THE GLOBAL POLITICAL ECONOMY OF MICROCREDIT AND POVERTY REDUCTION

Heloise Weber

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Department of Politics

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ABSTRACT

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By Heloise Weber

Since the early 1990s microcredit has been gaining currency as a popular and effective solution to poverty reduction and development. In this context, the Grameen Bank in Bangladesh, a pioneer of the microcredit approach, came to be regarded as a model for replication by global development policy makers. Microcredit has also generated much interest among academics, receiving attention particularly in the disciplines of development studies and anthropology. However, there has not been a comprehensive study of microcredit and poverty reduction from an International Relations (IR) perspective.

In focussing on the politics of microcredit from the global to the local, my thesis thus contributes a unique perspective to the literature on microcredit. It helps fill a significant gap that exists in studies of microcredit. It is the first study to systemically and critically evaluate the global political economy of microcredit and poverty reduction.

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My father, *Appa*, in love and admiration of his intellectual understanding and his love of knowledge for its own sake. With his love and empathy, which he brought to his political commitment to social justice, he challenged many an orthodoxy. I am thankful that he drew my attention to the complexity and beauty of the Oneness of Truth, Love and 'God'. All of this he showed me was in the depth of ones soul, in Being.

My mother, Zoe, I am thankful for showing us that all of this, love and laughter and good-times may be found in the simple lightness of being.

WANG : I am a water seller in the capital of Szechwan province. My job is tedious. When water is short I have to go far for it. An when it is plentiful, I earn nothing. But utter poverty is the rule in our province. All agree that only the Gods can help us. (…….)

THE SECOND GOD: Alas, that is beyond our powers. We cannot meddle in the sphere of economics.

Bertolt Brecht, *The Good Person of Szechwan.*

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INTRODUCTION

Since the early 1990s microcredit has been gaining currency as a popular and effective solution to poverty reduction and development. In this context, the Grameen Bank in Bangladesh, a pioneer of the microcredit approach, came to be regarded globally as a model for replication. In 1997, the story of the merits of microcredit reached a wider global public through the first global Microcredit Summit in Washington, DC. Microcredit and microfinance have become the buzz-words in all concerned circles, from policy makers to Non Governmental Organisations (NGOs) to International Financial Institutions (IFIs). It has also generated much interest among academics, receiving attention particularly in the disciplines of development studies and anthropology. However, there has not been a comprehensive study of microcredit and poverty reduction from an International Relations (IR) perspective. Recognition of this gap motivated this study, together with a personal concern with poverty and inequality, and a keen interest in global political economy (GPE).

My attempts to investigate the global political economic implications of microcredit and poverty reduction, began with an extensive literature review. During this review, I encountered significant discrepancies between the public discourses of its poverty impact, which I refer to as the 'public transcripts' (see below) and its *actual* impact on the ground. I refer to the latter as the 'hidden transcripts' of microcredit and poverty reduction.

Furthermore, having mapped out the global political economic implications entailed in the implementation and extension of microcredit at the grassroots, it became evident that the microcredit approach seemed to serve a dual purpose for global policy makers:

(1) Microcredit seemed to have a tangible potential to function as catalyst for financial liberalization.
(2) Microcredit appeared to function as a political safety-net in the context of structural adjustment programs (SAPs).

Early analysis of the GPE implications of this dual purpose of microcredit suggested that it is appropriated at the level of global policy making because of its conduciveness to advancing the objectives of the IFIs. It provides an added fillip to the globalization process in its neoliberal political form. The adeptness of the microcredit approach to further this political agenda thus became clear.
Microcredit emerged with a clear potential to induce transformations in the conceptions of development and development goals, which at the level of policy implementation involves significant changes in all agencies concerned. It could be seen to affect funding and extension structures of NGOs, for instance, as well as relations between target states, IFIs, multilateral development institutions, and an increasingly private donor community. Thus, I embarked on a systematic analysis of the GPE of microcredit from a critical perspective.

The Thesis

My thesis argues that microcredit as a poverty reduction approach is strategically embedded in global political economy. The evidence I found in the course of my research suggests that microcredit is facilitating financial liberalization, and particularly that it is instrumental to advancing financial globalization. Microcredit facilitates the commodification of money (that is the sale of money, the 'making of money from money') at the grassroots. Secondly, I found evidence that microcredit has a 'disciplinary potential' (in the language of Stephen Gill) which is directed both, ideologically and practically at containing resistance to neoliberal politics, as advanced through SAPs. In embedding the critical account of microcredit's dual purpose in the context of GPE, I argue that it crucially contributes to managing the contradictions of capitalist development. This is substantiated by providing an account of its historical legacy, which I discern to be the financial services dimension of the trade in services agenda which emerged in response to the crisis of capacity in the advanced capitalist states, in the 1970s. I argue that microcredit and microfinance are thus rooted in the GPE within a context of crisis management. The thesis argues that the strategic embedding of microcredit in GPE provides an important insight to understanding the discrepancies between the public transcripts of the poverty impact of microcredit, and its hidden transcripts which reveal adverse social implications in terms of its actual experience.

I borrow the concepts of 'public transcripts' and 'hidden transcripts' from James Scott, and use them in contexts similar to his. A *public transcript* is basically for Scott a short-hand way of 'describing the open interaction between subordinates and those who dominate'.[1] Essentially it refers to an action that is openly avowed to the other party in a power relationship. The public transcript however, is unlikely to tell the whole story about power relations. Scott identifies hidden-transcripts among the subordinates. Scott argues that off-stage, the subordinates tell another story in *contrast* to what they may openly say to the dominant. In this sense, the 'dominant never control the stage absolutely, but their wishes normally prevail'.[2] The analysis of the public transcript may conclude that 'subordinate groups endorse the terms of their subordination, and are willing even enthusiastic, partners in that subordination'.[3] The truth, however, may be that 'while domination is inevitable as a social fact, it is unlikely also to be hegemonic as an ideology within that small social sphere where the powerless may speak freely'.[4] In this sense, what may be described 'from above' as co-optation of the subordinates is, according to Scott, not exhaustive of the full range of powers and counter powers in hierarchical social relations. For Scott, it is precisely at the level of ideology that resistance to domination will be the most radical, more so 'than at the level of behavior, where subordinates are 'more effectively constrained by the daily exercise of power'.[5]

And yet, just like the subordinates, the powerful too have their own hidden transcripts offstage. But as Scott argues,

> [t]he necessary posing of the dominant derives not from weaknesses but from the ideas behind their rule, the kinds of claims they make to legitimacy. A divine King must act like god, a warrior king like a brave general; an elected head of a republic must appear to respect the citizenry and their opinions; a judge must seem to venerate the law. Actions by elites that *publicly* contradict the basis of a claim to power are threatening.[6]

Similarly, I argue that the normative discourses of microcredit in poverty reduction are employed instrumentally to conceal its strategic embedding in GPE, and thereby to legitimize the approach and its objectives. As in the case of the subordinates and their experiences, the hidden transcripts of the dominant are an artifact in the exercise of power. Practices of domination *create* hidden transcripts, and if the 'domination is particularly severe, it is likely to produce a hidden transcript of corresponding richness'.[7]

In the context of contemporary issues in GPE, the hidden transcripts of the powerless are increasingly played out as public transcripts. This in turn, has triggered a strategic counter-response which has been concealed by a rich public transcript, framed in terms of the politics of inclusion, and prevalent in discourses of poverty reduction and development. Thus while engaging with the hidden transcripts of the poverty impact of microcredit, my thesis has uncovered the hidden agenda of the GPE of microcredit and poverty reduction. What is hidden by the public transcript with its emphasis on normative goals and meritorious outcomes, is microcredit's appropriation in global governance as a crisis management strategy. This thesis draws together global political trends and tells the story of the GPE of microcredit and poverty reduction as part of an unfolding historical process.

Methodology

The analytical approach of my thesis is critical, and thus entails significant interpretative analysis. This critical approach has been informed by evidence gathered via a range of research techniques. These techniques were employed, in order to explore the dual purpose (see above) of the microcredit agenda, which underpinned the critique.

The discrepancies captured in the public and hidden transcripts began to take shape during my attendance at the first global Microcredit Summit in Washington DC, in February 1997. The political momentum created during the Summit suggested the significance of microcredit in inducing transformations to poverty reduction approaches at all levels. The Summit provided the experience and material for a case study of the advancement of the public transcripts of microcredit. It also provided me with an opportunity to develop important international as well as national networking links, as well as to conduct initial interviews with senior researchers at the World Bank.

Much of the critical investigations into the global framing of microcredit as a poverty reduction strategy involved scrutiny and analysis of documentary evidence of key global institutions. These included policy documents as well as research reports of the World Bank, the International Mometary Fund, the OECD, Regional Development Banks, and Bi-lateral Development Agencies. The documents reviewed trace the microcredit agenda from topical research within the institutions to the level of its application in policy. Among other findings, this review process already indicated that the public transcripts of microcredit were often at odds with these institutions' own commissioned impact assessment research.

The analysis and interpretation of documents and policy papers, and their respective legislative implications, has been complemented by in-depth elite interviewing, both, by telephone and in person, with senior policy makers at the World Bank. Of particular importance were interviews with the head of the Highly Indebted Poor Country (HIPC) Initiative, the Director of the Poverty Reduction and Economic Management (PREM) Sector, and senior researchers working on microcredit at the World Bank, as well as interviews with senior staff of the Consultative Group to Assist the Poorest (CGAP). The CGAP was created in 1995 to specifically advance microcredit as a strategy for poverty reduction globally. The CGAP is a multi-donor initiative housed in the World Bank's Finance and Private Sector Development Vice Presidency (FPDVP).

In order to complement the critical analytical study with relevant first hand experience of microcredit based poverty reduction schemes, I undertook participant observation in Bangladesh. This included time at the Grameen Bank head office in Dhaka, during which I had a meeting with the founder of the Bank, Professor Muhammad Yunus, and undertook a number of in-depth and extensive interviews with senior Grameen Bank staff. I visited Grameen projects under the supervision of head-quarter staff, who acted as interpreters. This provided me with a first hand understanding and experience of the Bank's self-presentation. I also undertook independent research into Grameen's impact and practices for which I selected my own sample area, and had independent interpreters. They remain anonymous.

I also conducted interviews in Dhaka with the Managing Director of the Palli Karma-Sahayak Foundation (PKSF), the apex institution for microfinance in Bangladesh, as well as with the Director of the Credit and Development Forum (CDF). Both these institutions are best described as semi-public, and both have connections to the World Bank's interests in microfinance.

More informally, during my time in Bangladesh, I was in contact with various NGOs and their representatives working in poverty alleviation and development. Their experiences, and my own impressions of their projects and the roles played by expatriate and local members of staff provided a crucial and comprehensive back-drop to the analytical thrust of my research.

In addition to the study of primary source material (institutional publications and participant observation), I engaged with topical independent impact assessment studies which have been conducted in the disciplinary fields of social anthropology and development studies. In order to integrate these findings with the focus on the role of microcredit in the GPE, a wide range of secondary literature was surveyed and critically applied.

Literature Review

The literature on microcredit varies in its presentation of the issue according to academic fields from within which it originates, as well as in accordance with political and economic predilections of the presenters. Microcredit (and microfinance, which includes a range of financial services in addition to microcredit) is a relatively recent issue, this is reflected in the literature output. To date, the discipline that has published extensively on microcredit and microfinance is development studies, and particularly development economics. For the development economics side, the focus of analysis is generally limited to assessing the economic viability of microcredit as a development tool. Although explicitly concerned with impact analysis, as reflected, for instance, in the influential work of the Ohio School, these studies focus on a quite narrow conception of impact: they are confined to issues of economic efficiency and financial viability.[8] This approach does not engage with the problems and aspects of the social and political implications of microcredit and rural financial structures.[9]

The relevant development institutions' own research profiles reflect a similar preoccupation with the prerogatives of economic prudence, which they generally regard as preconditions for the anticipated meritorious outcomes of microcredit induced poverty reduction. From this perspective too, although there is a broader engagement with issues of impact, they are conceived and expressed in economic terms. Therefore, what many of these institutions have identified as common practice, such as the use microcredit for purposes other than investment, they refer to as consumption smoothing; the practice of poor clients borrowing from one NGO or Microfinance Finance Institution (MFI) to pay off the other, they refer to and conceptualize in terms of cross-borrowing or over-lapping; the practice of taking new loans to service payment of old loans are referred to as pyramid loans. This particular conceptual approach to impact assessment avoids engaging with highly problematic social consequences of the microcredit approach, which can then also quite easily go unacknowledged. Nevertheless, these institutional findings on impact have been useful supporting material for my thesis.

To date, there have been a very limited number of independent studies that have focussed explicitly and extensively on the social impact of microcredit and microfinance. These have been from anthropological studies, as well as in a limited form in development studies. These studies have as yet gained very little public attention. For my study on the Grameen Bank, in addition to my own fieldwork experience, I rely primarily on two in-depth studies on social impact. One by Aminur Rahman, is grounded in social anthropology and focuses specifically on Grameen impact. The other by Mubina Khondkar is grounded in development studies.

Rahman, is a Bangladeshi national whose research was done for a PhD thesis at a Canadian university. Rahman spent over nine months as a participant observer in a village community which experienced Grameen induced credit interventions. His highly critical findings with reference to the social impact of Grameen during this period were further consolidated by subsequent visits to his research area.

From a more development studies oriented angle, the PhD research done by Mubina Khondkar under the supervision of David Hulme (a key specialist in Britain on microfinance and poverty reduction) engaged more specifically with the claims of microcredit to empower poor women. Very similar to Rahman's findings, Khondkar's research exposes adverse social consequences rather than the benefits claimed in the public transcripts of microcredit. She shows that microcredit interventions, contrary to widely held public assumptions, do not challenge or alter gender based social hierarchies and power structures entrenched in cultural norms. She is rather inclined to argue that it reinforces patterns of gender domination.

For overall political history of Bangladesh, and its social formation, the thesis has benefited from the detailed study by Kirsten Westergaard on *State and Rural Society in Bangladesh.*[10]

For critical approaches to development and development regimes I rely on work done in development studies, which takes a wider approach than the one espoused in the more technical development economics discourse. Here, I draw specifically on the work of specialists on Bangladesh. Their work provided me with historically and politically well informed backdrops to the current microcredit transformation. In particular, I acknowledge the work of Geof Wood, Allistaire McGregor and Sarah White, who have all covered extensively the various aspects of the development agenda of Bangladesh, in the context of its short history. Although their work engages with issues of the international influence on the development agenda in Bangladesh, and thus provides useful links to a study of these, they do not engage with the GPE implications of the microcredit approach.

The most wide ranging study of microcredit (in terms of case studies) to date by David Hulme and Paul Mosley,[11] is self-consciously limited to a socio-economic focus on development, and explicitly acknowledges their exclusion of the political role of microcredit in the context of, for instance, SAPs. In the conclusion of volume I, of *Finance Against Poverty*, they state the following: 'In all of this we have deliberately skirted around the question of what microfinance contributes to the broader process of economic and social development in poor countries'.[12] In this context they also raise the following question, which they do not address: "What is its place in the structure of international capital flows from North to South, and in particular in the national economic adjustment policies implemented across the entire Third World since the beginning of the 1980s?'.[13]

In contextualizing the specifics of the microcredit approach in GPE, I draw particularly on work done in the field of the neoliberal transformations of political economy. For the argument about the cogency of microcredit to disciplinary objectives and the facilitation of neoliberal expansionism, I draw on the studies of Stephen Gill as well as Claire Cutler, and other proponents of critical approaches to GPE. For the notion of microcredit's role as a crisis management strategy I rely particularly on Samir Amin's work, as well as work by Julian Saurin and James Mittelman.

For the broader implications of my findings and the way in which they are situated within and belong to a human security approach, my study has benefited significantly from the work of Caroline Thomas, particularly her recent work on human security.

In focussing on the politics of microcredit from the global to the local, my thesis thus contributes a unique perspective to the literature on microcredit. It helps fill a significant gap that exists in studies of microcredit. It is the first study to systemically and critically evaluate the GPE of microcredit and poverty reduction.

Presentation of Work-in-Progress

Over the three years of my research, I regularly presented results and arguments from my thesis at national and international conferences. These included the British International Studies Association's (BISA) annual conferences, the International Studies Association's (ISA) global and regional events, as well as at a number of smaller and more focussed fora. In addition to the lively debates and the high level of interest created in the context of these presentations, these events have benefited the development of my thesis. I have also attended the Development Studies Association events. Participation in these wide fora enabled me to refine my thesis in the light of the exposure to the current debates both in International Relations and Development Studies.

Generally, my research has helped me build up a global network with academics across the disciplines of the social sciences as well as across working groups of the BISA and ISA. It has also enabled me to develop networks with individuals and representatives of NGOs and international institutions.

The Structure of the Thesis

The thesis is comprised of seven chapters. Each of these is outlined here briefly, to give the reader an overview of the study which will aid a full reading.

The objective of chapter 1 is to provide a backdrop against which the dual purpose of microcredit is evaluated (see dual purpose of microcredit, above). The core argument of the thesis is introduced, and the groundwork is laid for the argument of chapter two, which locates microcredit in GPE.

Chapter 1 begins by defining and explaining microcredit and microfinance. The chapter then uses an inductive approach by introducing the issue of microcredit and its role in poverty alleviation and development through the event which first brought it to global prominence: the Microcredit Summit. Policy implications of microfinance are discussed, as well as its implications for NGOs. The gendered presentation of microcredit is also critically evaluated. The core argument of the thesis is then set against this background. A case is made for the role of microcredit as a catalyst for financial liberalization and also its appropriation as a political safety net in the context of SAPs. This argument is then briefly shown in its relevance to the location of microcredit in GPE, which follows in chapter 2.

The objective of chapter 2 is to demonstrate the way in which microcredit is embedded as a crisis management strategy within the global advancement and consolidation of neoliberal politics. Crucial here, is demonstrating its historical legacy in the trade in services agenda which emerged in the 1970s in response to the capacity crisis of advanced capitalist states. Microcredit is shown to be an extension of particularly the financial services aspect of this trade in services agenda. This historical legacy is shown to underpin the advancement of microcredit. Microcredit is demonstrated to be a cogent extension of this agenda according to a logic of managing the crisis ensuing from the contradictions of capitalist development. The chapter demonstrates how the convergence of the contemporary development regime with the aforementioned crisis management strategies enable the extension of microcredit to the grassroots in the form a poverty reduction and development approach. Development pursued merely *as* an adjunct to managing the crisis of capitalism is shown to engender resistance from those disenfranchised. An appropriate global governance framework is shown to have emerged in response to development *as* crisis management. Thus, the appropriateness of the dual potential of microcredit as a facilitator of neoliberal expansionism, and as a disciplining tool, is demonstrated. This provides the background to the discussion of the appropriation of the microcredit agenda at the level of the IFIs, particularly in the World Bank and the IMF, which follows in chapter 3.

Chapter 2 begins with an introduction to the crisis of capacity of the 1970s and its policy implications. It draws attention to the historical legacy of the advancement of the trade in services agenda which emerged in response to the capacity crisis. Of the trade in services agenda, the trade in financial services is shown to emerge as a crucial policy objective. The trade in microfinance at the grassroots is shown to be an extension of this agenda.

How this agenda is facilitated to the grassroots through a development regime is elucidated by demonstrating the way in which a particular global governance framework conducive to crisis management in the above sense emerges. The chapter demonstrates how the development regime is unified with the global governance framework. Having illustrated that the development regime is advanced *instrumentally* in the latest attempts to consolidate the crisis management strategies adopted in the 1970s, connections are drawn between the inability of the development regime to deliver on its promises and the resistance politics encountered as a consequence. The role of the dual purpose of microcredit in this context is illustrated: both its potential to discipline as well as advance the agenda underpinning crisis management. The institutional extension of this agenda, especially through the IFIs is addressed, thus setting the scene for the arguments of chapter 3.

The objective of chapter 3 is to substantiate one aspect of the dual purposes of microcredit, namely, its function as a political safety-net. The chapter illustrates how microcredit, given its strategic role in the GPE, (chapter 2) came to be extended to the grassroots as a poverty reduction strategy through the World Bank and also the IMF. The institutional realization of microcredit in accordance with the arguments developed in chapter 2 are elucidated. The roles of both the World Bank and IMF in the *transnationalization* of the systemic risks are discussed in detail. A particular focus is on the demonstration of how the dual potential of microcredit came to be recognized and then appropriated in the context of SAPs. The Bolivian Emergency Social Fund, of which microcredit constituted a crucial component, is discussed in detail, given that it came to serve as a model for appropriation in the context of SAPs in other countries.

Chapter 3 begins by demonstrating the crucial role that both the IMF and World Bank have played in the *transnationalization* of systemic risk. The political motives for both these institutions to engage with issues of poverty and distributive justice are elucidated initially in the context of mandates that suggest otherwise. The development role of both these institutions and the tools employed to discipline and govern in the context of the *transnationalization* of systemic risk are discussed. The mandates of both the IMF and World Bank are discussed, together with their respective 'disciplinary tools'. These are reflected, for instance, in the evolution of the policy of conditionality in the IMF and the World Bank's move from lending for specific projects to overall development programs. The evolution of the IDA is discussed as a key extension arm of the World Bank in the pursuit of strategic objectives. Effectively, the argument traces the 'ups' and 'downs' of poverty in World Bank and IMF policy against the background of the political currents and political imperatives established in chapter 2. It engages specifically with the re-emergence of poverty from the 1980s onwards, and traces that agenda to its current institutional status. Responses to poverty through a Social Funds approach are identified and discussed in relation to the politics of Social Funds. Subsequently, the latest IMF-World Bank initiatives for poverty reduction are scrutinized and contrasted as public transcripts with the reality of the politics of Social Funds. The strategic appropriation of microfinance in the context of a Social Funds approach is then shown to be the logical extension of the instrumental role played by both the IMF and the World Bank, in the broader global crisis management agenda.

The financial services aspect of this agenda is shown to converge through the World Bank and the IMF in their concerted effort to consolidate financial liberalization through Social Funds initiatives. This sets the scene for chapter 4, which engages in detail with the role of microfinance in financial liberalization and financial globalization.

The objective of chapter 4 is to substantiate the other aspect of the dual purpose of microcredit. It illustrates in detail the way in which microcredit is conducive to financial sector liberalization. It demonstrates how this potential has been researched, recognized and institutionally incorporated by the World Bank. The role of the CGAP and its efforts in promoting microfinance globally in connection with the required financial sector adaptations is scrutinized. The arguments in this chapter link back to the politics of Social Funds discussed in chapter 3, and provides further evidence of convergence of Social Funds with the financial services agenda. At this point, the dual purpose of microcredit is shown to converge in the Social Funds agenda

Chapter 4 begins by introducing the CGAP. The CGAP is shown to be an agent of financial sector liberalization with direct grassroots influence. This is demonstrated through an engagement with policy documents, which illustrate the institutional up-link that structures and coordinates microfinance at the local leve; to the global financial sector. The CGAP is then discussed in relation to its policy coordination with the World Bank. This is followed by a demonstration of policy convergence between the World Bank's financial sector policy with the prerogatives of microcredit and microfinance. Financial sector policy coordination is in turn shown to link up with the IMF's objectives of financial sector liberalization. The IMF –World Bank collaboration is evaluated as the global institutional framework setting for financial liberalization in the context of a poverty reduction agenda. The CGAP operations of phase II are discussed as they advance the global financial liberalization agenda. Finally the CGAP financial liberalization agenda through microfinance is brought together with the social funds agenda of the World Bank. The strategic embedding of microfinance and poverty reduction is elucidated and contrasted with its public transcripts. This concludes the substantive section on the microcredit implications of global governance, which it is argued can now be read against its normative claims of poverty reduction and development at the local level. The Grameen Bank has been crucial to legitimating the CGAP and its microfinance initiatives. The next chapter engages with the rhetoric and realities of Grameen impact.

