that Heinemann's film offers some very inconvenient truths about microcredit at a time when it has become a widespread orthodoxy among donors that this was one of the best ways to help the poor help themselves. When aid is increasingly being criticised as a "handout" and scorned for generating dependency, microfinance had a powerful appeal as an alternative. The rhetoric of microfinance—and everyone has used similar stories of people pulling themselves out of poverty by setting up small businesses—ticked all the donors' boxes for self reliance and empowerment.

But it sidestepped the structural economic and political causes for people's poverty in the first place, putting all the emphasis on individual effort and resourcefulness to break out—an impossible expectation that has led to much further suffering.

Having said that, there is a place for well-designed, carefully managed microfinance projects and it would be a disaster if the growing backlash swept all away. This is a reality check, long overdue and a reminder of just how vulnerable donors are to fashionable orthodoxies. □□□