The objective of chapter 5 is to critically engage with the public transcripts of Grameen social impact. In so doing the aim is to explore and elucidate the adverse social and political implications entailed in the Grameen approach and its global replications in the form of microfinance minimalism. The Grameen Bank is discussed with an eye to exposing the hidden transcripts of its institutional success. The objective is not only to elucidate the limits of the Grameen approach but moreover to demonstrates its logic as a mainstream – top down – approach: grassroots capitalism. Chapter 5 begins by providing an introduction to Grameen. This is followed by a critical engagement with specific issues, such as who takes the Grameen credit and who actually uses it, as well as with its economic impact and the social implications entailed in attaining financial sustainability. A critique is provided of Grameen ideology and practice. The limits of the Grameen approach as a poverty reduction strategy are discussed in the context of its political (ideological) implications. This politico-ideological role of Grameen is further demonstrated in the wider context of Bangladeshi politics in chapter 6.

The objective of chapter 6 is to provide a case study that substantiates the argument that microcredit is facilitating financial liberalization and that it simultaneously functions as a political safety net (its dual purpose). The chapter also demonstrates the dynamics of support for microcredit minimalism from the international donor community, as well as of the interests of key global players in the domestic affairs of

Bangladesh. The chapter draws attention in detail to the ideological and political implications of the Grameen Bank for development processes in Bangladesh.

Chapter 6 begins with an overview of microcredit in the social and political context of Bangladesh. This is evaluated with reference to the dynamics of rural social formation and the role of rural politics in wider domestic politics. This in turn is discussed in relation to external political influences. The Grameen ideology and approach are evaluated for the avowed counter-culture approach. The counter-cultural approach is shown to appeal to the donor community in terms of its potential to steer society in a pre-determined direction. In this sense, it is shown that the Grameen approach at the local replicates aspects of disciplinary neoliberalism at the global level. This is substantiated through an engagement with the motives of a World Bank poverty alleviation microfinance project for Bangladesh. A critique of the politics of development in Bangladesh concludes this chapter, emphasizing the important role which Bangladesh plays as a test-case for development.

The objective of chapter 7 is to summarize the criticisms adavanced in chapters one to six. The limits of microfinance minimalism and the social and political risks entailed in its global implementation within a unified framework of governance for development is drawn out. The chapter demonstrates the role of microfinance in the circulation of capital: it projects economic growth through the reproduction of capital rather than enabling production with the help of capital. This chapter argues that as a legacy of the trade in services agenda, a response to the capacity crisis of the 1970s, microcredit relies exactly on the condition it claims to transcend: poverty. The thesis concludes by linking these findings to arguments made already by Karl Polanyi.

Chapter 7 begins by referring back to the public and hidden transcripts of microcredit and sums up their implications, as argued in the preceding chapters. The microfinance component of the HIPC initiative is discussed to explicate the degree of the implications of the hidden transcripts. Given its similarity to the HIPC initiative, the impact of the Bolivian experiment (ESF) is revisited to assess its poverty impact. A brief overview of the global mapping of microfinance extends the argument to its role in the circulation of capital. The final conclusions of the thesis are drawn out. Avenues for some potential future research are highlighted.

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[1] James Scott, *Domination and the Arts of Resistance – Hidden Transcripts*, (New Haven and London: Yale University Press, 1990) p.2

[2] Scott, *Domination and the Arts of Resistance*, p.4

[3] Scott, *Domination and the Arts of Resistance*, p.4

[4] James Scott, *Weapons of the Weak – Everyday Forms of Peasant Resistance*, (New Haven and London: Yale University Press, 1985) p. 330

[5] Scott, *Weapons of the Weak*, p. 331

[6] Scott, *Domination and the Arts of Resistance*, p. 11

[7] Scott, *Domination and the Arts of Resistance*, p. 27

[8] For the Ohio School prescriptions see Dale Adams and J.D. von Pischke, *Undermining Rural Development with Cheap Credit*, (Boulder, Colorado: Westview Press, 1992), J.D.Von Pischke, *Finance at the Frontier – Debt Capacity and the Role of Credit in the Private Economy*, (Washington

DC: World Bank, 1991), J.D.Von Pischke, Dale W. Adams and Gordon Donald, *Rural Financial Markets in Developing Countries*, (Washington DC: The World Bank, 1983)

[9] For an astute critique of the Ohio School approach see J. Allister McGregor, 'Towards a Better Understanding of Credit in Rural Development. The Case of Bangladesh: The Patron State', in *Journal of International Development*, Vol. 1, No. 4, (1989), pp. 467-486

[10] Kirsten Westergaard, *State and Rural Society in Bangladesh*, (London and Malmo: Curzon Press Ltd, 1985)

[11] See David Hulme and Paul Mosley, *Finance Against Poverty – Volumes 1 and 2*, (London: Routledge, 1996)

[12] Hulme and Mosley, *Finance Against Poverty – Volume 1*, p. 202

[13] Hulme and Mosley, *Finance Against Poverty – Volume 1*, p. 202

CHAPTER 1.

MICROCREDIT, MICROFINANCE, AND POVERTY REDUCTION: INTRODUCTION

This chapter presents an overview of the nature, reach and the political ramifications of the global microcredit agenda. It focuses on the public transcripts of microcredit and how these have come to frame and change perceptions of poverty and development. It explores the ways in which this has affected the relationships between the agencies involved in reproducing the global development agenda form the global to the local levels. A presentation and discussion of the Microcredit Summit provides the point of departure for reconstructing the far reaching impact which the microcredit agenda has had on the global politics of development. A brief outline of the exemplary way in which the public transcripts of microcredit were advanced there on a global scale, leads to an appreciation of its political reach in the context of the GPE. This will be contrasted in the closing sections with the hidden transcripts of the microcredit agenda.

The chapter is organized in four sections: Section one, introduces key elements of the public transcripts of the microcredit agenda. Microcredit and microfinance are explained. This entails critical engagement with justifications for microcredit and their policy implications. Section two focuses on the Microcredit Summit and its policy implications. Section three, introduces core aspects of the hidden transcripts of the microcredit agenda (dual purpose). Section four, concludes by drawing attention to the strategic embedding of microcredit in GPE. This sets the scene for the arguments of chapter 2.

The 'Public Transcripts' of Microcredit and Poverty Reduction

> Microcredit is a powerful tool in the eradication of poverty. It particularly *empowers* poor destitute women on the margins of society. The Grameen Bank in Bangladesh is a 'real and existing' example of the potential of microcredit to deliver these socially desirable objectives. The Grameen model is replicable on a global scale – in Latin America, Africa, Asia and Eastern Europe. Microcredit is a grassroots oriented , self-help approach – it is the road to self-reliance.[1]

In order to reach a wider global public on the virtues of microcredit and poverty reduction, a global Microcredit Summit was organized in February 1997 in Washington DC. The Summit inaugurated a global microcredit campaign which committed to an 'action plan' to target 100 million poor families with microcredit by the year 2005. This 'action plan' contained a special pledge to reach 'especially the women of those families, with credit for self-employment and other financial services by the year 2005'.[2]

Microcredit as a tool for global poverty reduction has political backing and support at the highest level.[3] Following the efforts of the Microcredit Summit in February, in June 1997 the Group of Seven (G7) made the following statement at their annual Summit in Denver.

> (..) we welcome an increased focus on microenterprise development strategies in developing countries to broaden participation, and underline the importance

of best practices in microfinance through bilateral and multilateral assistance.[4]

Policy makers at all levels, particularly those of the G7, have committed their support to the targets set by the Microcredit Summit. Many have set their own 'action plans' to achieve these goals. The overall policy response to – as well as the political perceptions of – microcredit in poverty reduction efforts are well captured in the following statement on behalf of the UK government.

> The UK government is committed to working with others to meet the internationally agreed targets for poverty reduction. These targets are both achievable and *affordable*. However, we need the political will to deliver them, and we need the right policies and instruments in place to bring real benefits to the poor.
>
> *Microfinance – financial services for the poor- is one of these instruments.* (...) Most of our support [for microfinance] has gone through non-governmental organizations, which are particularly well positioned to reach a large number of the poor people. This is achieved by bridging the often wide gap between the formal financial sector and the informal or indigenous systems which exist in many countries. (....)Microfinance will continue to play an important role in meeting the challenges of eliminating poverty.

Claire Short, MP, Secretary of State for International Development (DFID), UK.

January 2000 [5]

The global Microcredit Summit was followed by the first Regional Microcredit Summit Meeting of Councils in Africa in July 2000. The Africa Region Microcredit Summit (ARMS) proposed to commit itself to reach 50 million of the poorest families with microcredit by 2005 as the region's contribution the global target. A resolution has been adopted by the United Nations (UN) to declare the year 2005 as the Year of Microcredit in anticipation of the celebration of reaching the global targets.[6]

Explaining microcredit and microfinance

Microcredit is the provision of usually small sums of monies on credit, directly to individuals at the local level, for investment in income-generating activities. The global microcredit approach to poverty reduction relies on the provision of *credit only* (that is, without associated training or skills advancement). The approach has therefore come to be termed as microcredit *minimalism.* Microcredit is innovative in its approach, in the sense that credit is provided to the poor in the absence of conventional forms of collateral (e.g., in the absence of assets of financial value to secure against credit provided). Instead, social collateral or group (mutual) guarantee mechanisms are generally employed as a substitute for conventional forms of collateral. Policy recommendations have been made however, to establish relevant collateral laws for microcredit where appropriate. This would allow for the appropriation of 'movable' property in lieu of monies outstanding.[7] In some instances, microcredit may also be provided to individuals in the absence of group guarantee mechanisms. In such cases, conventional methods of assessing loan security may apply. The microcredit approach to poverty reduction differs significantly to other approaches to poverty reduction in that microcredit minimalism is embedded in a commercial framework. Microcredit interest rates typically range from between 20-45 per cent.

Microfinance entails a range of financial services at the grass-roots in addition to microcredit, such as the taking of deposits (provision of a savings option), money transfers and generally any other finance oriented service. The microfinance approach to poverty reduction thus includes in its scope an extended set of financial service options and provisions to that of microcredit.[8] The CGAP defines microfinance as: '(..) the provision of credit, savings, and financial services to very poor people'.[9] The CGAP justifies microfinance on the basis that '[p]roviding these services to very poor households creates opportunities for the poor to create, own, and accumulate assets and to smooth consumption'.[10]

In terms of its geographic orientation, the global microcredit and microfinance agenda is applied predominantly in Southern states, and also in countries whose economies are said to be 'in transition' (that is those countries moving from socialist forms of economies to market oriented systems, e.g., Eastern European States). There are attempts to apply microcredit in advanced capitalist states.[11] However, this study will show that the approach pursued in those advanced capitalist countries differs starkly in terms of both extent of application and policy objectives, to the one pursued elsewhere. It is the latter approach which is the main concern of this thesis. For the purposes of this study the 'global microcredit agenda' refers to the agenda pursued in the South and the economies in transition. It assumes any microfinance dimensions. Therefore it will also be referred to simply as 'microcredit', the 'microcredit approach' or 'microcredit minimalism'.

Why microcredit?

A fundamental assumption underpinning microcredit is that people *are poor* foremostly because they lack the necessary capital, in this case money, to fruitfully engage in market mechanisms and better their conditions. The problem of their lack of *money* is proposed to be solved by the provision of money via *credit* at the local level. Thus, its proponents emphasize the fact that *The New World of Microenterprise Finance* has the potential 'to do in finance what the green revolution has done in agriculture – provide *access* on a massive scale to the poor'.[12] From such an approach, the argument frames the issue of poverty as the lack of *access* to (micro)credit at the grassroots. Lack of *access* to microcredit is perceived to be both a key factor in undermining the economic development of the poor, and also a key contribution to the regression in their livelihood conditions.

Advocates of microcredit regard other approaches to poverty reduction, such as state directed public development schemes, as inadequate in that they do not meaningfully 'break the chains' of poverty or enhance the opportunities for the poor to develop economically. In this context, they argue that microcredit is an effective and unambiguously positive intervention into conditions of poverty. The credit input is envisaged to result in investments which will generate profits, thus enabling an increase of capital accumulation and asset creation. Typically, however, poverty reduction through microcredit is not envisaged to be achieved by a one off credit intervention, but rather through several credit cycles. Therefore, new and bigger investments should ideally follow each profit cycle, for which new credit interventions will always be needed. The envisaged outcome - 'credit, investment, profits, more credit, more investments, bigger profits' is the normative justification for microcredit: it is seen to result in the transformation of the conditions of the poor from a 'vicious circle' to a 'virtuous cycle'. Thus, the fundamental assumption about the cause of poverty - conceived as the lack of *access* to credit - together with the envisaged *potential* virtuous outcomes of microcredit, serve as the normative basis for the microcredit intervention as a targeted strategy for poverty reduction. Based on this reasoning, it has been argued that credit ought to be guaranteed for life to all persons, and even be declared as a *Fundamental Human Right.*[13]

The Microcredit Summit, Washington, DC, February 1997

One of the main objectives of the Microcredit Summit was to draw global attention to the potential of microcredit to lift millions of poor families, and particularly the women of those families, from conditions of poverty and economic insecurity. The Summit brought together an array of global actors. Perhaps it was one of the most unique Summits of the time in that it saw key representatives of global financial markets, large global corporations, Development Finance Institutions, Multilateral and Bilateral Development Agencies, UN Agencies, Credit Unions and NGOs, united in their support for microcredit as a key tool in the eradication of global poverty. A key outcome of the Summit, as stated above, was the inauguration of an action plan to reach 100 million poor families across the globe with microcredit by the year 2005.[14]

The main organizers of the Summit were the RESULTS Educational Fund (RESULTS), an NGO. Among the members of the organising committee were Ismail Serageldin, Vice President of the World Bank and Muhammad Yunus, founder and Managing Director of the Grameen Bank in Bangladesh. The Summit was sponsored by Monsanto, MasterCard International and Citicorp Foundation among others. Global financial corporations and IFIs, namely the World Bank and Regional Development Banks, were among the main contributors of the funds for the Summit. Global multilateral and bilateral development agencies, which include the various UN agencies were key funders of the participants of grassroots microcredit practitioners from developing nations.[15] Hilary Rodham Clinton and Queen Sofia of Spain were among the Summits Honorary Co-Chairs and among its keynote speakers, who included Robert Rubin, then Secretary of the United States (US) Treasury, and James Wolfenson, President of the World Bank. The summit's agenda was publicly endorsed and supported through declarations made by various global actors and institutions. Among these declarations, the 'Joint Declaration of the Councils of International Financial Institutions and Donor Agencies' stood out as an important agenda setting pledge.[16]

The Microcredit Summit sent important and clear signals from the managers of global capital - especially finance capital - to the global community, particularly to governments of developing states and to NGOs active in development processes: new global norms were to inform approaches to poverty reduction. The advent of this 'new' poverty reduction strategy entails profound implications for the governments of the Third World, as well as for the numerous NGOs involved in development processes.

The political transformations which have followed policy directives aimed at facilitating the microcredit agenda are outlined briefly in the following sections. The ensuing implications for various actors (e.g., governments, NGOs) are discussed. This is followed by a critique of the normative assumptions about microcredit and poverty reduction which underpinned the Summit's discourses on development: for instance, the specific references made to the role of microcredit in the *empowerment* of women. The Summit's coverage of the Grameen Bank and its success in achieving a comprehensive reduction in poverty and the *empowerment* of poor women through microcredit is also critically addressed.

Microcredit Summit implications for governments: Restructuring the public sector for the private sector

The Summit spelled out the new *targeted - private sector approach* to global poverty reduction. Policy on the scope and nature of government interventions into poverty reduction and development efforts was explicitly redrawn in a twofold manner. Firstly, henceforth, poverty reduction efforts and grassroots development were to be achieved directly by individuals through their own private *entrepreneurial* initiatives. Their existing skills and survival strategies would suffice in terms of the required business or entrepreneurial knowledge to ensure successful returns on investments. The only required capital input they lacked, money, would be brought to them via credit. In keeping with the private sector approach the cost of the credit would be determined by the market.

Secondly, it was made explicit that subsidies, including subsidized credit for development (e.g., rural agricultural development) would no longer be acceptable to the international donor community and managers of global finance capital. Integrated forms of planned development, in rural areas for instance, or development models more broadly embedded within a public sector - 'public goods' oriented development approach (e.g., public sector initiatives based on wage employment) were no longer to be viable options for donor dependent governments. Poverty reduction efforts were defined primarily in terms of individual microfinance based self-help initiatives at the grassroots.

The foremost role for governments in the poverty reduction process is to support these self-help initiatives through the removal of all constraints to the *access* of microcredit and microfinance at the local level. If all constraints to *access* by the poor are to be removed (e.g., by group guarantee mechanisms as a substitute for conventional forms of collateral), perceived constraints to the *provision* of microcredit and microfinance were also to be removed (e.g., ceilings on interest rates, as well as financial sector liberalization: here the focus is on removing constraints to *supply*). In other words, the role of governments in poverty reduction efforts was confined to *facilitating* the conditions at all levels for microfinance minimalism. This policy stance, as stated above, was further reiterated and given political backing at the highest level.

Following the G7 statement on microfinance in Denver at their 1997 Summit (referred to earlier), the need for an overall 'enabling policy environment' was further endorsed in their final Communiqué, as a statement by the G8, thus including Russia. Interestingly, the G8 statement spoke in terms of support for small and medium sized enterprises for self-employment rather than in terms of 'microcredit for income generation' and 'consumption smoothing', although the overall policy called for is the same (liberalization).

> The contributions of small and medium – sized enterprises to employment and economic dynamism in our societies are widely recognized. Fostering a business setting conducive to the growth of dynamic young enterprises is a key to job creation. (..) we surveyed the obstacles to such growth, including the *unavailability of debt* or equity capital at critical stages of a firms growth, unnecessary regulation, difficulties adopting existing *innovative technologies,* and the problems of smaller businesses entering global markets. We stress the need to *remove these obstacles.*[17]

Arguments for making *liberalization* a pre-requisite for 'development' and more specifically for poverty reduction have been considerably enhanced since 1997. This is particularly evident in the Report on Poverty Reduction by Multilateral Development Banks (MDBs) and the International Monetary Fund (IMF) presented to the G8 meeting in Okinawa, in July 2000.[18] The report maps out conditions of poverty in Africa, Asia and the Pacific regions, Latin America and the Caribbean, Central and Eastern Europe, and the Baltic States. Poverty reduction policies for each region are defined within a *liberalization* framework that specifies the need to create enabling environments for private sector development (with an emphasis on self-employment and income generation). The sensitivity of these policy prescriptions for microcredit and poverty reduction are explicit for some regions and implicit for others. A brief quote from the report with reference to each region follows.

Africa

It is also generally acknowledged that governments need to provide an environment that enables the private sector to realize its full potential for *creating employment and income generating opportunities for the poor.* African governments recognize the existence of gender-based inequities in access to productive assets such as land, *credit,* extension and social services, but strategies and commitment to overcome them need to be more strongly enforced to unleash the potential of women to contribute to economic growth, enhance social equity and reduce poverty [19]

Asia and Pacific

Economic growth, essential for reducing poverty in the Asia and Pacific region, needs to be broad based and labor absorbing, providing jobs for and economic opportunities for self-employment ….(…) A supportive policy framework needs to be complemented by investments in human, physical and financial capital, particularly of the poor, to aid their integration into the main stream of social and economic development.[20]

Latin America and the Caribbean

> Promote the creation of and development of markets. (....) increasing the linkages between the rural economy and the industrial sector through support to microenterprises, ..(...) Correcting market failures in order to deepen credit and loosen labor markets is also desirable;[21]

Central and Eastern Europe and the Baltic States and the CIS

> (..) of fundamental importance will be the creation of new private sector jobs. However, weak investment climates in many countries, including ..(..) lack of access to infrastructure and financial services and weak protection of property rights, are major obstacles to private sector development.[22]

The overall arguments for making *liberalization* a prerequisite for poverty reduction are premised on neoliberal politics of economic growth and its normative assumptions of the ensuing better life.[23] This logic, that is private sector based, commercial orientation, is explicitly reflected in the key criteria adopted as the measurement of the success of microcredit and microfinance in poverty reduction, namely *financial viability and institutional sustainability*.[24] Thus, the G7 and G8 statements endorse officially what was relayed through the Microcredit Summit.

The Microcredit Summit placed great emphasis on the fact that the focus of the microcredit strategy should be on attaining financial viability and institutional sustainability (that is, of the microfinance institutions engaging in 'poverty lending'). An underlying assumption in employing these two benchmarks as the criteria of success is that the attainment of institutional sustainability would reflect that borrowers are paying back their micro-loans, and that *therefore,* their microenterprises can be regarded as successful. From such reasoning follows the conclusion that maintaining strict rules on institutional sustainability also enables the microfinance institutions themselves to grow and expand, which would in turn allow for a greater opportunity to reach more clients (outreach) and thereby keep the 'virtuous' circle spinning.

Financial viability and institutional sustainability can be achieved broadly by two strategies: an interest rate that recovers cost and allows for a profit margin, and/or the expansion of *outreach* that is, reaching as many persons as possible with microcredit. The overall strategy pursued by the microcredit approach is a combination of both *outreach and appropriate interest rates.*[25] From the interest rate perspective, its is argued that the rate must be set at a level that reflects the optimal market price. In most instances, in addition to the direct interest charge there is also an add on service charge(s) to the credit provided, which is deemed necessary in order to cover all costs and secure a worthwhile profit margin.[26] The cost of making available *access* to credit to poor people is said to be very high, given the added cost of 'bringing the money to them', particularly in the case of reaching rural communities. The rationale for high interest rates (between 20 per cent to 45 per cent) is thus argued to be based on high service costs and on the imperative to attain financial viability and institutional sustainability. As the interest rate should therefore reflect the optimal local market price, government intervention in the setting of ceilings on interest rates is said to reflect bad economics and has thus been written-out of global financial sector policy; it is not regarded as a viable option for poverty reduction and development efforts. The global 'best-practice' on microcredit thus favors strategies that seek to attain the highest possible returns on poverty-lending, for which, governments for their part, must ensure that conducive enabling environments prevail. In other words, governments must provide the political structures to uphold and ensure a market-determined financial services sector.

Discourse politics: need as demand

Microcredit 'best-practice' and the respective policy responses as outlined above are further legitimated through discourses of supply and demand. The urgent *need* for *entitlements* to resources by many is presented in terms of economic logic, as there being a *demand* for *credit* at the grassroots.[27] On such a reading, it has now become common parlance for makers of global social policy to refer to their policy responses to poverty as 'demand-driven' strategies in response to the *needs* of the poor. In this context, the *Global Poverty Report* (cited earlier), has stated that poverty reduction initiatives should 'contribute to expanding access for the poor to social and physical infrastructure, and provide them with *consumption smoothing mechanisms*'.[28] Microcredit thus functions as a consumption smoothing mechanism. In other words, it sustains entitlements to resources in the absence of other 'income'. In effect what happens here is the construction of need in terms of demand. Demand satisfaction is then framed as an issue of access, in response to which microfinancial services are offered.

Thus, while for the policy makers the provision of microcredit for 'consumption smoothing' meets the *demands* and imperatives of the *supply* side, for the poor, microcredit for 'consumption smoothing' means meeting their daily basic survival needs through *debt* . This is the other story - the hidden transcripts - behind the presentation of microcredit at the grassroots as a demand-driven poverty reduction strategy. The ambiguities associated with the notion of a demand-driven approach have also significantly helped to legitimize the charge of the highest possible market-based interest rates. In some cases it is even made conditional that NGOs and/or Microfinance Institutions (MFIs) do *not* lend to the poor at a rate below that of given domestic commercial rates.[29]

In sum, in keeping with this new development orthodoxy, governments for their part are expected to withdraw from the provision of subsidies, in terms of both subsidized credit and development assistance. They are also required to carry out the necessary legislative re-regulation at the macro or national level to ensure that the enabling environment for microcredit and microfinance prevails. This usually entails carrying out a broad based liberalization program which is regarded as conducive to broad based entrepreneurial growth. In this context, liberalization of the financial sector is particularly targeted, because the liberalization of this sector is argued to be directly relevant for the success of the 'commercialization' of the microfinance industry. Overall, the strategies to attain these objectives on a global scale have been set in motion both at policy level and in practice.

Microcredit Summit implications for NGOs

The Summit welcomed NGOs as a well suited source for delivering microcredit. As many were grassroots practitioners already, they were perceived to be appropriately positioned to provide the link between the 'global' and the 'local'. Crucially, it was the donor community who defined the global poverty reduction agenda in terms of microcredit minimalism. Having set the rules, the donor community attempted to bring NGO operations into line with the global microcredit agenda. One strategy pursued in an attempt to consolidate NGO-donor objectives was to create global recognition for the virtues of microcredit minimalism.

Thus, a key aspect of the Microcredit Summit was to normatively legitimize microcredit minimalism: the achievements of MFIs, particularly those employing minimalism on a commercial basis, were applauded for their contributions to poverty reduction. As one such example, the Summit drew special attention to the Grameen Bank in Bangladesh.[30] In so doing, it implicitly endorsed the transformation of NGOs from 'non-profit social service providers' to 'for-profit' MFIs.[31] Those NGOs who wished to ensure their own institutional sustainability were disciplined through the Summits agenda by the setting of clear operational rules along distinctively classical *laissez faire* norms. The choice NGOs had to make were made clear at the Summit, bringing into stark relief the political limits of looking to NGOs to cushion human insecurities in contexts of market failure and the diminishing of state capacity in the provision of public goods (which can be argued to have been brought about through policy design in a climate of neoliberal politics).[32]

These tendencies and developments go against the more conventional conceptions held in the public about development NGOs. The role of NGOs as actors in global society has been emphasized in terms of their independence and criticality, reflecting a bias towards prioritizing the social dimension (e.g., issues of distributive and social justice) rather than the institutional prerogatives of political economy. NGOs have generally been regarded as the voice of 'civil society' advocating greater social equity. However, it would be misguided to conceive of NGO activity and perspectives as in any sense unified with regards to a general approach, method or outlook on the predicaments of development, or on ways of delivering public goods. For example, RESULTS (Microcredit Summit Organizers) is an advocacy NGO promoting approaches to poverty reduction very much along the norms of *laissez faire*. While this may reflect an exception rather than the rule, nevertheless, over recent years the limits to expecting *alternatives* to the global neoliberal agenda from NGOs has become evident. An explanation for the growing impasse between NGO activities and social change as directed *against* economic orthodoxy has been provided by what has been referred to as the *reverse agenda*.

> This is the process whereby the approach and methods of the NGOs are now influencing the activities and perceptions of donors and official aid programmes, in some cases as a direct result of donors seeking out NGOs. (..) A direct effect of the growing influence of the reverse agenda has been to increase the common ground between donors and NGOs. No longer is it easy to talk of distinct differences between NGO and donor approaches to development.[33]

One explanation for the *reverse agenda* may lie with the fact that the importance of donor funds to NGO income has been steadily increasing, particularly since the 'shift of official funding towards NGOs accelerated in the 1980s'.[34] The implications for NGOs relying on donor funding has meant that many have 'been co-opted to assist official aid agencies execute donors own projects and programmes'.[35] NGOs, having become dependent on donor funds, have increasingly come down on the weaker side of the bargaining position. This has limited the leeway of NGOs, particularly those wishing to pursue *alternatives.* The latest signal sent to the NGO community through the Microcredit Summit has been to push the point that future donor funding would be subject to compliance with strict performance criteria as set by the donors. These are premised on the prioritizing of financial growth and institutional sustainability under a financially steered poverty reduction framework *over* issues of social equity. In general, the NGO community has endorsed and accepted the Summit objectives and goals, but not always uncritically, as reflected in the statement made at the Summit by the Council of NGOs.

> As far as the future is concerned - the follow-up of the summit- it is clear that everybody, including NGOs, is in favor of seeing the accomplishment of the objectives of microcredit. (....) many visions, as we know, turned into their opposites because the institutional mechanism was privileged over the objective - the poor...We need to keep an open eye - to be careful as to what is done and will be done in the name of microcredit.[36]

However, in the follow up to the Summit it has become clear that NGOs as service providers are struggling to attain the 'two criteria of success that much of the microfinance world has adopted - outreach to the poor and financial sustainability'.[37] Recent analysis suggests that NGOs 'have thus far had trouble achieving both at once - outreach or sustainability generally suffer'. As a result, it has been observed that 'NGOs in microfinance' have not been successful in achieving any 'aggregate impact on poverty reduction'.[38] An analysis of these results by proponents of the microcredit agenda suggests that the main reason for their lack of success in reducing poverty is broadly because some NGOs refuse to fully support the global approach of microfinance *minimalism.* An explanation for this dissent is that not 'all NGOs in microfinance fully believe in financial sustainability, or even in an eventual elimination of subsidies'.[39] It is suggested that some NGOs 'may even actively resist microfinance best practice on the grounds that these may render them too businesslike and less responsive to the needs of the poorest'.[40]

Those NGOs that may resist adopting microfinance minimalism are brought into line with the global agenda through disciplining strategies, such as the setting of strict criteria and monitoring processes to ensure that microfinance best practice norms (i.e., minimalism, together with ensuring near hundred percent recovery rates) are adhered to and replicated. The monitoring of NGOs' financial records by donors has ensured that they can be comprehensively screened according to their operations for financial sustainability and outreach achievements. Moreover, those NGOs who continue to provide social services together with a microcredit component as part of their overall operational framework have been severely criticized for failing to understand and follow the new development logic of microfinance *minimalism.* In such cases, NGOs are advised to maintain strict institutional independence between the provision of microcredit and microfinance and any social services. [41] In the context of the new minimalist approach to poverty reduction, NGOs have, it is argued, often come

> face to face with painful questions about their true identity and mission. [such as] What are we here for? Are we a business or are we a charity? Can we be bankers and social workers at the same time? Are we here to do good or primarily be good at what we do? How much should we alter our mission to be perceived as with it?[42]

In this context, constraints on NGO independence are identified, and explained as arising 'because the question of legal ownership becomes important once money becomes the commodity the NGO is "trading in" .'[43] Furthermore, it has been stated that 'to the extent they [*NGOs*] *can afford it*, they are free to pursue almost any mission'.[44] While the implications of the *reverse agenda* are clearly evident here, the fact remains that this situation cannot be framed as a 'there is no alternative' for NGOs. Alternative options are always available, and the outcome depends on the choices made and will reflect the priority given to each relevant factor in the decision making process. NGO compliance with the institutional agenda has now raised serious questions not least, regarding the *Politics of Representing the Poor.*[45]

Summit framing of microcredit and the empowerment of women

The Microcredit Summit action plan as noted above, makes a special pledge to reach 'especially the women of those families, with credit for self-employment and other financial services by the year 2005'.[46] The 'women in microcredit' issue was a dominant theme throughout the Summit. It was given much exposure through narrations and visual coverage of several individual success stories as being indicative of a broader gender impact.[47] Its gender dimension was reiterated by several keynote speakers by reference to the potential of microcredit to *empower* poor women. On the other hand, it was explicitly suggested that by virtue of being a woman, one necessarily possesses certain qualities not only to be a successful entrepreneur, but also to be able overcome the 'vicious' economic circle of poverty at the grassroots. The latter perception can be captured fully by the words of John Hatch, the founder of FINCA, a microfinance institution,

> Today we have launched a movement. Our microcredit movement will someday embrace every nation of the planet. (...) It's greatest victories will not be won by soldiers but by *mothers.* (...) Today is launched a movement too powerful to fail, its power is fuelled by the *most potent energy of all – a mother's love for her children. (.....)* tens of millions of [additional] children although they have survived remain ill fed, ill educated, ill housed and in ill health - *simply because their mothers have no access to credit and therefore lack the opportunity of self-employment they require to better support their children.*[48]

The idea that microcredit *empowers* the poor, and poor women in particular has often emanated from the many public discourses on the social impact of the Grameen Bank in Bangladesh. This conventional wisdom was reinforced by Muhammad Yunus, the founder and Managing Director of the Grameen Bank . In his words, the Summit was

> to celebrate the *success of millions of determined women* who transformed their lives from extreme poverty to dignified self-sufficiency through entering into microcredit programs. This Summit is about creating opportunities for 100 million [of the worlds] poorest families to follow the *footprints left behind by these successful, brave women*[49]

Overall, the public discourses of the Grameen Bank maintain a positive representation of Grameen's achievements in terms of both institutional success and social impact. This conventional understanding constituted a key reference point for the Summit. The Grameen success story was presented not as a 'one off', but as an exemplary case of the general - *universal* - potential of microcredit and microfinance. In this sense, the Summit was also a 'celebration' of the future: a future that held much optimism for the many economically and socially subordinated women (of the South) who could now be *empowered* through microcredit, just like the many Grameen Bank women borrowers. Such women, it is argued, bear a disproportionate cost to men of global economic restructuring processes, but their future now looked brighter given the potential virtuous outcomes of microcredit and microfinance. The microfinance movement thus pledged to *empower and emancipate* these women of the South through the microcredit intervention.

The presentation of the global microcredit agenda in a gendered normative framework smacked at times of 'dogmatic fanaticism' which was aptly captured in an article titled '*Micro-finance evangelism, destitute women, and the hard selling of a new anti-poverty formula*'.[50] Importantly, however, the public discourses on the social impact of the Grameen Bank do not necessarily enlighten us as to the many and also very 'real' experiences of the Grameen members and their families whose livelihood conditions have been worsened as a result of the credit intervention (See chapter 5, on Grameen Bank).

Political implications of the Microcredit Summit: A summary

The Microcredit Summit was about signaling to the global community that microcredit was now a key dimension of global policy making for poverty reduction. Importantly it was also an attempt to legitimize the strategy *normatively*. In promoting microcredit and microfinance as a key tool in poverty reduction the Summit focussed on individual and key institutional success stories, such as the Grameen Bank in Bangladesh. This provided the proponents of microcredit with an example of a case with a strong normative appeal, and thus legitimacy to base global replications of microcredit based poverty reduction programs on the core features of the Grameen model. Through endorsing the Grameen model, which is based on the credit-only approach, the proponents of microcredit sought to legitimize not only the role of microcredit minimalism in grassroots development processes, but particularly the minimalist notion that all that is needed to eradicate poverty is making available *access* to microcredit.

The simplicity of such reasoning is apparent in the discrepancy between the theoretical assumptions and practical outcomes of microcredit at the grassroots. In policy making circles, and among practitioners, there is already an astute attention to the discrepancy between public discourses on microcredit and its actual impact on the livelihoods of the poor (see chapters 5 and 6). It has been argued that often these public discourses on the success of microcredit can be shown to be supported and sustained by some practitioners for strategic reasons, as a result of

> competition for funding and, in some cases for global influence, large microfinance institutions - like most large NGOs - have a vested interest in perpetuating their own myth: the glossy version of their success story. Several of the members of the Steering Committee of the Micro Credit Summit stand to gain reflected glory from the perpetuation of their models.[51]

These criticisms withstanding, the political implications of the Summit and the resulting policy emanating from its prescriptions are far reaching for development options and choices. While a strong case for the microcredit intervention is based on the envisaged *potential* 'virtuous' economic outcome, in practice, there is evidence to suggest that the strategy may actually be reinforcing and sustaining the 'vicious' circle of poverty at the local level.

Global Politics of Microcredit and Poverty Reduction: The 'Hidden Transcripts'

Against this background, this thesis draws attention to critical factors omitted from the public transcripts on the virtues of microcredit, yet pertinent to the livelihoods of the targeted individuals. These factors, which comprise the hidden transcripts of the microcredit agenda, raise serious questions about the salience of microcredit as an intervention into conditions of poverty and thus questions its appropriateness and legitimacy as a development policy.

Critical engagement with the implications of the implementation process of microcredit based poverty reduction programs suggests the global microcredit agenda to be strategically situated in the context of globalization. Microcredit has a strategic role in the overall context of global political restructuring processes, and a specific strategic political role in the context of SAPs.[52] Thus, this thesis engages with the strategic political embedding of microcredit in GPE, broadly, from a South-North perspective.

The political rationale for the implementation of microcredit steered poverty reduction programs in Southern states and also in economies in transition is based on the recognition of the potential of the dual purpose of microcredit to facilitate and support the present imperatives of GPE. Firstly, microcredit is an important catalyst for the liberalization of finance (and particularly the globalization of finance, that is, the expansion of the commodification of money as a product to be 'traded in'). Secondly, it is an important strategy to contain political resistance and opposition to processes of economic restructuring through the broad based liberalization of various economic sectors. Appropriated in this context, the values associated with microcredit minimalism can also be seen as an important ideological tool to legitimize the transformation from 'public' to 'private' in GPE. Implemented at the grassroots, microcredit plays an important role in the shaping of state-society relations along the liberalization norms of changing domestic policy, which in turn is being shaped to converge with policy trends at the global level (see next chapter).

Microcredit as a catalyst for financial liberalization

The argument that microcredit steered poverty reduction programs serve as an important catalyst for financial liberalization can be substantiated through an analysis of financial sector policy convergence between the global financial services objectives and the local microfinancial agenda. For instance, the global agenda for the liberalization and trade in financial services as stated in the General Agreements on Trade in Services (GATS), in the World Trade Organization [WTO], and evident in its *Services 2000 mandate*,[53] is also reflected in the adaptations of the mandate of the IMF. These objectives have in turn been extended from the IMF to the World Bank through enhanced policy coordination: the World Bank thus, through the appropriate design of development policy and poverty reduction strategies, can be seen to extend the global financial services agenda to the local level. The associated policy directives for microfinance, macro level financial liberalization and the elimination of subsidized credit and ceilings on interest rates, directly facilitate the global financial sector objectives. Moreover, the *trade* in microfinancial services at the grassroots advances the reach and expansion of the global trade in financial services agenda..

As a financially steered poverty reduction strategy microcredit is thus an important extension of the emerging global financial services oriented sector. As the microcredit approach is not grant or subsidy based, at least not at the level of the micro-loans, the approach may be perceived as a viable investment option for the managers of global finance. It may be conceived of as a market based competitive investment category with a potential for high returns. Thus, attaining financial viability and institutional sustainability in microcredit are key prerogatives also for ensuring the continuous creation of profit through the credit mechanism for those investing in this poverty reduction strategy. The potential here for microcredit to generate a virtuous outcome for the macro level credit cycle itself is an implicit part of the overall strategy (see chapter 7).

Microcredit as a political safety net: A response to resistance politics

Microcredit is strategically employed to dampen political resistance and opposition to processes of economic restructuring (e.g., through IMF and Bank supported SAPs). This argument may be substantiated through an analysis of the case of the Bolivian Emergency Social Fund (ESF). Microcredit minimalism constituted a large component of the Bolivian ESF.

The ESF was implemented in the context of Bolivia adopting an economic 'adjustment' program in 1986 which entailed both the implementation of fiscal austerity measures and the broad based liberalization of various economic sectors. In this context, the microcredit intervention ensured a continued entitlement to *basic* resources to those adversely affected by the processes of adjustment and restructuring. In targeting the poor, there was sensitivity towards targeting especially the most 'vocal' in terms of their political resistance. Thus, one of the main objectives of the Bolivian ESF was to contain social resistance to these adjustment and restructuring processes, thereby ensuring that the political agenda - the liberalization process – remained intact. The Bolivian example was the first political appropriation of microcredit to attain the strategic political objectives of containing and minimizing political resistance to adverse social costs entailed under the current norms of economic restructuring. The Bolivian ESF strategy has been and is being replicated under the World Banks rubric of Social Funds in numerous other countries which for various reasons have come to adopt similar SAPs.[54] (see chapters 2 and 3)

These strategic political implications of the global microcredit agenda have to date been omitted from the public discourses on microcredit and poverty reduction. Arguably employed instrumentally, the publicly sustained normative discourse offers moral and *political* legitimization upon which its strategic agenda may be realized. The normative discourse *itself* is thus a crucial part of the global strategy to sustain and enhance the opportunities for implementing the microcredit agenda. In this sense, it has also been crucial to legitimizing the latest debt-restructuring initiative in which microcredit is critically embedded. Through the enhanced HIPC initiative, a window of opportunity has been created for the implementation and expansion of microcredit and microfinance steered programs (see chapter 7). By extension, it has also thus furthered the objectives of the global financial sector agenda.

Global Governance and Grassroots Poverty Reduction

The virtues of microcredit have been largely sustained by a broad appeal to the association of the strategy with normative prescriptions that emerged from the critiques of conventional global development and poverty reduction efforts. Microcredit has been portrayed as a progressive *alternative* to neoliberal development - a stand-alone development experiment - based on 'local' knowledge and a popular participatory approach. In addition, its merits have been said to lie with its *empowerment* of women and in its self-help orientation at the grassroots.

In practice, however, the microcredit approach to poverty reduction at the grassroots, mirrors the neoliberal norms at the global level and emulates the logic of profit maximization and economic rationalization. Given that the global microcredit agenda is aimed at the poorest sections of the population in a given society, often stated as the bottom fifty percent of those living below the poverty line,[55] both, the direct and the knock on effects of the strategy on those in whose name it is perpetuated leave much to be desired. In fact, the adverse poverty impact of microcredit is evident: the findings of a study on the poverty impact of microcredit by the Sustainable Banking Initiative of the World Bank 'concluded [that] "...the underlying assumption that any poor household can be raised above the poverty line by providing a loan for an income generating asset, has not been found sustainable in practice"'.[56] This, and many other critical impact assessment findings have not however moderated the microcredit agenda. An explanation for this, may lie in the fact that microcredit - although publicly employed as a poverty reduction tool at grassroots - is *actually* appropriated because of its conduciveness to extending and realizing the neoliberal ideology from the global level to the local (e.g., its dual purpose).

Thus, to fully appreciate its implementation in the context of GPE it is instructive firstly, to turn to an analysis of the role of development policy and issues of poverty reduction in emerging patterns of global governance. If a crucial aspect of global governance can be explained and understood in terms of what Stephen Gill has referred to as 'disciplinary neo-liberalism', together with what is increasingly a 'new constitutionalism' (legislative changes to uphold the social and economic policy along neo-liberal rules and norms)[57] then both the disciplinary potential of microcredit at the local level, and its potential to facilitate the liberalization agenda, is congruent with the global policy trends.

The policy congruency in the linking of the 'global' to the 'local' through microcredit has become possible because of the 'unification' of the global *development regime* with the broader global trends to unify (global) trade law with the rules and norms of 'private commercial trade law'.[58] The unification of the development regime in this sense occurs because of the political appropriation of development *for* crisis management. Microcredit is an important part of this development regime, as an extension of the trade in services agenda which emerged in response to the capacity crisis of the advanced capitalist states in the 1970s. The next chapter, takes a closer look at these issues as unfolding historical trajectories. The GPE implications of microcredit will be elucidated. It will explain how and why microcredit came to be strategically situated in the context of the trends and transformations of GPE, and thus help understand why it is seriously limited as a poverty reduction strategy.

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[1] *Microcredit and Microenterprise: The Road to Self-Reliance,* Hearing before the Subcommittee on International Economic Policy and Trade of the Committee on International Relations House of

Representatives, One Hundred Fifth Congress, First Session, (Washington, DC: U. S. Government Printing Office, 1997)

[2] *The Microcredit Summit Report, February 2-4 1997*, (Washington, DC: c/o RESULTS Educational Fund, 1997) p. 1

[3] See OP-706, Social Entrepreneurship Program of the Inter-American Development Bank (http://www.iadb.org/cont/poli/OP-706E.htm, June 1999): For the African Development Bank, see details on the ADF Microfinance Initiative for Africa (AMINA): For the Asian Development Bank see, *Microfinance Development Strategy* (Asian Development Bank, 1999, http://www.adb.org/News/Adfviii/microfinance/microfinance.html), see also the Asian Development Bank's 'Poverty Reduction Strategy' (Working Draft, July 1999). Both these documents provide a comprehensive extension and mapping of the World Bank's strategy for microfinance: For the role of microcredit in the operations of the European Bank for Reconstruction and Development(EBRD) see 'EBRD activities in South-Eastern Europe' http://www.com/english/opera/COUNTRY/SEE.htm. For EBRD's country specific microfinance details see Russia Microfinance Bank,
http://www.ebrd.com/english/opera/PSD/psd1999/287micrus.htm and see also
http://www.ebrd.com/english/opera/PRESSel?Pr1999/36jul15.htm
Bosnia and Herzegovina Micro-Enterprise Bank, see
http://ebrd.com/english/opera/PSD?psd1999/290micrent.htm
Moldova, see http://www.ebrd.com/english/opera/PRESSEL/PRI1997/42may28.htm
Albania see FEFAD Bank, http://www.ebrd.com/english/opera/PSD/Psd1999/320fefad.htm.
See also Ausaid , 1999-2000 Aid Budget (Media Release by Australian Minister for Foreign Affairs, Alexander Downer, 11 May 1999): For CIDA's policy on microcredit see 'Draft - CIDA's Policy for Private Sector Development in Developing Countries', (Canadian Agency for International Development: Canada , March 1999): See USAID's Microenterprise Innovation Project, 'USAID Policy on Microenterprise Development' - Microenterprise Development Brief, Number 34. (United States Agency for International Development: USA, 1996)
See also the ILO's Social Finance project.http://www.ilo.org/public/english/65entrep/finance/fin1.htm.
See also the ILO's proposed recommendations concerning 'General conditions to stimulate job creation

in small and medium-sized enterprises,' Reports IV(1), IV(2A) & IV(2B). (International Labour Organization, 86th Session: Geneva , June 1998)

For more on the regional efforts to advance microfinance see CASHPOR, in I.Getubig, J.Remenyi, and B.Quinones (eds.) *Creating the Vision-Microfinancing the Poor in Asia-Pacific, Issues,Constraints and Capacity Building* (Asian and Pacific Development Centre: Malaysia, 1997), see also the Microfinance Centre in Warsaw, Poland, http://www.microfinance-centre.org.pl

[4] The Group of Seven (G7), 'Confronting Global Economic and Financial Challenges, Denver Summit by Seven' – June 21 1997 (www.library.utoronto.ca/g7/summit/1997denver/confront.htm) p. 5

[5] Claire Short, in the 'Foreword' to Stuart Rutherford's, *The Poor and their Money,* (New Delhi: Oxford University Press, 2000) (emphases added)

[6] United Nations, 'Resolution Adopted by the General Assembly [on the report of the Second Committee (A/53/613)] . Resolution 53/197. International Year of Microcredit, 2005' (New York: United Nations, 22 February 1999)

[7] For example, 'under a 1993 banking law, Bolivia has begun licensing a new class of [financial] intermediaries: Private Financial Funds (PFFs). This legal vehicle was designed to provide financial services to micro- and small enterprises, as well as loans to individuals for purchases of durable goods. (...) Unlike conventional banks, PFFs are permitted to accept non-traditional collateral such as jewelry or furniture'. See CGAP, *Focus No. 4* (Washington, DC: CGAP Secretariat, World Bank, 1994) p. 3

[8] For some issues and case studies in microcredit and microfinance see for example, Maria Otero and Elisabeth Rhyne (eds), *The New World of Microenterprise Finance – Building Healthy Financial Institutions for the Poor,* (London: Intermediate Technology Publications, 1994), Hartmut Schneider (ed) *Microfinance for the Poor,* (Paris : IFAD/OECD, 1997), David Hulme and Paul Mosley, *Finance Against Poverty,* Volumes 1 & 2, (London: Routledge, 1996), Geoffrey D Wood and Iffath A Sharif, *Who Needs Credit? Poverty and Finance in Bangladesh,* (London: Zed Books, 1997)

[9] CGAP, *Focus No.1,* (Washington DC: CGAP Secretariat, World Bank, September 1998) p.1

[10] CGAP, *Focus No.1,* p.1

[11] *The Guardian,* 'How micro-credit nurtures outside the mainstream', May 11 1999, p. 20

[12] Otero and Rhyne, *The New World of Microenterprise Finance*, p. 1 (emphasis added)

[13] M. Yunus, *Credit For Self-Employment: A Fundamental Human Right*, (Dhaka: Grameen Bank, 1996)

[14] See, *The Microcredit Summit Report*, p. 1

[15] See, *The Microcredit Summit Report*,

[16] *The Microcredit Summit Report*, pp. 47-49

[17] The Group of Eight (G8), *Communiqué*, Denver, June 22, 1997, pp. 2-3, (www.library.utoronto.ca/g7/summit/1997denver/g8final.htm – downloaded 25 July 2000) (emphasis added)

[18] G8, *Communiqué Okinawa 2000* (July 23 2000- www.g8kyushu-okinawa.go.jp/e/documents/commu.html – downloaded 25 July 2000) see p. 3

[19] *Global Poverty Report* by Multilateral Development Banks (MDBs) and the International Monetary Fund (IMF), presented to the G8 Okinawa Summit, July 2000. Okinawa: MDBs/IMF (www.worldbank.org/html/extdr/extme/G8_poverty2000.pdf – downloaded 25 July 2000) p.6 (emphases added)

[20] MDBs / IMF, *Global Poverty Report*, p. 8

[21] MDBs/IMF, *Global Poverty Report*, p. 10

[22] MDBs/IMF, *Global Poverty Report*, p. 13

[23] For an interesting and comprehensive discussion of neoliberal political values and normative basis for same, see Stephen Gill, 'Knowledge, Politics, and Neo-Liberal Political Economy' in Richard Stubbs and Geoffrey R.D. Underhill, *Political Economy and the Changing Global Order*, (London: Macmillan, 1994) pp. 75-88

[24] The 'pink book' is the generally accepted set of rules and norms for the assessment of microfinance 'success'. The 'pink book' rules are applied across the board among the donor community. Referred to as the 'pink book' is the *Micro and Small Enterprise Finance: Guiding Principles for Selecting and Supporting Intermediaries* produced in 1995 by the 'Committee of Donor Agencies for Small Enterprise Development' and the 'Donors' Working Group on Financial Sector Development'. Available from the CGAP, the World Bank.

[25] See 'pink book', *Micro and Small Enterprise Finance:* pp. 1-3

[26] The 'service charge' approach as a substitute for interest rates is applied in the context of Islamic societies, particularly where interest rate charges would not be well received. See for example, Hulme and Mosley, *Finance Against Poverty*, p. 148. However, to add on the extra service charge(s) (in addition to interest rates) is a common strategy applied also to overcome ceilings on interest rates. Increasing returns through an add-on 'indirect' charge may also minimize perceptions of exploitation.

[27] The need for money as an entitlement to resources is increasing among the poor. Particularly in the context of neoliberal restructuring whereby un-and underemployment increases while at the same time public goods and subsidies provided by the state are increasingly withdrawn and substituted instead by charges of 'user fees'. User fees may be applied to basic 'public goods' such as health care, education and even basic food guarantee schemes. For the relationship between microcredit and the application of user fees for health services, see chapter 7 (conclusion). For a discussion with reference to declining income, purchasing power parity, and inequality, see Frances Stewart and Albert Berry, 'Globalization, Liberalization, and Inequality: Expectation and Experience' in Andrew Hurrell and Ngaire Woods (eds), *Inequality, Globalisation, and World Politics,* (Oxford: Oxford University Press, 1999)

[28] MDBs/IMF, *Global Poverty Report*, pp. 9-10

[29] For example, the PKSF, an apex financial institution in Bangladesh, has clear policy on this issue. In lending to Partner Organisations (POs), who are NGOs and Microfinance Institutions (MFIs), to onlend microcredit at the grassroots the PKSF 'imposes a minimum lending rate of 16% to ensure that POs do not lend below commercial bank rates and promote cost coverage from operations.' See World Bank, *Bangladesh, Poverty Alleviation Microfinance Project* (Washington, DC: World Bank, 1996) p. 51

[30] The Grameen Bank in Bangladesh is a specialized bank, with a specific mandate to make credit available to the poor. Grameen is considered to be the pioneer institution of the minimalist microcredit approach to poverty reduction. See, `The Grameen Bank Ordinance 1983′ [As amended upto July 31 1990], (Dhaka: Grameen Bank)

[31]For an example of such a transition see 'Metamorphosis from NGO to Commercial Bank- The case of BancoSol in Bolivia' in Hulme & Mosley, *Finance Against Poverty* - Vol. 2, pp. 1-32. See also Amy J. Glosser, 'The Creation of BancoSol in Bolivia' in Otera & Rhyne, *The New World of Microenterprise Finance*, pp. 229-250

[32] The diminishing of state capacity to guarantee public goods, particularly with reference to developing states, while in some instances may be attributed to local voluntary political decision making, in most cases is the result of the application of coercive politics by developed states. For more on the implications of this argument, see chapters 2, 3, 4, 6, 7. However, these practices must be contextualized and understood as being integral to *capitalism* and *capitalist expansion.* Thus, for example, in keeping with the neo-liberal consensus, proponents of 'global social movements' or 'global civil society' (GCS) have tended 'to reject the state in favor of non-state actors who create a realm of voluntary association, in both domestic and global affairs'. This has been useful to 'roll-back' the state as guarantor of public goods. In this sense, it has been argued that '[i]n the context of globalization, talk of an emerging GCS also legitimizes the assault on the Third World state. This is the site where the neo-liberal agenda of economic globalization and the GCS formulations overlap. Enfeebled by internal tensions and pressured to *globalize,* the state becomes incapable of denying an augmented role to non-state agents. Once the state loses favor in circles of global power and control, civil society can be promoted, especially in its narrowly conceived form of non-state or non-governmental actors'. See Mustapha Kamal Pasha, 'Globalisation and Poverty in South Asia', *Millenium,* Vol. 25, No. 3, (1996). pp. 635-56 (see for quotation pp. 645-46) . In this sense, although, 'social movements' can be said to have been *unwittingly* key actors in neoliberal globalization, ironically, their rise may be best understood in the contest of capitalist contradictions, because, they did 'arise in reaction to the contradictions between abstract market and human need, and between use value and exchange value'. See Julian Saurin, 'The Global Production of Trade and Social Movements- Value, regulation, effective demand and needs' in Annie Taylor and Caroline Thomas (eds), *Global Trade and Global Social Issues,* (London: Routledge, 1999) p. 218

[33] Overseas Development Institute (ODI), *NGOs AND OFFICIAL DONORS,* (London : Overseas Development Institute: 1995) p.4 Downloaded from, http://carryon.oneworld.org/odi/odi_ngos.html

[34] ODI, *NGOs* , p.1

[35] ODI, *NGOs,* p.2

[36] *The Microcredit Summit Report,* p.34

[37] McDonald Benjamin & Joanna Ledgerwood, *Case Studies in Microfinance, Non-governmental organizations (NGOs) in Microfinance: Past, Present and Future - An Essay,* May 1999.(http://www-esd.worldbank.org/sbp/end/ngo.htm) p.2

[38] Benjamin & Ledgerwood, *Case Studies in Microfinance,* p.2 This conclusion must be seen in the context of the overall argument of their paper, which critiques the microfinance bandwagoning and questions the appropriateness of microcredit for the poorest. This issue is discussed in detail in chapter 7.

[39] Benjamin & Ledgerwood, *Case Studies in Microfinance,* p. 4

[40] Benjamin & Ledgerwood, *Case Studies in Microfinance,* p.5

[41] See 'pink book'- *Micro and Small Enterprise Finance:,* pp. 3, 8. An example of this put into practice through donor coordination is reflected in the case of the Kenya Rural Enterprise Program (KREP) in its approach to develop effective microenterprise credit programs. The managing director of KREP who is also the present chairperson of the policy advisory group to the CGAP, has stated with reference to 'lessons from NGOs' that '(t)he change from integrated to the minimalist approach improved the impact and cost-effectiveness of the programs significantly'. See, Kimanthi Mutua, 'The Juhudi Credit Scheme: From a Traditional Integrated Method to a Financial Systems Approach' in Otero and Rhyne *The New World of Microenterprise Finance,* p. 269. KREP supported the development of this scheme when 'it became apparent that out of the dozen NGOs assisted by KREP, only a few would become significant financial intermediaries'. p. 272

[42] Benjamin & Ledgerwood, *Case Studies in Microfinance,* p.19

[43] Benjamin & Ledgerwood, *Case Studies in Microfinance,* p.26

[44] Benjamin & Ledgerwood, *Case Studies in Microfinance,* p.28 (emphasis added)

[45] For a country case study on the implications of this issue see, Sarah White, ' NGOs, Civil Society, and the State in Bangladesh: The Politics of Representing the Poor', *Development and Change,* Vol. 30 (1999) pp. 307-326. See also Pasha, 'Globalization and Poverty in South Asia'

[46] See, *The Microcredit Summit Report,* p. 1

[47] This complies with my first hand experience of the Summit.

[48] John Hatch, closing plenary of the Microcredit Summit. Audio tape, No. 70, (Maryland: Results/Audio Recording Services Inc. 1997) [emphasis added]

[49] Speech by Muhammad Yunus at the Opening Plenary of the Microcredit Summit, See *The Microcredit Summit Report*, p.11

[50] Ben Rogaly, 'Micro-finance evangelism, destitute women, and the hard selling of a new anti-poverty formula', *Development in Practice*, Vol. 6, No. 2 (May 1996).

[51] Rogaly, 'Micro-finance evangelism, p. 107

[52] 'Structural adjustment programs' (SAPs) often accompany IMF and World Bank credits. Through SAPs countries are urged and in some cases forced to liberalize their economies, through broad based sectoral liberalization (e.g., financial sector). Often adjustment packages accompany strong fiscal austerity measures. SAPs have been identified as having 'seven basic elements: exchange rate liberalization; trade liberalization; fiscal policy reform; the closing or privatization of state owned enterprises; reform of the financial sector; opening of the economy to foreign investment; sectional reforms of agriculture, industry and social sectors'. See, Jo Marie Griesgraber & Bernhard G. Gunter (eds), *The World Bank – Lending on a Global Scale,* (London: Pluto Press, 1996) p. xiv

[53] Sydney J. Key, 'Trade liberalization and prudential regulation: the international framework for financial services', *International Affairs* Vol. 75, No. 1 (1999) Key provides an account of the roles of the IMF and the World Bank in the process of financial liberalization through the GATS (*Services 2000)* under the WTO.

[54] Social Funds are also referred to as social emergency funds, social investment funds, and social rehabilitation and development funds. See, The CGAP, 'A Review of the World Bank's Micro-Finance Portfolio'. This is an internal document which I requested and was given access to. (Washington, DC: CGAP Secretariat- World Bank, 1997) p. 17, see note.3. Social funds may include a wide range of tools and policies; however, microcredit often figures as a key component of a social funds make up. See for example, Deepa Narayan & Katrinka Ebbe, *Design of Social Funds – Participation, Demand Orientation, and Local Organizational Capacity,* (Washington DC : World Bank, 1997) p. 3. For example, The World Bank's *Poverty Alleviation Microfinance Project* for Bangladesh *(cited above)* is said to be 'similar to a microenterprise program that a social fund is likely to support'. See, Anthony G. Bigio (ed), *Social Funds and Reaching the Poor- Experiences and Future Directions* (Washington DC : World Bank, 1998) p. 63. In this contest it is recommended that '[c]redit programs should be an element of social funds'. p. 63. This study states explicitly that among

the objectives of social funds, the objective of '[c]reating employment opportunities in response to an economic shock' is included. p. 36, see also p. 169

[55] The Microcredit Summit Declaration and Plan of Action 'defines the "poorest" families in developing countries as those among the bottom 50% of those living below the poverty line. Within industrialized countries the Summit mandate focuses on all those living below the poverty line criteria'. This is the definition also adopted by the IFIs. See the *The Microcredit Summit Report* p. 47. This, is however, problematic to say the least in it's application in developing countries. In many of these countries, there may not even exist a procedure for monitoring poverty levels. Moreover, given the degree and extent of vulnerabilities and human insecurities in many Third World countries, to set a target group for microcredit as 'below the poverty line' would mean the targeting of large sectors of the population, irrespective of their 'business' or entrepreneurial capabilities. This logic is however, in keeping with the strategic political implications of the microcredit/ microfinance component of social funds : a quick disbursing facility in the context of SAPs (see chapter 3).

[56] Benjamin & Ledgerwood, *Case Studies in Microfinance*, p. 13

[57] Stephen Gill, 'Globalisation, Market Civilisation, and Disciplinary Neoliberalism' in *Millennium,* Special Issue : The Globalisation of Liberalism? , Vol. 24, No. 3, (1995) pp. 399-424

[58] See Claire Cutler, 'Public Meets Private: The International Unification and Harmonisation of Private International Trade Law', in *Global Society,* Vol. 13, No. 1 (1999)

CHAPTER 2.

THE POLITICAL ECONOMY OF MICROCREDIT AND MICRO-FINANCE: DEVELOPMENT *AS* CRISIS MANAGEMENT?

> This is the true cause of Third World debt. Their debt is part of the global money supply. (..) The full truth, the full iniquity and horror of Third World debt is that *the underdeveloped and indebted countries of the World are acting as part of the money supply to developed nations.* (..) in terms of impact on Third World economies, the debt associated with the creation of money is catastrophic.
>
> Michael Rowbotham, *The Grip of Death, A study of modern money, debt slavery and destructive economics.*[1]

Introduction

This chapter contextualizes the evolution of microcredit as a poverty reduction strategy within the broader historical context of the transformation of the 'international political economy' into a 'global political economy' (GPE).[2] The emergence of the GPE was characterized, among other features, by a crisis of capacity (see below), in response to which a drive was initiated to expand and facilitate the global trade in services. The focus of the trade in services agenda is primarily on its financial services aspects. This trade in services agenda comprises in particular the trade in financial services. The chapter demonstrates microfinance to be an extension of the trade in financial services agenda which emerged in the 1970s in response to the crisis of capacity. It demonstrates the strategic appropriation of microfinance in the management of the crisis of capitalist development. The chapter traces these trajectories with reference to the global development regime, which is argued to be instrumental to capitalist crisis management.

This is demonstrated by tracing the strategic appropriation of microfinance in what has emerged as a development movement in the GPE. The development regime is shown to converge - to be effectively unified - with a global governance framework. By tracing the historical legacy of the global governance framework along the evolution of the trade in services agenda, it will be shown how through this governance framework strategies for consolidating and managing the capacity crisis came to be extended as 'development' and 'poverty reduction' policies to the grassroots. From this perspective, this global governance framework is seen as integral to development *as* crisis management. This will set the background to understanding how, why and where the dual purpose of microcredit (see introduction and chapter 1) is situated in GPE. This will enable an understanding of its institutional appropriation (chapters 3 and 4).

For the purpose of this analysis, the definition of GPE used here is Stephen Gill's; it 'implies an integrated system of knowledge, production and exchange, and includes the dialectical relations between capitalist and non-capitalist systems and states, and ecological, ethical and other aspects of the whole'.[3] In other words, the term GPE 'refers to both an integrated entity and analysis of political and economic structures and processes at a world or global level'.[4]

The chapter is organized in seven sections, which emphasize different aspects of what is otherwise a complex set of tightly integrated issues: Section one briefly introduces the capacity crisis and draws the connections between this, and the emergence of the trade in services agenda. It highlights its financial liberalization as well as its development implications. It concludes by identifying microfinance as part of the drive for the expansion of trade in financial services. Having introduced and engaged briefly with the trade in services agenda from what is more of an economic perspective the argument moves on to engage with its political implications, particularly it GPE implications. Section two provides an in-depth analysis of the GPE of microfinance as a tool in global crisis management. This section draws attention to the contradictions of capitalist development: the role of finance in development as well as it's role in generating the present architecture of GPE are demonstrated through an historical account. Section three concentrates on the emergence of a global governance framework along the imperatives of crisis management in the sense identified above. Section four illustrates the convergence of the global development regime with the global governance framework under the prerogatives of crisis management. It does so from the perspective of the implications of grassroots responses to development as crisis management. Section five engages with the counter-response by global policy makers to the challenges from the grassroots engendered by advancing crisis management strategies through a poverty reduction agenda. Section six provides a critical interpretation of the relationship between resistance politics and the global poverty reduction agenda, by interpreting the latter in terms of a politics of inclusion. The chapter concludes with section seven in which the previous sections are drawn together and contextualized with the analysis of the hidden transcripts of microcredit and capitalist development.

The Capacity Crisis and the Emergence of the Trade in Services Agenda

Microcredit, it is argued, is an extension of a crisis management strategy that emerged in the context of a crisis of capacity in the 1970s in the advanced capitalist states.[5] The historical legacy of microcredit is thus linked to what emerged as a distinct trade in services agenda during what has been argued to be a crisis of capacity of the 1970s. By this crisis of capacity is meant that the productive capacity of the 'economy of material production'- that is the level of "making things", often called the 'real economy'- had lost its growth potential in the advanced capitalist states.[6] This meant that the opportunities for the potential returns on capital became significantly limited. Hence the argument, that this crisis of capacity began, 'with the erosion of the basis of postwar prosperity in the late 1960s (before the first oil shock of 1973), leading to a collapse of opportunities for productive investment'.[7] This period has been identified by many political economists as the 'beginning of the crisis' of the post-war years.[8]

In the pursuit of opportunities for capital accumulation, the issue of the potential to *trade in services*, and specifically financial services, emerged as a crucial objective. Thus, it may be argued that the trade in services agenda significantly shaped the structural transformation from the 1970s onwards from what was then better described as an 'international political economy' into a global political economy. Several key factors may be cited as giving rise to this structural transformation, and these are better seen as interrelated rather than distinct, and they must be understood as constitutive elements of the crisis of capacity of capitalist development. Overall, the rise of *haute finance* (e.g., Euro Markets), which culminated in the 'decision in 1973 to abandon fixed exchange rates for good' is one of the key factors.[9] As Susan Strange stated, in her *dubbing* of particularly the financial implications of this crisis as *Casino Capitalism,*

> [t]he year of 1973 stands out as a benchmark, a turning point when the snowball of change from the leisurely 1960s to the hectic yo-yo years of the 1970s and 1980s began to gather momentum. It stands out as a year when several big changes coincided – an effective devaluation of the dollar and the accompanying decision to leave the determination of exchange rates to the markets. This is known as the move to floating rates – not a very apt description because some sink while others rise.[10]

This change then, from a restrictive financial order to a liberal financial order, must be seen as consequence of the diminishing capacity for returns on investments in the production oriented sector within the advanced capitalist states. The post-war development regime had successfully built-up their economies - they were now post-industrial societies, with a thriving services sector. For example, in 1985, Robert Inman noted with reference to the historical development of the *services* industry that,

> [i]n the last three decades we have witnessed a quiet revolution in the composition of economic activity in most major developed economies. The provision of services has replaced the manufacturing of goods as the predominant production activity of advanced economies. For example, in the United States the share of services in nonfarm employment has risen from nearly 50 percent in 1952 to just under 68 percent in 1981. Services are no less important in the economic affairs of other developed economies.[11]

Given the comparative advantage of the advanced - market economies, particularly that of the US in what was clearly emerging as a *services* industry, it is not surprising that the inclusion of services as a *trade* issue on 'agendas of various international organizations has primarily been, directly or indirectly, due to initiatives by the United States'.[12] Services, were also a growing trade concern of other advanced capitalist states. For example, during the 1970s and 1980s, '[w]hile the United States retained the position of the largest exporter and importer of services, France and several other EEC member states were close behind.(...)'[13] This shift in emphasis in the investment sector of the advanced capitalist states, that is, from investment in production to investment in services, in turn contributed to an acceleration of change in the international division of labor. The period coincided with a 'very rapid internationalization of production through the preferential access to capital and technology' enjoyed by multinational corporations.[14] That is, generally production shifted from the North to the South, through a rise in the Northern corporations increasingly becoming transnational in terms of production processes as well as in the expansion of investment opportunities made available to them through the availability of 'surplus' capital (e.g., as a result of the crisis of capacity). This transformation in the international division of labor was captured by Murray Gibbs, who observed in 1984, with reference to the rising interest in *trade in services* that

> [t]he view expressed by the proponents of GATT negotiations on services is that what is being witnessed is adjustment to international competition in the developed countries, in that resources have moved from the manufacturing sector, displaced by competition from developing producers, to the service sector, where the developed countries hold a comparative advantage.[15]

However, presenting the trade in services agenda as merely an 'adjustment' to international competition, whereby it results in a 'win-win' outcome for the South and the North is not representative of the full implications of this issue. For the developing countries -the South- what was at stake with the *trade in services* agenda was not merely comparative advantage. Rather they were concerned with the adverse developmental implications for *pre*-industrial societies which may ensue from having to forgo or trade-off crucial development steered policy in the context of a *trade in* *services* framework. Their prime concern was with ensuring that development did not get displaced in the context of the *trade in services* agenda, because lumped in as *services* with the *trade* issue were really provisions crucial to *investment*: this is particularly so of finance, it is crucial to development.

While the service sector broadly comprises a diverse service industry (e.g. hair dressers, lawyers, doctors etc), some services are integral components of basic development goals, such as the provision of health care, education, housing. These are public goods. In this sense, '[s]ervices comprise much of a nation's basic economic "infrastructure" (..).[16] That is, certain services are grounded in societal development goals, and if these development goals and objectives are to be met, then a crucial balance has to be struck between the provision of these public goods and any decisions to conceive of these services as commercial tradeables. The trade in services agenda has been motivated by the latter conception. Moreover, the inclusion of finance in the trade in services agenda, in this sense was a double blow to the developing states. This is because while services broadly conceived may comprise a nations basic economic infrastructure, *finance* is considered to be the *'infrastructure of the infrastructure'*[17]: in other words it is foundational for the development of nations infrastructure. For this reason, finance must be embedded within the 'real economy': it must be directed into the infrastructure to support development. To ensure that this happens, many scholars including Phil Cerny have argued that 'the design capacity of the system must be highly interventionist in such a way as to channel money into more materially productive uses'.[18] This would enable the building up and guaranteeing of public goods which meet the *needs* of society.

What changed, in the 1970s, through the trade in services agenda, was the disembedding of finance from the 'real economy'. As a result, finance was allowed to become an investment category in itself, something to 'trade in'. Finance as an investment category was included in the *trade in services* agenda by the advanced capitalist states in the context of managing their capacity crisis. The speculative market was encouraged and it became possible again to make money by trading in money.[19] In fact, during this period, and in the run up to the emergence of a *services* agenda, 'trade and finance were the fastest growing sectors'.[20] The dynamic expansion of the financial sector through the *trade in services* agenda saw the rise in this period of non-bank institutions engaging with banking services and banks engaging with innovative financial investments.[21]

Thus, the inclusion of *finance* into the *trade in services* agenda, provided advanced capitalist states with the opportunity to manage their capacity crisis. In this sense, what becomes evident here, is that in managing the crisis of capacity that emerged in the advanced capitalist states, the *trade in services* agenda really reflected the aspirations and drive to create an enabling environment for capital to reproduce itself. The further pursuit of these tendencies, and the consolidation of capital reproduction in this sense, can today be seen in the General Agreement of Trade in Services(GATS) of the WTO, and the continued drive to implement a version of the Multilateral Agreement on Investment (MAI) initiative through the WTO.[22] Thus, the early trade in services agenda reflected in,

> [t]he long–term objective of the U.S. government, strongly supported by major business groups, [to achieve] a far-reaching commitment to liberalization of trade in services and [the] equal treatment of domestic and foreign *investors in services* – by all countries.[23]

Thus, in what was purportedly a *trade in services* issue, what we really had was not so much an issue of *trade* as conventionally understood, but actually the push to open up economies for *investment* together with the privatization and the disembedding of finance from 'real economy' development. This strategic objective of the US and other advanced capitalist states effectively disembedded the core development pillar - finance - from the reach and control of developing states. Here, the observation by Gibbs that ' (..) over recent years the tendency of international banks to establish foreign branches rather than deal through correspondent banks has meant a shift from *trade to investment* (..)'[24] is fitting. It is precisely because of the obscuring of the boundaries in the context of a *trade in services* agenda between what constitutes *trade*, and what constitutes *investment*, that developing countries rejected and continued to resist for as long as possible the incorporation of *services* into a trade regime. They were explicit on this point, arguing that 'if agreement could be reached on the distinction between "trade" and "investment" in services, the work of the Uruguay Round would be made easier'.[25]

Thus, for the developing states the basic problem they perceived with the *trade in services* agenda was the intention of 'the industrialized countries to include' in its definition 'activities which are in the nature of investment'. It was immediately observed that this was 'something which they cannot accept'.[26] Their rejection of this agenda, has been based on their legitimate *developmental* concerns. The implications of the trade in services agenda - effectively the liberalization of rules on foreign direct investment - are seen to be adverse for their comprehensive development goals. Yet, the drive for liberalization and the creation of the freedom of movement for capital, particularly finance capital, through a *trade in services* agenda was also driven purportedly by development considerations – albeit those of the advanced capitalist states.

Trade in services, global governance and microfinance: a summary

What emerged from the brief discussion of the GPE implications of the evolving trade in services agenda, is its core concern with overcoming the capacity crisis as a systemic crisis of capitalist development. An exposition of this historical development is considered important here, because it provides an important background to this thesis: it is argued that the trade in services agenda resulted in opportunities to 'trade in' money at the grassroots in the form of the microfinance-for-poverty-reduction agenda.

This extension of the trade in services agenda as a poverty reduction strategy in the context of the capacity crisis, required and facilitated new frameworks in global governance. Integral to global governance are thus disciplining strategies extended to the grassroots through a development and poverty reduction regime. Thus, under the imperatives of crisis management, the trade in services agenda and the emerging global governance patterns converge via the poverty reduction agenda. To trace these trajectories, the following section engages with the linkages between the GPE aspects and implications of crisis management requirements and the trade in services agenda. This is then contextualized with the emerging governance framework for crisis management, with a particular focus on the unification of the development regime with broader trends, including the constitutional aspects of neoliberal global politics. The conclusion draws these strands together through the microfinance agenda.

Global Crisis Management: Trade in Services and the Grassroots Trade *'in'* Microfinance

This section looks more closely at some of the implications of the trade in services agenda, by focussing initially on the role of finance in development, particularly its role in the making of the advanced capitalist economies. By retracing the agenda that emerged for financial liberalization in the advanced capitalist states the contradictions of capitalist development alluded above also become clearer. It is this very contradictory nature (as reflected in the capacity crisis) that subsequently led to the disembedding of finance from social and political control. Thus in briefly re-visiting and engaging with the political imperatives underpinning first, embedded liberalism and then the dis-embedding of the liberal compromise with capital further light is shed on the implications of finance in development, as well as,

(a)the concern of many developing countries over the disembedding of finance from the 'real economy' *because* of its human insecurity implications - that is, its development implications and

(b) the role of microcredit and microfinance in the financial disembedding agenda – that is, its role in the broader *trade in services agenda* in the context of a strategy of crisis management. The central issue of concern here is the relationship between global finance in the *trade in services* agenda and the '*trade in'* microfinance at the grassroots for poverty reduction.

Crisis management and embedded liberalism

The post 1945 development regime was either one of a state guaranteed (public sector) approach to development (Socialist Bloc) or a mixed economy approach which was largely prevalent in the Third World states of that time (those states that did not fully subscribe to various socialist forms of political organization). The mixed economy approach was also the dominant model of the Western Liberal states and reflected a liberal compromise which has been conceptually referred to as 'embedded liberalism'.[27] The embedded liberal compromise was based on the acknowledgement of the fact that substantive economic and social aspects of human security could only be maintained through approximations towards full-employment strategies. For this to be realized, stability of the productive sphere (also referred to as the 'real economy') was imperative. In turn, the propensity to *trade* the goods produced was also vital, particularly to ensure the smooth turn-over of the production cycle. The protection and promotion of free trade was therefore a vital component of the embedded liberal compromise. Central to this compromise was the embedding of finance in the productive sphere, which meant that the post-1945 era reflected not a liberal financial order but rather a restrictive one. The liberalization of finance was sacrificed in order to enhance and sustain the liberalization of trade,[28] trade understood here in terms of the buying and selling of goods produced. The imperatives of the embedded liberal compromise were reflected in the original mandates of the Bretton Woods Institutions, the IMF and the World Bank. However, this was to change in the 1970s, during the crisis of capacity within advanced capitalist states, with the year 1972 usually cited as the period of the collapse of the Bretton Woods system.

Crisis management and the dis-embedding of the liberal compromise with capital

The reasons for the demise of the Bretton Woods system are varied. Overall the growth in the 1960s and 1970s of the Euromarkets is seen as a crucial factor which, fuelled by the capacity crisis, set forth permissive conditions which in turn forced other financial markets to react to new structures of competitiveness.[29] The growing influence of the ideology of the New Right too contributed to this process, underpinned by an association of individual freedom with a laissez faire economic order. This ideological shift in the developed world gained momentum during

> the economic uncertainties of the 1970s and early 1980s and was promoted especially strongly by financial interests. Also significant, however, was support from large industrial corporations who became increasingly frustrated with capital control regimes as their interests became increasingly global in the 1970s and 1980s.[30]

What is unique about the demise of the Bretton Woods financial order is that it occurred when its underpinning objectives had been realized, albeit by only a handful of states.[31] That is, once the G7 (or advanced capitalist states) had achieved a level of economic security in the 'real economy' their interests were no longer served by the restrictive international financial order of the Bretton Woods system. The imperative to endorse the Bretton Woods system was no longer perceived as beneficial to the developed states: to overcome the capacity crisis they faced, further economic growth had to be fuelled by expansionist international trade policies, for which an international liberal financial order was conducive. At the same time, the financial economy (that is, the trading of money as a sphere of investment) was itself gaining rapid currency. Importantly, as noted, the capacity crisis reflected a shift in emphasis of their economies from one of a production orientation to a services oriented sector, particularly a financial services oriented sector. This shift to "trade in" *services* had, as noted above, important global policy implications. As Ruggie observed;

> The blurring of boundaries between domestic and international realms is both

hastened and deepened by the growing significance of traded services. Services used to be 'invisible' appendages to merchandize trade: shipping, insurance, and tourism. Today, the list is longer and the magnitude higher. It now includes information services; various financial, professional and business-related services; ..(...) The expansion of traded services is due to transnationalised goods production; technological developments, especially the informatics revolution; and domestic deregulation, particularly of capital markets and telecommunications.[32]

It is noteworthy that it is during this period of uncertainty surrounding the capacity crisis of the advanced capitalist states - that 'international economic law only began to address the legal framework' for trade in services ('in the late 1970s').[33] In fact,

> It was not until 1972 that the Organisation for Economic Co-operation and Development (OECD) even conceived of the term 'trade in services'. The reason for this neglect of services was that prior to the 1970s , services were generally seen as non-productive for the economy as a whole.
>
> It was at the urging of the United States that research was first undertaken on the importance of services to the economies of the world, and the United States Trade Act of 1974 was the first trade legislation to specify that 'the term "international trade" includes both goods and services'. Soon the other industrialized economies' service sectors were under investigation by the own governments in co-operation with the OECD.[34]

These developments were taken further and were subsequently of formative importance in the Uruguay Round of trade talks. The drive to include the 'trade in services' in wider *trade* agreements was spearheaded by the United States which was one of the world's largest producers and "exporter" of services.[35]

Crisis management, trade in services: the GATS in the WTO

'Trade in Services' gradually made its way into the Tokyo Round of the General Agreement on Tariffs and Trade (GATT) negotiations.[36] In the follow up, '[t]he United States government, with the strong support of private enterprises and non-governmental institutions, continued the campaign to include services in the liberalization agenda of the next round of the GATT negotiations'.[37] The developing countries were however, as noted above, totally opposed to the incorporation of the *services* agenda in a trade regime: '[t]he idea of liberalizing the highly regulated areas of services within the GATT framework polarized North-South concerns even more than did the South's calls for open agricultural markets in the GATT'.[38] Finally, however, the GATS was included within the WTO package of treaties.[39] An ultimate consensus is yet to be reached on this issue, and it is presently on-going as the *Services 2000* negotiations in the WTO.[40] The *inability* to achieve a consensus on the GATS was because

> [w]hile industrialized countries saw trade in services as a path for their future economic well-being, developing countries saw the attempts to liberalize their less developed service sectors as another in a series of steps by the industrialized governments to invade their sovereignty while assuring their own continued economic dominance.[41]

Despite these differing perspectives and contestations on the merits of trade in services, the GATS agenda has made good progress, although it continues to be very much a focus of attention and dispute as it continues to gain policy momentum in the WTO.[42] Given its services orientation the GATS differs fundamentally to the GATT. The GATT speaks of the 'Schedules of Concessions' and thus refers to the " *products* described.. in... the Schedule" (GATT Article 11).[43] In contrast, the GATS speaks of 'Schedules of Specific Commitments" which refers to "*sectors* where ....commitments are undertaken" (GATS, Article XX) 'In other words, whereas the GATT contracting parties make concessions about products, the GATS Members make commitments about *sectors*'.[44] Although, the GATS has not provided a 'closed' list of sectors, eleven such sectors have been committed to by Members. Of these eleven , one is the *Financial Services* sector.[45]

Crisis management and the making of financial globalization

The global financial order as it stands today, has its roots in what was referred to as the demise of the Bretton Woods system from the 1970s onwards. However, this demise did not come about by accident, as Susan Strange and Eric Helleiner among others have demonstrated, rather it was the result of political decision making.[46] Referring to its ensuing implications in terms of the 'world's economic disorder' Strange has argued that it was 'nurtured and encouraged by a series of government decisions'.[47] Crucially, it was a timely shift to enable the management of the crisis of development - as evident in the capacity problem - of the *developed* states. In this sense,

> The choice of floating exchange rates in 1973 was therefore perfectly rational: it allowed this gigantic mass of floating capital to find an outlet in financial speculation. (...) Without financial openness and floating exchange rates, the dead weight represented by this mass would have aggravated the crisis. The logic of the system therefore requires today's focus on 'managing' the crisis rather than on ending it, which the system is not capable of by itself.[48]

Therefore, what resulted in the context of managing the crisis of capacity was the aggressive and determined push by the developed states for financial liberalization and particularly so as to be able to *trade* in financial services. Here, Stephen Gill's study on the role of the Trilateral Commission, whose constitution coincided with the crisis period of the 1970s, adds the crucial dimensions of the site and agency of global governance which emerged simultaneously. Gill has argued, that the Trilateral states emerged, 'with the United States at the center of structural changes liberalizing important aspects of global political economy'.[49] For example, under the Reagan

Administration, top priority was given to the services issue.[50] A crucial development during this period was the U.S. Trade and Tariff Act of 1984. The Act contained an

> "International Trade and Investment Act" in its Title III, which provides a comprehensive negotiating mandate combining goods, services investment..(..) Among its stated purposes are to "improve the ability of the President to identify and analyze barriers to and restrictions on U.S. trade and investment and to achieve their elimination" as well as that of encouraging the expansion of international trade in services through the negotiation of bilateral and multilateral agreements which reduce or eliminate barriers to trade in services, and to "enhance the free flow of foreign direct investment" ..(..).[51]

Given the centrality of financial liberalization in this context, it is not surprising that the sector to be globalized in the most robust manner was finance: 'The level of global integration in financial services has proceeded far further than in most other sectors of economic life'[52] while in 'general financial integration is far more advanced than other areas of activity'.[53] In the context of the GATS commitments to financial liberalization for example, it was noted that '[e]ighty-two countries made initial commitments on financial services at the end of the Uruguay Round in 1993'.[54] Significant progress has thus been made on the liberalization of the financial sectors of developing countries. Their resistance to this agenda has been over-come by the advanced capitalist states, primarily through the shaping in accordance the IMF and World Bank policies and operational directives. These policies and operational directives have in turn been applied by these institutions to developing countries as SAPS in the context of conditionalities attached to their respective institutional policies.

Crisis management and the role of IFIs in financial globalization

Both the IMF and the World Bank have been the key institutions for the advanced capitalist states to *transmit* the trends, transformations and most of all systemic risks of GPE to developing states. The IMF's and the World Bank's SAPs have been at the core in the push for the liberalization of national economies. One of the early sectors to be targeted for liberalization by these institutions has been the financial sector. For example, the developing countries financial liberalization commitments in terms of the GATS now provide the World Bank and the IMF with both, criteria according to which they draw up conditionalities for SAPs, and legal leverage for their implementation.[55] In this context, it has been stated that '[n]ew relationships and lines of communication are being established between the IMF, the World Bank and the WTO as regards liberalization'..(..).[56] 'Indeed, South Korea undertook to improve its GATS financial services commitments as part of its 1998 IMF programme.'[57] In this context, Key draws attention to the legitimate concerns of developing countries about cross-conditionality, 'which, at its strongest, would require that a commitment to liberalization made under an IMF or World Bank assistance programme be incorporated in a country's schedule of commitments in the GATS or other multilateral trade agreements.[58]

Furthermore, it is interesting to note that in addition to policy convergence between the WTO, IMF and World Bank, tracks have also converged between regional development regimes and the SAPs of the IMF and the World Bank. Here, a recent study has revealed how the Fourth Lome Convention between the EU and African, Caribbean and Pacific countries was brought into line to support IMF-World Bank SAPs. 'The Fourth Lome Convention .. (…) signed in 1989 and renewed in 1995, was significant above all because it involved the EU aid programme in structural adjustment support for the first time'.[59] It has been further stated that,

> (..)the practice of Lome IV across all ACP countries has shown that not only has adjustment support increasingly replaced long-term development aid granted under Lome IV, but that this has been applied in close co-operation with, and subordinated to, the actions of the IMF and World Bank.[60]

Moreover, in the context, of 'negotiating a successor agreement to replace Lome IV, which expired on the 29 February 2000', Gibb has argued that 'multilateral principles, and in particular WTO compliance are at the very centre of present post-Lome negotiations because the EU, indirectly supported by the USA, put them there.' [61] The drive for intensifying SAPs to achieve the underpinning liberalization agenda and objectives is clearly evident: this agenda is now advanced through a harmonization and co-ordination of policy between the advanced capitalist states so as to support the logic of IMF and World Bank SAPs. This is how the convergence between the development regime and the global governance framework is identified (see below).

This strategy has made it easier to discipline the Third World states both at the macro (state) level and its people at the local level, while managing profitably the crisis of capitalist development.

Global crisis management and the grassroots trade in microfinance to the poor

The increase in and intensification of SAPS is occurring in the face of their continuing socially adverse implications and impacts. As the impacts of SAPs become more far reaching, the engendered resistance politics have grown. In yet another attempt to off-set these, there has also been a growth in the targeted poverty reduction strategies that usually now accompany the SAPs of IMF and the World Bank. It is in this context that the following statement by the World Bank is best evaluated.

> In fiscal 1998, the amount lent under the Program of Targeted Interventions increased from 29 to 40 per cent of total *investment* lending. The amounts lent for poverty- focussed adjustment operations also increased from 52 to 64 per cent of total adjustment lending.[62]

The increase of targeted interventions in the context of *investment* lending in the overall framework of SAPs must come as no surprise. The appropriation of microcredit minimalism in such contexts must also come as no surprise: it is conducive to the global financial agenda and as such is a grassroots *investment* strategy for its proponents. Appropriating microcredit as a poverty reduction strategy has greatly contributed to enhancing the globalization of financial services. As poverty and insecurities increase in the context of the implementation of SAPs, accompanying safety nets have been stepped up. Microcredit constitutes a large component to most, if not all such safety nets. In Zimbabwe for example, as Lome IV was shaped to converge with IMF and World Bank SAPs objectives, its Microprojects Programme received increased profile. Changes in the direction of Lome IV – which have reflected a focus on achieving commitments from ACP governments to liberalize their economies have meant that

> (..) greater importance was given to 'income generation' and employment [generation] rather than social policy as a means of improving the position of the poorest sectors of the population..(..) [63]

One of the dual purposes of microcredit, is argued to be its capacity to function as an important political safety net (see introduction and previous chapter), because the credit provision ensures a continued entitlement to resources as incomes of the vulnerable diminish significantly or cease completely in the context of liberalization and the adoption of austerity measures (economic shock therapy). On one level, the microcredit intervention is thus an attempt to contain political resistance to neoliberal politics. As the strategy of global crisis management continues to marginalise and increase human insecurities (e.g., decline of entitlement to resources) – global social policy makers present these insecurities *publicly* in terms of increasing demands for microcredit (see chapter 1). In the context of these trends and the contradictions of capitalist development the scope for the extension of money via credit at the grassroots is thus created and sustained through policy design. In this sense, what may be seen as a strategy to manage the contradictions of capitalism - specifically the capacity crisis of the 1970s - through the microfinance agenda means that it relies on the very conditions it purports to ameliorate: the microcredit approach to poverty thus emerges as an integral strategy to the management of the contradictions of capitalism.

Through the presentation of microfinance in the public transcripts as a panacea for poverty reduction, *legitimacy* is conferred on crucial elements (dual purpose) of a 'global constitution *for* capitalism'[64] on the back of a poverty reduction agenda. In this sense, the presentation of the strategy as a demand-driven approach implicitly also suggests the *consent* of the poor, and thereby the agenda is further legitimated. However, a different experience prevails at the local level. In the absence of other alternatives, the target groups, are effectively forced to 'smooth consumption' through debt (see chapter 1). In this sense, the poor cannot be said to offer consent to their conditions, and the development policy responses to same, nor can it be argued that they conceive of their situation as being just; inevitable perhaps - but not just. The top-down perspective of portraying the strategy in terms of a demand for microcredit and microfinance must be seen in the context of that demand actually reflecting the survival needs of the poor (e.g.,consumption smoothing), rather than their development aspirations. Thus when the poor and needy take the credit, particularly to smooth consumption, they are doing so out of the 'necessity of routine and pragmatic submission to the "compulsion of economic relations" as well as the realities of coercion'.[65] The compliance then of the poor cannot be seen in terms of ideological consent, but rather they comply because it is precisely in the practical sense that 'they are more effectively constrained by the daily exercise of power'.[66] As James Scott has argued 'the conformity of subordinate classes rests (..) primarily on their knowledge that any other course is impractical, dangerous or both'.[67] The exposition of the 'hidden transcripts' of the publicly sustained poverty reduction agenda thus suggests coercion *rather* than consent in the linking of poverty reduction policy to the socially disembedding global unification movement. This movement, is a movement for the harmonization of legal standards at the global level, which constrains domestic legislation essentially in terms of the prerequisites of private law. As such it reflects the power of vested capitalist interests to prevail in issues of global governance.

> The unification movement is being advanced by an historic bloc committed to facilitating the expansion of capitalism. The bloc is comprised of an elite group of merchants, trade lawyers, trade associations, and government officials working in combination with intergovernmental efforts to unify commercial law and practice. The unification of commercial law facilitates exchange and the mobility of capital by reducing legal barriers to exchange and thereby reducing the costs of transacting. (….) It has made such progress in restoring the universality of international commercial norms that some suggest that there is now a basis for a global common law and a universal commercial code. The

movement is assisting the consolidation of capitalism by placing renewed emphasis on the primacy of liberal, capitalist values, which function to international transactions from state regulation.[68]

It is in this context, that the global poverty reduction agenda can be seen as a crucial dimension, if not and extension, of aspects of *global* governance for the advancement of capitalism. Here the audience of the public transcripts of microcredit and poverty reduction may be disaggregated. As much as they also speak to the subordinates – the poor and politically dissatisfied – public transcripts may be directed at the dominant classes. This is because the 'function of the dominant ideology may be largely to secure the cohesion of dominant classes'. [69] Both the appearance of unanimity as well cohesion among the elites – ruling groups- is a necessary tool in the art of domination. Thus, as globalization advances, governance strategies have increasingly taken on a global dimension: global policy coordination and harmonization is simultaneously advanced. It is in this sense, that global governance is argued to be an extension of crisis management, reflected in terms of what has emerged in one form as the development regime.

Global Governance: A Framework for Crisis Management ?

The global governance regime that emerged from the 1970s onwards, may be seen as been directly implicated with the trade in services agenda. Aspects of it may be seen as the political response to managing the capacity crisis. Therefore, these global governance strategies in so far as they respond to the capacity crisis, are congruent with Cutler's analysis of the emerging governance framework as advancing the imperatives of capitalism. The governance framework simultaneously reproduces the enabling environment - the regulatory framework - for crisis management strategies by extending its reach to development policy. In this sense, it has a dual function. Through its dual function, it has managed to converge the development regime with the imperatives of crisis management (that is, it displays the ability to both discipline, as well as advance the agenda). Thus, it is argued here, that microfinance is an extension of the crisis management strategy, and that its is extended and implemented by a development regime that functions *as* a crisis management strategy.

The global governance framework that emerged as a consequence of the capacity crisis, reflected its imperatives. Thus, as noted above, 'production became more capital intensive and more global in reach' given that,

> (..) during the 1970s and 1980s there has been a movement towards a *transnational liberal economic order,* partly because national regulatory and economic intervention systems have begun to give way to powerful

transnational forces: the dialectical balance between 'national' and 'transnational' forces appears to have tilted in favor of the latter.[70]

It is in the context of these structural changes since the 1970s, that Robert Cox noted that '(..)..a new doctrine has achieved preeminence', states have had to 'become the instruments for adjusting national economic activities to the exigencies of the global economy – states are becoming transmission belts from the global into the national economic spheres. Adjustment to global competitiveness is the new categorical imperative'.[71] What Cox identified was the making of a governance framework for the realization of the trade in services agenda: the response to the capacity crisis. It was precisely to avoid these consequences and implications of the crisis that for example, Latin America responded to the *trade in services* agenda by rejecting the 'limited approach to structural adjustment' on the grounds that it 'would be tantamount to the developing countries resigning themselves to a secondary and dependent position in the international division of labor'.[72] SAPs, which were to become the approach to 'adjustment' in this sense, must then be seen in the context of their roles in the advancement of the trade in services agenda, and therefore, also, in their contributions to managing the capacity crisis of the advanced capitalist states. In this section, aspects of the discussion above are drawn together in order to elucidate the *coercive* governance aspects entailed in managing the crisis of capacity. The understanding of disciplining in the wider context is crucial to understanding the disciplining aspects of microcredit at the grassroots.

Global governance, and crisis management through structural adjustment

It has been argued so far that the development of the scope to *trade in services* - specifically financial services - evolved as a crucial strategy, adopted by the advanced capitalist states to manage the capacity crisis of capitalist development. Describing the 1970s as a 'period of chaos which is far from being over' Samir Amin, has stated that it is in this context - that is, the beginning of a crisis - that the 'actions of international institutions after 1970' are best located.[73] Amin refers here to the roles of the IMF and the World Bank in managing the crisis of this period, and specifically to the development and promotion of SAPs by and through these institutions. He asserts that '[t]the idea behind them [SAPs] is not to change structures in a way that might allow a new general boom and market expansion, but only to make conjunctural adjustments that obey the short-term logic of assuring the financial profitability of the surplus capital'.[74] Through SAPs what has been effectively achieved is the *transnationalization* of the systemic risks of capitalist development.

Global governance and neoliberal politics: the transnationalization of systemic risk ?

Crucial here, is the linking of the crisis of capitalism arising in the advanced capitalist states and the specific management strategies adopted and extended through the IMF and the World Bank to the processes of 'development/underdevelopment' in *developing* states. This is tantamount to a *transnationalization* of the systemic risks of capitalist development: the IMF and the World Bank have been key agents *instrumental* in managing the capacity crisis by externalizing it's risk implications to the developing states. Thus, with reference to its economic dynamics, what is today made much of in terms of globalization may be seen as an extension and intensification of the crisis of capitalist development. In this sense, neoliberalism, 'the most evident manifestation of globalization, can be seen not as the resolution of capitalist crisis but as "the politics of the unresolved crisis"'. [75] It follows that,

> *[g]lobalization should be understood as something more than neo-liberalism* (..) the neo-liberal turn is just one- albeit an extremely important one- amongst several dynamics responsible for the reorganization of world order. *Globalization refers, more generally, to the global organization of social order* ...' [76]

Now, integral, if not fundamental to the underpinnings of neo-liberal politics and *globalization* is what Claire Cutler has identified as the 'International Unification and Harmonization of Private International Trade Law'. [77]

> The global unification movement privileges the private sphere and, in so doing, facilitates the further denationalization of capital and *the disembedding of commercial activities from governmental and social control.* Unification thus operates as a corporate strategy designed to assist the reconfiguration of authority in the global political economy in line with the disciplinary neoliberal

agenda.[78]

What Cutler identifies is not only a politics that privileges the private sphere and disembedds commercial activities from governmental and social control but also an associated set of governance strategies by which these policies are upheld.

Global governance: new constitutionalism and disciplinary neoliberalism

At the core of global governance strategies are what Stephen Gill has identified as 'two of the constitutive historical structures of the global political economy today'[79]: *disciplinary neo-liberalism* and *new constitutionalism* . What is meant by *disciplinary neo-liberalism* may be captured by the following,

> in many respects, the 1990s represents a counter-revolution of the powerful against the weak, and more specifically, a counter-revolution of capital on a world scale, a revolution that reconstitutes state and capital as well as intensifying social hierarchies associated with class, race and gender relations, on a world scale. This revolution specifically involves the extension of the processes of commodification and alienation based on the intensification of the discipline of capital in social relations. [80]

If disciplinary neo-liberalism can be said to be the 'dominant socio-economic form' of governance then the *new constitutionalism* on the other hand can be said to be its 'politico-juridical form' because disciplinary neoliberalism involves the

> (..)imposition of new constitutional and quasi-constitutional legal frameworks – with respect to the state and the operation of strategic, macroeconomic, microeconomic and social policy. [81]

The IMF and the World Bank, as noted above, were crucial institutions instrumental in the *transnationalization* of the systemic risks. Thus, the structural adjustment policies that were attached to the IMF and World Bank credits since the 1980s through the policy of conditionality were basically the policy responses to the crisis of the structural transformations of the 1970s. The SAPs constitute aspects of both disciplinary neoliberalism and forms of the new constitutionalism. In this context, therefore, it may be argued that 'globalization and structural adjustment are mutually reinforcing'.[82]

Global Governance, Resistance, and Development *as* Crisis Management ?

If it is the case, that globalization and structural adjustment are mutually reinforcing - and it would be difficult to argue otherwise certainly with reference to their 'economic' aspects - then it is not surprising, that globalization and its promises of the better life advanced through GPE along a socially disembedding logic has encountered the politics of resistance in many forms and at many levels of global social organization. James Mittelman, for example, refers to this contradiction as the 'globalization syndrome', integral to which 'are the interactions among the global division of labor and power (GDLP), the new regionalism, and resistance politics'.[83] As globalization advances in contradiction, it continues to encounter counter-movements in the form of the politics of resistance, which in turn has triggered the intensification of strategies of global governance.

> Immense and increasing disparities of wealth, of power, and of security shape the world in which we live. Economic liberalization is exacerbating the gap between rich and poor within virtually all developing regions. At the same time, other elements of globalization are increasing the inequalities of political power and influence, as well as highlighting new dimensions of inequality. For one group of countries globalization is eroding the cohesion and viability of the state. However, other countries and actors are empowered by processes of globalization, since they are better placed to adapt and exploit its new opportunities. *Equally, the disparity of power among states is becoming more*

marked and more visible as an increasing volume of ever more far-reaching rules, rights and values are being asserted and imposed at the global level.[84]

Thus, local - that is domestic - rules and norms are now increasingly set at the global level. However, these crucial global governance outcomes may be traced back to the structural changes of the 1970s during the capacity crisis in advanced capitalist states. The evolution of such tendencies thus coincides with the capacity crisis, and more specifically with the *tranationalization* of the systemic risks which ensued through the SAPs.

Global governance and the supranationalization of local social policy

The *transanationalization* of the systemic risks, - that is the advancement of the trade in services agenda – occurred particularly through the policy of conditionality attached to IMF and World Bank loans to Third World states. During this time, local social policy also increasingly came to be defined (as early on as the 1970s) at the global level. It may not be of co-incidence that as the systemic risks associated with the crisis of capacity became *transnationalized*, a distinct poverty focus and targeting strategies also first evolved in the World Bank (see next chapter). This is also the period during which the basic needs approach evolved - implying a universal absolute definition of poverty and thus also a basic universal response which was defined at the level of the World Bank. It is this historical trend, that has since been both enhanced and intensified. Thus, analysis of contemporary social policy in global context, has led

Bob Deacon to speak in terms of a

> *supranationalization* or *globalization of social policy instruments, policy, and provisions*. This supranationalization of social policy takes (at least) three forms. These are supranational regulation, supranational redistribution, and supranational provision or empowerment.[85]

Global governance and the making of a global development movement

It is in the overall historical backdrop which created opportunities for the supranationalization of global social policy, that what can be identified today as a *global* development movement is argued to have emerged. The development *movement* differs from previous development *efforts* in that what is prescribed for the new development regime is a *harmonization* of social policy on a global scale, along the imperatives of the unification movement. The *harmonization* of global development policy is clearly evident in what may be seen as the writing of a global development architecture for the 21 Century by the OECD' s Development Assistance Committee (DAC). The OECD DAC's response to what they acknowledge to be a crisis of global poverty may be well captured by the *foreword* to the 1999 DAC report which, as noted, sets out the parameters for the global development architecture of the 21 century. A lengthy quotation is worthy.

The world is embarking upon a new century just as globalization becomes definitively established. This is no time to celebrate globalization in the abstract and to expect everything of it, or to caste doubt and waste efforts in fighting against it. In the realm of international development co-operation the time has come to act systematically, in a determined and realistic manner, to ensure that, rather than undermining development or further widening disparities, globalization works to consolidate the foundations of development, hasten the process and ensure a better distribution of the benefits.

This is a question of shared interests. The developing countries have a vital interest in becoming part of the global economy and seeing, finally a massive retreat in poverty and reduction in inequalities. The developed countries have a vital interest that this undertaking succeed, in terms of markets, investments and thus stable and sustainable growth. (…)
The DAC itself has embarked upon a complex task of developing guidelines for donor support for poverty reduction, closely associating the developing partners in its deliberations. Lastly the donor countries and international financial institutions have *stepped up debt forgiveness for the most heavily indebted poor countries, tying their efforts directly into poverty reduction strategies. This will be crucial for the reinforcement of those strategies,* which have now become, in a practical way, *the accepted approach to development co-operation.*[86]

In the context of the new development architecture, the development regime is to be advanced through the continued expansion of capitalism through efforts to provide the proper enabling environment for the sustenance of the market along *laissez faire* norms. At the same time however, the global policy makers are appropriating normative discourses (as well as promoting practices to some degree) that may enable an emancipatory and transformative politics. To this effect the DAC approach may be interpreted as follows: economic liberalization and the free-market approach must be seen as a prerequisite for other emancipatory goals. Thus, according to the DAC, we must

> (..) take full advantage of opening markets; and promote the social and environmental agenda which *must be* associated with liberalization. [87]

Through such an approach - what is effectively a *global policy harmonization* - along a neoliberal logic, development efforts at both the global and the local level are unified: the (legislative) policy processes that link global development policy to local poverty reduction efforts converge through the linking of development policy into the policy framework of disciplinary neoliberalism and the new constitutionalism. In this sense, the global development regime itself must then become integral to strategies of global governance where governance is conceived in terms of stability and risk-management to preserve the capitalist ideology and its exclusionary outcomes rather than to actually deliver the better life for all. This is so, primarily because of the *harmonization* of norms and rules for *development and poverty reduction* with those of the 'unification movement' as identified by Cutler as the 'International Unification and Harmonization of Private International Trade Law'.[88]

Global governance, the unification of the development movement and resistance

In sum, it has been demonstrated how the development movement is unified in a twofold manner: firstly, so as to make it compatible with the private international trade law, and secondly, by unifying development policy across a broad range of global institutions (WTO, IMF, World Bank, UN Agencies as the UNDAF and multilateral and Bi-lateral development agencies). The development regime is thus unified and extended both horizontally and vertically. Thus, for example, for development to succeed, the global social policy makers assert not only a harmonization of the operational policies of the donor countries, but stress moreover that,

> [t]he success of the strategy of partnership and integration into the global economy will depend also on the attention that is paid, concretely and systematically to policy coherence. (..) Here, coherence means coherence between policies in the North and South a like, and of all within the multilateral organization.[89]

The unification of the development regime with the norms and practices of private international trade law however serves to further the contradiction of globalization. Development *policy* has become an *adjunct* to the broader unification movement: it is a case of development *as* crisis management. The policy implications for development in practice are far reaching and must be seen as directly implicated in rising insecurities in terms of poverty and inequality, particularly, but not exclusively, in the developing states. This is so because of the ensuing disembedding of claims to social justice from development at the grassroots, as a result of a replication of the requirements of the global unification movement at the grassroots: the privileging of private commercial law *over* considerations of social justice .

The contradiction then remains between the global normative discourses of development for *empowerment and poverty reduction* and a development regime which is founded on the imperative to 'create a constitution *for* global capitalism'.[90] It is reflected in the resistance politics of social movements which 'arise in reaction to the contradictions between abstract market and human need, and between use value and exchange value'. [91] The *new* development regime is a contradiction in so far as it unable to deliver the promises of a global society grounded in substantive democratic principles and equitable distribution under capitalism.[92] Most clearly the implications of this can be seen in the appropriation by the development movement of the specific agenda of global poverty reduction, and the particular ways in which this appropriation frames the issues associated with poverty reduction.

Poverty Reduction *as* Crisis Management ?

A key goal of the development movement is to halve global poverty by 2015. Such commitments to poverty reduction presently command much global attention and form the basis of the OECD DAC's 1999 report. These commitments are further reproduced by the WTO,[93] by the UN Agencies with their 'development' targets, and by the IMF and the World Bank.[94] A key argument employed is that the *objective* of poverty reduction is *central* to economic growth. In order to substantiate the sincerity of such commitments and translate the policy into practice it is noted that '[i]n the globalized economy, policy coherence is also imperative, and must be reflected in development co-operation, just as capacity building and governance must be reinforced'. It is however not only development co-operation in terms of achieving policy cohesion that matters *per se*, rather the policies themselves must have as their central objective poverty reduction:

> *The fight against poverty* is the central priority of development co-operation based on the international objectives that the DAC set out in 1996 in a policy oriented and consolidated form. Since then, the international community has clearly demonstrated its desire to act comprehensively and ambitiously in pursuit of these objectives. This provides the anchor for the central role of official development assistance.[95]

To this end, the DAC report makes note of the latest 'Washington decisions and their significance'. Here it is stated that a 'path-breaking' decision was taken in Washington at the September 1999 Interim and Development Committee Meetings to move to an "enhanced HIPC" scheme'. This is basically the latest international debt restructuring scheme which has directly tied in to its new policy framework the goal of poverty reduction.

> This scheme ..(…) places the whole debt relief effort into a reformed approach by the IMF and the World Bank to their concessional financing for *all* low income countries. As a mark of this change of approach, the basic IMF concessional financing facility, (ESAF – Enhanced Structural Adjustment Facility) was renamed as the Poverty Reduction and Growth Facility.
>
> In short, the decisions on the HIPC initiative have led to a new synthesis, based on the international development goals and partnership principles. The terms of the debate surrounding World Bank and IMF support for low-income countries have been changed *from structural adjustment to poverty reduction.*[96]

With so much emphasis on the absolute reduction of poverty in regions and social settings where none of the previous development schemes have stemmed the tide of rising inequalities, it is not surprising that grassroots-targeted poverty reduction schemes enjoy particular popularity in concerned circles. It is in the context of these efforts that microcredit has been endorsed and adopted as a targeted poverty reduction strategy by key global architects of development: from the IMF and World Bank to

Regional Development Banks to Multilateral and Bi-Lateral Development Agencies. For example, a multi-representative development focussed report released at the June 2000 Social Summit in Geneva (the follow up to the 1995 Copenhagen Summit) entitled *Visible Hands – Taking Responsibility for Social Development,* goes on to cite 'micro-finance' under the sub-header of 'mobilizing resources at the grassroots' and under the broader chapter header of 'Who Pays ? Financing Social Development'.[97]

The integration of the development regime with the goals and objectives of the unification movement however, raises to critical attention the latest debt-restructuring moves by the IMF-World Bank in the context of the rebranded PRGF. Microcredit is employed here too, and explicitly at the level of a safety-net provision. Among other policy documents, this is clearly evident in the Poverty Reduction Strategy Papers (PRSPs), which frame the policy core of the PRGF (see chapter 7 for a detailed discussion of this). The imputed normative load associated with poverty reduction and enhanced development efforts thus emerges as mere rhetorical window-dressing: as such this normative discourse of poverty reduction is *instrumental* rather than substantive to global governance in the form of the new constitutionalism through the appropriation of disciplinary neoliberalism based poverty reduction strategies.

With reference to the global crisis of poverty, the responses of the new development regime have integrated the requirements of capitalism with a poverty reduction strategy cogent to neo-liberal principles. The abounding rhetoric of self-help and grassroots-empowerment through the further entrenchment of capitalism conceals the fact that poverty has been turned into an investment opportunity. An opportunity that is created at the human cost entailed in laying the burden of systemic risk integral to capitalist development with the most vulnerable. But such an approach that is both ideologically motivated and strategically embedded in a poverty reduction agenda can run into problems. The response to the downward relocation of risk can be seen in the *politics of resistance*.

Poverty Reduction and Resistance Politics: A Politics of Inclusion ?

The *resistance politics* is now widely documented: it entails resistance by various groups and actors at all levels, from the state level to organized labor to the under- and unemployed existing through basic survival strategies in what is an increasing informal sector, to peasant movements. One of the most visible form of the politics of resistance was recently evident in Seattle.[98] While Seattle has made the global headlines, there are many more 'local' strategies of resistance occurring on a regular basis.[99] These many forms of resistance are occurring on a global scale, and are taking on many forms of expression: from 'hidden forms of resistance' to overtly public forms of resistance. As Cheru has observed with reference to Africa and also the US,

> The decade of the 1990s began with extraordinary public protest against systems that left little room for citizens' participation on matters that affect their lives. The flag bearers of this new renaissance are based in the church, the

> informal sector, human rights movements, grassroots ecology movements, and development NGOs that have sprung up all across Africa in the last decade to articulate alternative visions of survival and democratic governance. (..) They employ both overt and hidden forms of resistance, thus pressing demands on the state through the 'politics of claims' , non- payment of taxes and open insurrections. (..)
>
> Even in the United States, a country that has benefited a lot from globalization, internal contradictions and the call for reform are growing louder. (..) largely promoted by the stirring of labor, the dismemberment of welfare as we knew it, and the boldness with which big money controls the law-making machinery of the land. [100]

The response by global policy makers to the globalization syndrome, and particularly to the resistance politics it engenders, is *still* framed in terms of what was referred to above as the policy of crisis management. It has, however, entailed shifts in strategy: Development and poverty reduction have been raised to the level of a core objective of global policy making- especially since the late 1990s - through a strategy that may be conceived of in terms of a global *politics of inclusion.* This has entailed employing a normative inclusive discourse, while in practice rather than respond in substantive terms (as the public discourses imply) the response has continued along a crisis management strategy. In this context, development at policy level and in its practical extension has become instrumental to the broader strategies of global governance. Thus, it is possible to speak of what was referred to above as the new constitutionalism *governing* globally through a strategy of disciplinary neoliberalism.[101]

The resistance politics that the contradictions of capitalist development throws up is managed as a poverty reduction strategy through the disciplining force of the social relations of debt-dependency. It is thus no co-incidence that a causal connection can be discerned between safety nets and local political outcomes.[102] The contemporary renewed focus on poverty reduction is thus still motivated by its old objective – risk management – in the broader framework of crisis management. Microcredit as a targeted poverty reduction tools serves well to advance the 'unification movement' as well as discipline those who resist such an advancement.

Global Governance, Resistance and the Hidden-Transcripts of Capitalist Development

> Patterns of domination can, in fact, accommodate a reasonably high level of practical resistance so long as that resistance is not publicly and unambiguously acknowledged. Once it is, however, it requires a public reply if the symbolic status quo is to be restored.[103]
>
> The powerful, for their part, also develop a hidden transcript representing the practices and claims of their rule that cannot be openly avowed.[104]

Against the hegemonic, publicly sustained normative claims of the role of microcredit and poverty reduction , this chapter has elucidated the strategic embedding of microcredit minimalism in GPE. This is the hidden agenda of the global microcredit and microfinance based poverty reduction strategy. This elucidation has opened up the space to argue that development and poverty reduction efforts are appropriated in the context of the politics of the unification movement as a *defensive* strategy of capitalist social relations on two accounts: on one level, it is clearly an extension of the crisis management strategy adopted to manage the contradiction of capitalist development. That is, it is the latest expression of the financial services agenda that emerged during the crisis of capacity of the 1970s. On another level, it also serves well as a preemptive defensive strategy - a counter-movement - in response to the resistance politics that these very contradictions throw up. It is thus a strategy to off-set the ensuing 'resistance politics' or even the potential *for* resistance politics.

By exposing the strategic dimension of the global poverty reduction agenda – specifically, the microcredit and poverty reduction agenda - as the hidden transcript of capitalist development, this thesis challenges the publicly sustained development discourses. Hidden transcripts conceived of in terms of James Scotts's thesis *are* the *weapons of the weak.*[105] Here, the concept of the hidden transcripts is used to advance the argument that the perceived need to employ the normative rhetoric of poverty reduction as a discourse *contrary* to its strategic embedding reveals the *weak's* (capitalist developmentalists) increasing inability to merely *manage* the crisis of global poverty which follows systematically from the contradictions of capitalist development.

As crisis management strategies increasingly appear to fail their stated objectives, the recourse to more blatantly coercive disciplinary tactics becomes more pervasive. Scott has observed that in some instances the more 'menacing the power of the dominant' the 'thicker the mask' of the subordinates.[106] In other words the public transcripts of the subordinates will tell a far different story to their hidden transcripts. This is equally true of the dominant. The harder it becomes to *legitimize* their actions, the 'more menacing their power' becomes and at the same time the 'thicker their mask'. Because of the force of the normative discourse with its appeal to democratic principles (participation and *empowerment)* and human rights, the tactics of the dominant have to be as covert as possible.

In the following chapters (3 and 4) the making of the covert agenda is traced, by following the movement of the poverty reduction agenda and its entailed policy responses up and down the strategic imperatives of the global crisis management strategy – as they have been perceived and appropriated by key global governance institutions – to its latest form and strategy: microcredit/microfinance. The objective will be to illustrate how the dual purpose of microcredit can be seen as crucial to crisis management, and hence it institutional appropriation.

[1] Michael Rowbotham, 'The killing fields of debt' in Rowbotham, *The Grip of Death, A study of modern money, debt slavery and destructive economics,* (Oxford: Jon Carpenter Publishing, 1998) pp. 135-149, for quotes see , pp.139, 141

[2] Stephen Gill and David Law, *The Global Political Economy-Perspectives, Problems and Policies,* (Hemel Hempstead: Harvester, Wheatsheaf, 1988)

[3] See Stephen Gill, 'Epistemology, Ontology and the "Italian School" ', in Stephen Gill, (ed) *Gramsci, historical materialism and international relations,* (Cambridge: Cambridge University Press, 1993) p. 44

[4] Stephen Gill, *American Hegemony and the Trilateral Commission,* (Cambridge: Cambridge University Press, [Reprinted] 1995) p. 1 (see note 2, p. 243 for expanded definition)

[5] Samir Amin, 'The Capitalist Economic Management of the Crisis of Contemporary Society' in Amin, *Capitalism in the Age of Globalization,* (London: Zed Books, 1997) This chapter provides an interesting and informative account of the emergence of the crisis and its implications. See also Samir Amin, 'The Contemporary Crisis' in Amin, *Class and Nation, Historically and in the Current Crisis,* (London: Monthly Review Press, 1980) pp. 225-248

[6] See Phil Cerny, 'The political economy of international finance', for an account of the relationship between finance and the 'real economy' in the context of changing political economy during this crisis period, in Cerny (ed), *Finance and World Politics – Markets, Regimes and States in the Post-hegemonic Era,* (Hants: Edward Elgar Publishers Ltd, 1993) p.7

[7] Amin, *Capitalism in the Age of Globalization,* p. 20, For instance, with reference to the emergence of the distinct trade in services agenda in the context of the oil shock in 1973, see Jacques Nusbaumer, vice president, 1986 of the Services World Forum, in the preface to Orio Giarini, (ed), *The Emerging Service Economy,* (Oxford: Pergamon Press, 1986)

[8] Amin, *Capitalism in the Age of Globalization,* p. 16, See also Leslie Sklair, 'Social movements for global capitalism: the transnational capitalist class in action', *Review of International Political Economy,* Vol. 4, No. 3, (1997) pp. 514-538 (see esp. p. 516); See also, R. J. Barry Jones,

'Globalization in Perspective' in Randall Germain (ed), *Globalization and its Critiques- Perspectives from Political Economy*, (London: Macmillan, 2000) See esp. p. 250; See also Susan Strange, *Casino Capitalism*, (Oxford: Basil Blackwell Ltd, 1986) p. 6. With reference to 1973, Strange has stated that all 'that can be said is that it seemed to mark a sort of change of gear, as the system moved from a more stable period into a much more unstable one'. p.6. See also, Esthan B. Kapstein, *Governing the Global Economy, International Finance and the State*, (Cambridgr, Mass.: Harvard University Press, 1994) Kapstein has stated the following of the 1970s, '[u]nlike previous postwar decades, the 1970s were characterized by a unique combination of inflation, floating and erractic exchange rates, and vollatile interest rates'. See p. 20

[9] Strange, *Casino Capitalism*, p. 7

[10] Strange, *Casino Capitalism*, p. 5

[11] Robert P. Inman, 'Introduction and overview' in Inman (ed), *Managing the Service Economy – Prospects and Problems*, (Cambridge: Cambridge University Press, 1985) p. 1

[12] Murray Gibbs, 'Continuing the International Debate on Services' in *Journal of World Trade Law*, Vol. 19, No. 3, (1985) pp. 199-218, see p. 199, see also for example, Jagdish Bhagwati, 'International Trade in Services and its Relevance for Economic Development', in Giarini, *The Emerging Service Economy*, see p.25, Bhagwati has stated with reference to the role of the US in facilitating the trade in services agenda, that it reflected 'the lobbying pressures from those service sectors in the US that seek greater access, and right to establish in other countries'.

[13] Gibbs, 'Continuing the International Debate on Services', p. 209

[14] Strange, *Casino Capitalism*, p. 88 (In this quote strange is paraphrasing Samir Amin's account of the structural changes of this period from his book *Class and Nation, Historically and in the Current Crisis*).

[15] Gibbs, 'Continuing the International Debate on Services', p. 204

[16] Jeffrey J. Schott and Jacqueline Mazza, 'Trade in Services and Developing Countries' in *Journal of World Trade Law*, Vol. 20, No. 3, (1986) pp. 253-273, see p. 258

[17] Cerny, 'The political economy of international finance', p. 10, see also p.17

[18] Cerny, 'The political economy of international finance', p. 7

[19] An excellent account of this is Strange's, *Casino Capitalism*, see also Kapstein, *Governing the Global Economy*, p. 30, He has stated the following with reference to the collapse of the Bretton Woods financial order: ' (..) banks responded by diversifying their assets and liabilities on a global basis, creating new financial instruments (or " financial engineering"), and speculating in financial markets'.

[20] Irving B. Kravis, 'Services in world transactions' in Inman, *Managing the Services Economy*, p. 147

[21] Gibbs, 'Continuing the International Debate on Services' p. 208, see also Susan Strange, *Casino Capitalism*, p. 54,

[22] See for example, The WTO Secretariat, *From GATT to the WTO: The Multilateral Trading System in the New Millennium*, (The Hague: Kluwer Law/WTO, 2000) p. 65

[23] Helena Stalson, 'U.S. trade policy and international service transactions' in Inman, p. 169 (emphasis added)

[24] Gibbs, 'Continuing the International Debate on Services', p. 210 (emphasis added)

[25] Miguel Rodriguez Mendoza, 'Latin America and the Negotiations on Trade in Services', in *Uruguay Round – Papers on Selected Issues*, (Geneva: UNCTAD, United Nations, 1989) p. 79

[26] Mendoza, 'Latin America and the Negotiations on Trade in Services', p. 78

[27] John Gerard Ruggie, 'International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order, *International Organisation*, Vol. 36, No. 2, (1982)

[28] Eric Helleiner, *States and the Reemergence of Global Finance*, (Cornell: Cornell University Press, 1992), p. 76, See also Helleiner, 'When finance was the servant: international capital movements in the Bretton Woods order' in Cerny, *Finance and World Politics*,

[29] See on this, Helleiner, *States and the Reemergence of Global Finance*; Helleiner, 'When finance was the servant: international capital movements in the Bretton Woods order'; Strange, *Casino Capitalism*,

[30] Helleiner, 'When finance was the servant: international capital movements in the Bretton Woods order', p.39

[31] See also for example, Amin, *Capitalism in the Age of Globalization*, p. 20

[32] John Gerard Ruggie, 'At Home Abroad, Abroad at Home: International Liberalization and Domestic Stability in the New World Economy', *Millennium, Special Issue – The Globalization of Liberalism?*, Vol. 24, No. 3, (1995) p. 513

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[47] Strange, *Casino Capitalism*, p. 60

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[77] Claire Cutler, 'Public Meets Private: The International Unification and Harmonization of Private International Trade Law', *Global Society,* Vol. 13, No. 1, 1999

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[80] Gill, 'The constitution of global capitalism' p. 2

[81] Gill , 'The constitution of global capitalism', p. 2

[82] Fantu Cheru, 'Transforming our common future: the local dimensions of global reform' in *Review of International Political Economy,* Vol. 7, No. 2, (2000) pp. 353-68, see p. 354

[83] James H. Mittelman, *The Globalization Syndrome- Transformation and Resistance,* (Chichester: Princeton University Press, 2000) p. 4, See also on this issue, Julian Saurin, 'The Global Production of Trade and Social Movements' in Annie Taylor and Caroline Thomas (eds.) *Global Trade and Global Social Issues,* (London: Routledge, 1999) pp. 217-236

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[91] Saurin, 'The Global Production of Trade and Social Movements', p. 218

[92] Julian Saurin, Globalization, Poverty and the Promises of Modernity', in *Millennium – Journal of International Studies,* Special Issue on Poverty. Vol. 25, No. 3, (1996) pp. 657-80

[93] See for example the report released by the WTO authored by Dan Ben David, Hakan Nordstrom and L Alan Winters, *Trade, Income Disparity and Poverty,*(Geneva: WTO Publications, 1999, Sepcial Studies No.5)

[94] For an overview of the policy documents of these different institutions that sets in motion 'policy coherence' between each to reflect a 'unification' of 'development' policy, see DAC-OECD, 'Development Co-operation 1999 Report', pp. 124-125

[95] DAC-OECD, 'Development Co-operation 1999 Report', p. 10 (original emphasis)

[96] DAC-OECD, 'Development Co-operation 1999 Report', p. 21 (emphasis added)

[97] UNRISD, *Visible Hands – Taking Responsibility for Social Development – An UNRISD Report for Genva 2000,* (Geneva: UNRISD, 2000)

[98] On this, see the recent discussions on Seattle by Mary Kaldor, Jan Aart Scholte, Fred Halliday and Stephen Gill in the *Millennium-Journal of International Studies,* Vol. 29, No.1 , (2000) pp. 103-140

[99] See Scott, *Weapons of the Weak,* and also James C. Scott, *Domination and the Arts of Resistance: Hidden Transcripts* (London: Yale University Press, 1990)

[100] Cheru, 'Transforming our common future', pp. 358-59

[101] Stephen Gill, 'Globalization, Market Civilization, and Disciplinary Neoliberalism', *Millennium-Journal of International Studies,* Special Issue : The Globalization of Liberalism, (Vol. 24, No. 3, 1995), pp. 399 –423, p. 412

[102] See for example, Vivian, 'How Safe are "Social Safety Nets" ? Adjustment and Social Sector Restructuring in Developing Countries' in Jessica Vivian, (eds) *Adjustment and Social Sector Restructuring,*(Geneva : UNRISD, 1995). See also in this volume Lourdes Beneria and Breny Mendoza, 'Structural Adjustment and Social Emergency Funds', and Samuel K. Gayi, 'Adjusting to the Social Costs of Adjustment in Ghana: Problems and Prospects'. In general all the essays in this collection have some relevance to this issue.

[103] Scott, *Domination and the Arts of Resistance* , p. 57

[104] Scott, *Domination and the Arts of Resistance,* p. xii

[105].Scott, *Domination and the Arts of Resistance,*

[106] Scott, *Domination and the Arts of Resistance,* p. 3

CHAPTER 3.

THE WORLD BANK, THE IMF AND POVERTY REDUCTION: MANAGING SYSTEMIC RISKS?

The primary objective of this chapter is to substantiate one aspect of the dual purpose of microcredit: that is, its function as a political safety-net. The argument is that the global microcredit and microfinance agenda is motivated not by concerns of poverty reduction *per se* but rather, it is employed as an innovative tool to target and discipline the poor. Although, focussing on the politics of microcredit's function as a political safety net, aspects of the argument will inevitably also engage with its role in advancing financial liberalization, which is addressed in detail in chapter 4.

In this chapter, parallels will be drawn between the crisis management strategies and the role of both the IMF and World Bank in the *transnationalization* of the systemic risks (see chapter 2). Microfinance will be elucidated for its appropriation as a disciplining tool in the *transnationalization* of risks in the context of the advancement of the trade in services agenda, which emerged in response to the capacity crisis. It will be shown to be employed in practice as a risk management strategy, although the public transcripts suggest it to be a poverty reduction and development approach. The argument that microcredit is employed as a disciplining tool at the grassroots, is contextualized and elucidated through an analysis of World Bank - IMF policy and, through an engagement with the political implications entailed in implementing those policies in respective countries. There are three key reasons for focussing on the World Bank and the IMF:

1. Both these institutions have over the years come to play a significant role in influencing the domestic politics of Third World states, and therefore by extension also the social (development) policies pursued within those states. Their capacity to influence policies within states has also been extended to the former Socialist Bloc countries (Russia and Eastern European states) and China. In such contexts, they have increasingly come to concern themselves with poverty and associated policies for poverty reduction. Poverty has been on the World Bank's agenda since the 1960s, but with renewed vigor since the 1980s. The IMF, on the other hand, has only come to incorporate concerns of poverty in policy since the 1980s. Almost twenty years later, both institutions have increased policy coordination explicitly *for* poverty reduction (cf. IMF's renaming of the Enhanced Structural Adjustment Facility [ESAF] to the Poverty Reduction and Economic Growth Facility [PRGF] in 1999 and the World Bank's Comprehensive Development Framework [CDF] also adopted in 1999). The policy stance of both the IMF and the World Bank in the beginning of the 21st Century is therefore, one of proactively prescribing solutions and developing policy *for* poverty reduction.

2. The IMF by Statute is not obliged to concern itself with the social implications entailed in 'balancing' the books, or in the social implications of its policy

recommendations made in order to *facilitate* international trade. It must only concern itself with the *data* which appear in a countries Balance of Payments Accounts. If the IMF provides adequate international monetary stability, but world trade does not grow, or even shrinks –it cannot be said that the IMF has not succeeded in achieving its aims.[1] In contrast to the World Bank, the IMF is not considered to be an agent of development. Yet, its policy recommendations direct developmental options.

3. The World Bank, encompassing the International Bank for Reconstruction and Development (IBRD, 1944) and the International Development Association (IDA, 1960), is generally understood to be the development arm of the two Bretton Woods institutions. Yet, even the World Bank does not have a mandate to concern itself with issues of distributive justice. Moreover, it is *not* as is conventionally assumed a 'stand-alone' institution. Rather, Article V, section 8 of the World Bank's Statues points to it's *obligation* to cooperate with the IMF. In this context, (and particularly with reference to SAPs) if the IMF supports structural adjustment top-down, then the World Bank in contrast supports adjustment bottom-up.[2] Membership of the IMF is a pre-requisite for membership in the World Bank.[3] Thus, one may argue that the objectives of the IMF must guide World Bank policy. This raises the question of the salience of the role of the World Bank as a development institution, let alone one that aspires to shape a comprehensive global development framework.

The IMF and World Bank are both significant political actors in global development processes, inspite of their built-in limitations alluded to above. Careful scrutiny of the possible reasons for their concern with the social dimensions of domestic policy making suggests that strategic motives are paramount; in particular their desire to shape politics within developing countries along capitalist paths.[4] In tracing the institutional development of responses to poverty, first in the World Bank and more recently in the IMF, and currently in their enhanced policy coordination as seen in the PRSPs, this chapter elucidates strategic political motives: The historical analysis of their respective institutional understandings of poverty provides the backdrop to understanding their appropriation of microcredit minimalism as a targeted poverty reduction strategy and thus situate the approach in its strategic context.

In eight sections, this chapter elucidates the political implications of the World Bank's and the IMF's concern with poverty related issues. Sections one to three present an historical overview of the evolution of the poverty agenda in both institutions, against the background of the post-1945 global political climate. This includes scrutiny of the mandates of both, the IMF and the World Bank and the changes and adaptations which they have undergone. Section four focuses more closely on more recent World Bank-IMF collaboration, which is explicitly directed at recasting their efforts in managing the *transnationalization* of systemic risks in terms of a poverty reduction agenda. Section five demonstrates this with reference to the example of the Bolivian ESF and its microcredit component. Sections six and seven focus again on the issue of poverty in agendas of both institutions, this time concentrating on issues of legitimacy and strategic motives. Section eight summarizes these implications and prepares for the more in-depth study of the role of microfinance in financial liberalization in chapter 4.

To begin with, an historical overview of the particular conceptual approach to poverty adopted by the World bank and also the IMF follows. This will set the background to understand fully the implications of microcredit's dual purpose.

Poverty: A *Security* Issue

The World Bank's focus on issues of poverty emerged primarily as a *security* concern in the context of the Cold War. The policy makers of the Western States perceived conditions of absolute poverty (as opposed to *inequality*) in the developing world as making ripe the conditions for socialist co-optation - thus posing a threat to the capitalist economies. Based on his research to uncover the political underpinnings of the World Bank's poverty oriented work as they emerged in the 1960s under Robert McNamara, Robert Ayres concluded the following:

> The underlying political rationale for the Bank's poverty – oriented development projects seemed to be political stability through defensive modernization. Political stability was seen primarily as an outcome of giving people a stake, however minimal, in the system. Defensive modernization aims at forestalling or preempting social and political pressures. If defensive

modernization is successful, it results in conservatism among newly modernized and thus to their contributions to political stability.

Defensive modernization, if successful, will lead to the creation of a modern small-holder sector in the rural areas. Such a small-holder sector will be integrated with the national commercial economy. Its success will be tied up with the success of that economy. It will be co-opted. It will be, to use the words of a Bank project officer, "fiercely individualistic on the production side," reticent toward joining in co-operatives and other forms of group activity, loath to link its interests with those not yet modernized.[5]

Poverty, perceived primarily as a *security* threat to the sustenance of capitalism continues to motivate World Bank and indeed IMF policy formulation for poverty reduction. Thus, attention to poverty, even in its latest form as expressed in the PRSPs, can be seen to be primarily a response to such security prerogatives, despite their public venting of normative commitments which suggests a *prima facie* concern with poverty and equity.

In addressing security prerogatives in the above sense, both institutions can be seen to act as strategic transmitters for specific political goals (see chapter 2). Thus, for example, the incorporation of the social dimensions of adjustment into policy making by the World Bank and the IMF (especially since the 1980s) has been carefully crafted to maintain coherence, as far as possible, with the orthodox development prescriptions of the Washington Consensus. In this logic, adopting microcredit minimalism as a targeted safety-net has achieved a neoliberal squaring of the circle: the strategic political imperatives of targeting in the social sector has been sustained if not enhanced without compromising the economic productivity of the strategy.

Adjustment, poverty and security: the 1980s and 1990s

Since the 1980s, both the IMF and the World Bank have enhanced policy based lending for macro-economic policy changes (broad based liberalization and fiscal austerity) of many of its member countries. These policy prescriptions have encountered local political resistance, in most instances posing a threat to the process of political transition itself. In one such context, namely during the implementation of the New Economic Program (NEP) in Bolivia in 1985, the IMF and World Bank coordinated policy in order to mitigate the social cost of the adjustment program: a targeted program in the form of an Emergency Social Fund (ESF) was established to cushion the social costs of the adjustment program. The Bolivian ESF was unique in that as a safety net it constituted a private delivery model, it was economically productive and financially innovative. Microcredit minimalism constituted a large part of the Bolivian ESF.

The decision to establish the ESF in Bolivia in the context of implementing its SAP and austerity package, was however not based only on the social consequences of adjustment as generally stipulated. Rather, the motives for doing so were primarily strategic: it was implemented to mitigate the political cost of the structural adjustment process.[6] In other words, the ESF was implemented to sustain and even *facilitate* the process of political transition projected in the NEP's structural adjustment requirements. Based on its relative success, the central features of the Bolivian ESF, including its microcredit dimension, subsequently came to serve as a model for IMF - World Bank approaches to mitigating the political cost of social risks accompanying adjustment programs in other similar contexts.

In attempting to write the lessons from the Bolivia case (and others) into its policy directives, the World Bank incorporated considerations of issues previously neglected in lending strategies, namely, concerns of gender, the environment and poverty. To be sure some of these issues have been taken on board since the 1980s in the face of severe criticisms that pointed to the World Bank's neglect of the *negative* social dimensions of its policy prescriptions (cf. the Unicef study that called for 'adjustment with a human face').[7] Ironically, however, the emergence of such concerns at the global level was timely for the World Bank, as it provided a window of opportunity for it to repackage the Bolivian experiment and present it as a response to these normative challenges. The associated normative discourses (e.g., self-empowerment) provided the much needed cover to conceal the strategic motives underlying the Bolivian ESF type interventions and thus the legitimacy to replicate it's core features in the context of SAPs in other countries.

In effect, the normative dressing-up of the strategic interventionism can be seen as an attempt by the World Bank to immunize its role in the advancement of neo-liberal politics from the onslaught of its critics. One notable policy adaptation in this direction was its adoption of Operational Directive 8.30, on Financial Sector Operations (O.D. 8.30). This set strict guidelines on the use of subsidies and advocated commercial on-lending interest rates. However, apparently due 'to uncertainty about how to implement the guidelines into practice'[8] it was recast in 1998 as an Operational Policy (O.P.) on Financial Intermediary Lending (FIL). O.P. 8.30 makes direct references to microfinance and coincided with the World Bank's adoption of microcredit and microfinance minimalism for poverty reduction. The microcredit based poverty reduction strategy is broadly constituted in the framework of the World Bank's Program of Targeted Interventions. (PTI).

In order to pursue in more detail some of the implications of these trends, the chapter proceeds by briefly discussing the original mandate of the IMF, followed by a political analysis of the evolution of its policy of conditionality. This will provide the backdrop for understanding the role of the IMF in the constitution of disciplinary measures at the grassroots. Analysis of the World Bank, follows, with a focus on the transition of its lending strategy for 'specific projects' to 'programs of projects' to overall financing for SAPs. The World Bank's incorporation of the social dimensions of adjustment is evaluated in the context of the latter policy. These institutional developments are evaluated alongside parallel international political currents, such as the trend toward enhanced IMF and World Bank policy coordination to advance neoliberal politics in the face of a growing resistance politics.

IMF: Mandates and Objectives

The IMF and IBRD were set up in 1944 in Bretton Woods, New Hampshire. The policy of the IMF supports the objectives summarized in Article 1 of its Statutes. The mandate of Article 1 is ,

4. To promote international monetary cooperation
5. To facilitate expansion and balance of growth of international trade
6. To promote exchange rate stability
7. To assist in the establishment of a multilateral system of payments
8. To give confidence to members by making temporarily available the general resources of the Fund under *adequate safeguards* (emphasis added)
9. To shorten the duration and lessen the degree of disequilibrium in the international balance of payments of members.

The IMF may use two means to achieve these objectives: Through Article IV Consultations, which means that regardless of whether a country is in surplus or deficit they are subject to surveillance by the IMF. The IMF will make recommendations on necessary policy changes, if required. Recommendations in this context may be distinguished in terms of 'soft law' and 'hard law'. A country with a surplus in its balance of payments cannot be forced to adjust, and is therefore subject to 'soft-law'. Countries with a deficit – therefore in need of IMF credits to balance payments - on the other hand are subject to 'hard-law', or a policy of firm surveillance. In such cases, certain policy prescriptions – generally referred to as conditionality - may be attached to the IMF credit provision. The Statues of the IMF have been amended twice (1968, 1978) to incorporate decisions on policy based lending for balance of payments support. The policy of conditionality does not apply to creditworthy countries with a deficit.

Evolution of conditionality in the IMF

The policy of conditionality evolved in the IMF through the establishment of the right to challenge members drawings on IMF credits. The latter was based on the perceived need to ensure that 'adequate safeguards' are in place in respective countries drawing on IMF credits. The US was keen to legislate this right into the original Statutes of the IMF, but was challenged by the Western European countries who at that point expected to have serious balance of payments problems, and thus would have had to draw resources from the IMF. By rejecting the proposal to establish the right to challenge members drawings, the European states were effectively avoiding the possibilities of being subject to IMF intervention in their domestic policy formulation. Interestingly, however, upon the decision to establish the Marshal Plan for European reconstruction and development (February 24 1948) the right to challenge members drawings was established through an interpretive decision of the IMF's mandate by its Executive Board. On March 17 1948, a decision affirmed the power of the IMF to consider 'adequate safeguards' for each drawing.[9]

This interpretative decision has been at the foundation of the evolution of the policy of conditionality. The amendments to the Statutes in 1969 and 1978 are thus largely codifications of rules which had 'already been carried through in practice'.[10] The 1978 amendment confirms that use of purchased currency must agree not only with the conditions in the Statutes and the derived interpretations, but also with 'the policies adopted under them'.[11] It has been noted that the 'right to challenge' members drawings was codified in legislature on the 'express wishes of the members of the European Community, the very group who in the past had so strongly favored automatic drawing rights'.[12]

These early developments in the IMF are important because they underpin the perceived strategic significance of policy based lending strategies from the institution's inception. In the post war era, the policy of IMF conditionality was an important political tool to the Western states. Most importantly, it established an *a priori* right to challenge socialist policies on the grounds that they did not provide adequate safeguards against it's credits. Thus, it served to increase the leverage of the Western liberal states to counter socialist policy orientations in the less powerful states. Through attaching conditionalities (which usually take the form of securing commitments from governments to adopt liberal economic policies) to IMF credits an opportunity was created to bring into line the developing states. Given that this period also saw the emergence of decolonisation, the policy of conditionality also effectively provided an opportunity for the former colonial powers to continue to some extent the economic regimes that had existed previously under colonial rule.

They were enabled to continue to shape political economic relations broadly according to their aspirations (cf. above the codification of the 'right to challenge' based on express wishes of the European states).

The early 'interventionist' policies[13] were subsequently enhanced in the 1980s, through the establishment of the Structural Adjustment Facility(1986) and the ESAF (1987) which is now the PRGF. By attaching the adoption of norms conducive to the more powerful capitalist states as conditionalities to credits provided to developing states, the IMF has effectively been *instrumental* in disciplining the less powerful states at the state level. It has played an important role in structuring and extending the imperatives of GPE to Third World states. The IMF has played a crucial part in the *transnationalization* of the systemic risks. In the context of this process, the IMF also came to increase policy coordination with the World Bank, whose own mandate was also legislated for flexible interpretation under special circumstances.

The World Bank: Mandate and Objectives

Referred to as the World Bank are the IBRD and also the IDA which was established in 1960. The World Bank's 'Articles of Agreement contain no reference to poverty or to related notions such as social welfare or equity'. [14] Yet the World Development Report (WDR) of 1990 explicitly focussed on poverty. In 1991, the World Bank approved Operational Directive 4.15 on Poverty (OD 4.15).[15] In 1993 the opening remarks of a World Bank's vice president to a meeting at the UN stated that 'Poverty reduction is now at the top of the World Bank's agenda'. The World Development Report of 2000/01 is titled 'Attacking Poverty'. But despite such public displays of intent to ameliorate social insecurities, there exists an 'apparent discontinuity between Bank [World Bank] rhetoric, on the one hand, and the constancy of the Bank's Charter and uninterrupted growth of its financial position and international reputation, on the other.'[16] Thus, the extensive public references to poverty during the 1980s any 1990s may be interpreted as an aggressive marketing strategy by the World Bank to imply that the issue of poverty is at the center of its agenda because,

> statements about poverty and other goals legitimize and reinforce the institution while affirming their objective, functional content. (..) The Bank's message about itself to the outside world has changed over the decades, from one emphasizing financial respectability to one concerned with social issues, in response to the winds of political change in the donor community, (..)

Image adjustment may explain in part the radical change in the Bank's expressed stance regarding poverty.[17]

Although attention to poverty appears to be a recent trend, there is, as noted above a historical legacy to the evolution of poverty as a social and political issue that influenced policy making in the World Bank.

Historical evolution of the poverty agenda in the World Bank

The issue of poverty was actually taken on board by the IBRD as early as the late 1950s and became pronounced in World Bank operational policy first in the 1960s (through the IDA) and again since the 1980s. This policy orientation was however, as stated above primarily in response to the perception of poverty as a *security* threat to the capitalist ideology. Under the presidency of Robert S. McNamara the period between 1968 –1981 saw significant policy changes at the World Bank and these reflected such perceptions. This period was characterized by two major operational changes.

A vast expansion in the flow of financial resources from the Bank to the countries of the developing world and a significant reorientation in the kinds of projects those resources financed. Particularly after 1973 the Bank diversified the sectoral allocation of its funds away from an almost exclusive

> concern with funding projects of basic economic infrastructure toward projects explicitly devoted to the alleviation of poverty in less-developed countries. At the same time it was vastly expanding the amounts of its development lending, the Bank was also becoming the world's largest antipoverty agency. It was in the forefront as the international development assistance community entered an era of poverty-oriented development projects.[18]

So despite the limitations of its mandate how did the World Bank come to involve itself with poverty –what were its motives for doing so ? What institutional changes transpired as a result ? What have been the key instruments pursued to target poverty directly?

Although the IBRD has a mandate to lend for projects – 'specific projects'- it allows for a degree of flexibility in allocating loans. Upon insistence of the Americans a provision was included in its mandate to allow for loans other than for 'specific projects' to be made under 'special circumstances'.[19] This provision, tantamount to the 'interpretative decision' of the IMF, allowed the World Bank an element of flexibility to use various lending strategies and instruments as and when required.

The initial 'project' focus of the IBRD suited well the climate of the time: lending for specific projects implied an element of 'technocracy' and therefore suggested itself to be above the 'political fray.'[20] Moreover, although the World Bank is 'a *public sector* institution' it was, and still is 'peculiarly linked to the private sector and private resources.'[21] In this context, 'project' loans offered a further advantage in that they could be easily evaluated and assessed for their financial productivity. The financial productivity aspect had to be (and still is) a vital factor in the IBRD's lending considerations given that it was borrowing from Wall Street to on-lend to members and thus continuously aspired to maintain its own institutional creditworthiness (the World Bank received an AAA rating for its bonds in the 1950s).[22]

In addition to the World Bank's private sector creditors, the US as its largest shareholder, enjoys a privileged position which is legally enshrined and affects the governance of the institution.[23] Given that the IBRD 'has been important because of its strategic role in the development promotion process',[24] it became not surprisingly, an increasingly *instrumental* tool of the US. In short, it came to be a key institutional vehicle in promoting US political ideology and foreign policy objectives. However, there were obstacles to the smooth realization of US objectives through the IBRD, because it could not always afford to prioritize strategic lending over economic efficiency. Given its peculiar association with the private sector, as noted above, economic productivity of projects, that is returns on investments, could very often not be compromised in pursuit of strategic objectives. This was to limit its politically instrumental role. There is a strong case to be made that, because of these important strategic limitations, the IDA was established in 1960 to be the concessional lending arm of the World Bank (IBRD and IDA). The IDA, it has been stated 'was the affiliate that changed the whole history of the World Bank'.[25]

The IDA resources, unlike much of the IBRD, did not come from private capital markets but rather from member states themselves. This meant that some members would be donors, others potential recipients of IDA credits. In this context, it was 'thought appropriate to formally segregate the two groups into "Part I" and "Part II" countries.[26] Thus from the beginning the members eligible to draw on IDA resources were the 'less developed areas of the World included within the Association's membership'.[27] This was later to be defined in terms of 'income per capita'. The definition has been flexible, however, as for example guidelines adopted in 1989 allocated 45 per cent of IDA shares for Africa, based on regional indicators.[28] Thus, intrinsically associated with the IDA's mandate and license for policy influence were indicators/criteria of underdevelopment, in effect notions of poverty.

The establishment of the IDA as an IBRD affiliate primarily allowed the IBRD an opportunity to pursue policy goals which for reasons mentioned above it could not itself pursue. The IDA has the same board and management structure as the IBRD and its mandate was similar to that of the IBRD: project lending was to be its mode of operation with the element of flexibility written in for 'special circumstances'. The Executive Directors of the World Bank attached a set of comments – essentially interpretations – on the IDA mandate to the text itself. On interpreting Article V, (on Operations) it was noted that the provisions

> [h]ave been drafted in very general terms, in order to give the Association wide latitude to shape its financing to meet the needs of actual cases as they arise. For example, the Association is authorized to finance any project which is of high developmental priority, that is, which will make an important contribution to the development of the area or areas concerned, *whether or not the project is revenue- producing or directly productive,* (..) although it is expected that a major part of the Association's financing is likely to be for the type financed by the Bank.[29]

Importantly, therefore the IDA established two key areas of political maneuver for the World Bank. Firstly, it allowed the World Bank to engage in strategic lending – given that the IDA, unlike the IBRD could afford to lend *whether or not a project was revenue-producing.* Secondly, it allowed the World Bank to engage in 'overall development strategies' which necessitated an engagement with *sectoral* policy making of members. In this context, it was noted that 'specific projects' made reference to in the IDA mandate were 'intended to include, as in the Bank's [IBRD] practice, such proposals as a railway program, an *agricultural credit program,* or a *group of related projects forming part of a development program*'. Thus, IDA crucially opened up opportunities to engage with development issues broadly, and not just in terms of 'specific projects'.

The IDA in cold war politics

The development role assigned to the IDA seems to have been determined explicitly by political motives. It was timely given the international political climate: the IDA was established in the midst of Cold War Bloc rivalry and coincided with President Truman's doctrine of containment. It was also a period that ushered in many newly independent states via decolonisation. These new states - subject to the national accounting systems and having started off in a position of a balance of payments deficit - had already submitted proposals to the UN to establish a multilateral concessional assistance program under the authority of the Economic and Social Council (ECOSOC). This proposed ECOSOC agency was to be the Special UN Fund for Economic Development (SUNFED). SUNFED, however, was not to be. One may speculate, that if SUNFED had materialized, the opportunity for Western Capitalist states to govern and bring into line policy of the developing states may have been reduced [30] (at least if governance was to be through the chimera of democracy – indirect, institutional rule). Indeed, Eugene Black, then president of the World Bank, has been explicit on the fact that "the International Development Association was really an idea to offset the urge for SUNFED".[31]

IDA: cold war politics and rural agricultural development

If it can be argued that the IDA was established for strategic political reasons, then the early agricultural focus of its lending portfolio serves well to further support this line of argument. Targeting the agricultural sector meant focussing on the rural areas. It was the agriculturally based rural sector that was then perceived to have strong socialist inclinations. Thus, targeting this sector potentially offered opportunities to diffuse these tendencies through either directly approaching the activists with relevant incentives to do otherwise, or it offered opportunities to support the local elites and power groups who in turn would deliver the local support of their clients (cf. the pursuit of such strategies in Bangladesh –chapter 6). It was also noted by its Executive Directors that the IDA may provide financing 'not only to governments but to public or private entities in the territories of a member or members'.[32] IDA's early focus on grassroots agricultural practices also squared the circle in the context of the emergence of the Green revolution. US AID was actively engaged in the promotion and support of this modern agricultural technology. The motives for US AID's extensive engagement with the agricultural sector was not, however, based only on its potential economic payback, but rather, has been argued to have been motivated primarily by strategic concerns.

> The agricultural and human resource thrust of US aid was a direct response to the political emergency centered in rural Asia; peasants were the prime targets and milieu for communist mobilization. In country after country, the policy was to prevent "another China", an objective that was reinforced by the Korean War. Poverty, perceived as the seedbed of communism, was visibly and overwhelmingly *concentrated in agriculture.* At that time, agricultural

science and medicine was advancing rapidly, and the expected payoffs from extension services to farmers , (..) [33]

This strategy, partly embedded in the modernization discourses was pursued aggressively by the US. It focussed, for example, on pushing for land reform through appeals for support for the 'small farmer'. (However, when the landowners were American rather than Asian in Guatemala, it just as forcefully prevented land reform).[34] Nevertheless, as noted above, targeting the agricultural sector provided opportunities not only to export US agricultural products but also to sow the seeds of the idea of commercialization. By promoting small farmers for example, it became possible to fragment tendencies that were underway to move toward communal patterns of ownership and production. By employing the normative appeal underpinning the idea of supporting the small farmer, its proponents sought not only to distract from the strategic motives but also to legitimize it.

Importantly, the focus on agricultural development also provided 'inways' to integrate development projects: which necessarily meant an opportunity to define, shape and direct *development policy against* a given local trend. If initially 'rural agricultural development' evolved as a US approach to counter socialism, it was also soon to became part of the World Bank policy .[35] Agricultural and rural development were to become a key focus of IDA lending. For instance, the promotion of agricultural credit to purchase fertilizer soon became a part and parcel of what came to be known as the World Bank's Integrated Rural Development Programs (IRDPs).

Given the dimension of US influence in World Bank policy formulation and the changing political imperatives of the 1970s, agricultural credit or the Rural Finance sector soon became one of the prime and early targets of financial sector liberalization in the development context: indeed, the extension of microcredit minimalism for rural development can be said to have its roots in this context. (cf. Ohio School influence on this sector –chapter 6)

IDA: normative rationale and political significance

The political significance of the IDA has been and continues to be immense, particularly since member states (Part I, 'creditors') increasingly attached conditionalities to their (public) monies provided through the IDA. By channeling concessional loans through the IDA, Part I members leverage increased over the developing states. More controversially, in the long run, members attempted to

> (..) use replenishment exercises to exert stronger-than- usual influence over IDA's lending programs. Some of these were collective efforts by most Part I members to gain more active programming roles. In particular, especially during the Banks adjustment lending 'era', Part I owner countries pressed to play a livelier role in reviewing and guiding programming at the *country*, and not just project or sectoral level.[36]

If these were to become the opportunities contributed by the IDA to *donor* states to advance their policy objectives, in the more immediate future it allowed the World Bank to pursue the development objective of US foreign policy and through it put into practice the policy of containment: if development is to be conceived as an evolutionary process – then socialists forms of development processes could, potentially, through the IDA be contained. This was crucial to managing the capacity crisis. The *transnationaliztion* of the systemic risks through the trade in services agenda could only have become possible through the establishment of the enabling environment for it. In sum, it required a capitalist political framework. Importantly, by associating notions of poverty reduction with the IDA rationale, its strategic motives could be underplayed and legitimated normatively through poverty reduction and development discourses.

In sum, 'the biggest change wrought by IDA may have been the quietest: IDA smoothed the way for a transition from true "specific projects" loans to *program lending* in its various guises'.[37] If the adoption of liberal economic policies meant that adequate safeguards were intact against IMF and IBRD credits – the IDA sought to mitigate the political challenges to realizing these safeguards. As events developed in the 1980s the IMF and the World Bank were both well equipped to respond with their respective disciplining tools : the IMF disciplining at state level and the World Bank (IBRD + IDA) through complementary policies at the grassroots.

International Political Uncertainty: World Bank - IMF Collaboration for Political Risk Management

As noted above, *targeted* lending for poverty reduction came to the forefront of policy making in the World Bank during the MacNamara years. A proposal similar to that adopted under McNamara (direct targeting for poverty reduction) was previously deemed to be too radical, as it raised the issue of the IDA intruding into an essentially political domain of a country. It was perceived by McNamara's predecessor to be too sensitive to be considered during the international political currents of the time.[38] For example, the new developing states had already set in motion their political identities and political claims in the Bandung conference of 1955. After their failed proposal for the SUNFED, in 1972, they proposed a New International Economic Order (NIEO): calling for an adjustment of the political economic structures at the global level - in favor of greater democracy and sensitivity to the circumstances and needs of the development stages of the Part II countries.

The global response to the call for substantive changes to the *status quo* at the state level was however in the form and language of what emerged as the Basic Needs approach. If the 'NIEO implied a shift of power to the states of the Third World, the basic needs program implied a shift of power away from states towards development projects closely overseen by experts from the First World.[39] If the World Bank initiated the basic needs approach, it seems that strategies adopted to deliver basic needs increased the political feasibility of the World Bank's intention of establishing *targeted interventions* for poverty reduction (see chapter 2). In this sense, the basic needs strategy has been particularly conducive to attaining the objectives of the World Bank, as well as attempting to counter demands for substantive structural change by the Third World. The idea of ensuring basic needs at the grassroots appealed to the normative currents of the time. It emerged in the context of the diminishing of state capacity, whence poverty within states came to be seen as the *failure* of states to provide for the basic needs of their people, rather than also to the structural constraints of Third World States in global political economy (see chapter 1, footnote 32, and see also chapter 7). At the same time, it repealed the political thrust for greater equity in world development as voiced by the NIEO.

Several political economic developments contributed to diminishing the capacity of Third World states which also weakened their position in negotiations for global structural change. Key events in this context were the two oil shocks and their political implications, which culminated in the debt crisis. This era coincided with an increase of policy coordination between the IMF and the World Bank. Moreover, IMF-World Bank policy was guided - if not directed - by efforts of policy coordination between the G7 states. For example, the DAC of the OECD began to play a more proactive role in coordinating development policy formulation. It also became increasingly common practice for potential policies to actually be initiated under the auspices of 'informal private consortiums' such as the *Trilateral Commission*.[40] Many of the policies and strategies defined *for* the developing states that resulted from such policy forums and policy coordination came to be legitimated through their association with debt restructuring processes.

In this context both the IMF and the World Bank found it opportune to redefine their own institutional standing: they came to play the role of what may be termed as effective insurance agents of political stability under capitalist expansion. Financing mechanisms (including for debt servicing) to the debtor states soon became subject to IMF-World Bank certification. The two Bretton Woods institutions would through renewed and innovative efforts, continue to ensure that adequate safeguards were in place in order to sustain debt-repayments. If they did not already exist, countries would have to make the necessary provisions to ensure this objective if capital inflows were to be sustained. This was made clear by then Managing Director of the IMF, Michel Camdessus, '(...) adjustment is inescapable. If you do not do it voluntarily, it will take place as soon as you are cut off from international credit'.[41]

Overall, adjustment entailed de-regulating national economic policies along the lines of the Washington Consensus, which took the form of liberalizing various sectors in the economy. In most if not all cases broad based liberalization accompanied a policy of fiscal austerity. These demands were incorporated as policy in both the IMF and the World Bank. The IMF, in 1986 established a "Structural Adjustment Facility' (SAF) which provided loans for SAPs. This was followed by the ESAF in 1987. The World Bank initially established 'Sector Adjustment Loans' followed by SAPs similar to those of the IMF. Moreover, the World Bank also adopted a 'blend' policy which meant that IDA eligible countries would have a mix of both IBRD loans and IDA resources.

Poverty lending diminishes

During the early stages of the debt restructuring process, the visibility of the poverty focussed lending of the World Bank diminished to a certain degree: the imperative to sustain debt repayments and make most of the opportunities to achieve *consent* from the Third World states for *broad based liberalization*, through SAPs for example, was the overriding priority for both the IMF and World Bank. Moreover, the need for strategic lending was not perceived to be a pressing need during this time. The political need to *coopt* those on the Left with economic incentives was not as acute, because commitments to liberalize could have been achieved anyway by exploiting the relatively weak bargaining position of capital needy states.

Also, given the imperative to sustain debt-repayments, the major powers seemed content with securing such commitments through their support of authoritarian regimes which were generally seen as a bulwark against socialist agendas and because of their own capacity and willingness to discipline the politically disquiet at the grassroots. However, as the political currents changed in the 1980s, with the collapse of the Eastern Socialist Bloc the virtues of democratic governance were increasingly promoted with renewed vigor, arguably also to sustain legitimacy for the process of transition itself. In such a political climate, it became more of a potential political liability rather than an asset to continue support even for pro-liberal economics oriented authoritarian regimes.

In order to appease the public of mainly the developed states, and to be seen as setting an example to the reforming Eastern Bloc, democratic regimes came to be pro-actively encouraged in the Third World (as in the Eastern Bloc as much), albeit that *democracy* itself came to be associated with a neo-orthodox (or neoliberal) politics. In most cases, these *democracies* were by and large tantamount to what has been referred to as *Low Intensity Democracies* - formal rather than substantive.[42] Nevertheless, one upshot of even the limited 'procedural' democracy was that it offered many people of the South (and also in Eastern Europe) an opportunity to voice their disquiet and to push for *political alternatives* to capitalism. Resistance to the World Bank's and the IMF's SAPs and ESAFs became clearly visible, not only by those directly affected (that is, the 'new' poor) but also by those whose political convictions had not been swayed by the promises of neoliberalism and thus continued their rejection of capitalist expansion.

This rejection took on many forms – sometimes being played out as direct action (strikes and protests) and sometimes through the electoral ballot. In the light of these political responses, it became evident that perhaps the celebrations by some of the 'end of history' might have been premature. To the lending institutions it was evident that new techniques were again needed (cf. 1960s) to target and discipline the unruly at the grassroots. As with previous efforts, and even more so in the contemporary context, legitimating strategies were necessary to sustain the process of transition (the 2nd transformation) from public to private. Discourses of 'poverty' and poverty reduction were once again brought back in a big way onto their institutional agendas.

Poverty is back on World Bank-IMF agenda – to stay ?

The grass-roots rejection of capitalism once again ushered in the political need to target and discipline the poor: to discipline those making legitimate claims *against* the unsustainability of the neoliberal promises. However, as the New Right swept across the developed states (e.g.Thatcher and Reagan & Kohl), their political convictions also began to take shape in the IMF and the World Bank. Concessional lending, social safety nets and unproductive programs, be they targeted poverty reduction programs (that is, even those employed for strategic political imperatives) had to be vigorously redefined. This was so particularly in a context when local resistance paralleled increased efforts to implement the new right's approaches to development. These institutions were challenged to respond with 'new right' policy tools. Financially innovative and productive (profitable) strategies had to be sought. This is not to suggest that historically the World Bank did not constantly search for economically productive instruments that could also effectively serve strategically motivated political objectives. This searching seems to have come to a provisional end with the adoption of a seemingly viable and replicable approach: the ESF in Bolivia. Microcredit minimalism, as already stated, constituted a vital component of the ESF. The strategy was to become a model for the IMF-World Bank collaboration for future poverty targeting in the context of economic shock therapy.

Microcredit Minimalism and the Bolivian Emergency Social Fund (ESF): A Political Safety- Net ?

The establishment of the ESF in Bolivia was motivated primarily by strategic political concerns. The decision to establish the ESF was based on considerations of the political risk posed by the social insecurities that resulted in the context of the implementation of a SAP, in the form of the New Economic Program (NEP). The NEP was implemented in the form of an austere economic stabilization package and widespread liberalization policies in a context of radical and explosive social unrest. The political sustainability of the entailed adjustment program became highly doubtful. In the context of mass redundancies across the public services sector (schools closed and health programs ceased), a politically highly vocal retrenched labor force (e.g., 23,000 of the 30,000 COMIBOL miners) emerged as a potential political counter-force, resisting the NEP. Migration increased from the rural areas to the city, induced by the poverty 'push' factor and perceived survival opportunities in the city. Strikes, including hunger strikes, and protests challenged the political representatives for a solution.[43] By 1986, a critical political crisis in Bolivia was clearly imminent.

The NEP, established by Decree 21060 (29 August 1985) by the Nationalist Revolutionary Movement(MNR) – Nationalist Democratic Action Party(AND) Alliance, was in all relevant aspects in tune with neoliberal de-regulation and was directed at regaining 'economic credibility' through re-establishing links with Global Financial Institutions (GFIs), particularly the IMF.[44] It sought among other issues, to 'lift most restrictions on financial operations, including those on dollar transactions.[45] By March 1986 it was recognized by both, the Bolivian government and the GFIs that the continued success of the austerity package for renewed uplink, relied crucially on the avoidance and/or containment of virulently spreading social unrest. In keeping with the general division of labor between the IMF and the World Bank, the latter became involved in planning and implementing the strategies to counteract the imminent danger of broadly based civil resistance, which also conjured up the specter of past Union influence in Bolivian politics. In response to this, in December 1986 the World Bank set up the ESF for Bolivia.[46] The decision to implement the ESF was based on the recognition by

> the Bank staff that the need for highly visible action to address social issues was crucial....[and] that all the adjustment measures and outstanding economic management would be useless if political forces swamped and overturned the government.[47]

Four types of projects were considered suitable for ESF funding, and of these, one included the provision of credit, through NGOs to *microenterprises* producing in the informal sector and to cooperatives in mining and agriculture.[48]

Designed as a 'quick-disbursing mechanism for financing small, technically simple projects',[49] the ESF approach provided a departure from traditional public welfare programs which suited well the objectives of the NEP. A Bank evaluation of the ESF concluded that 'the ESF philosophy was consistent with the macroeconomic framework'.[50]

Political and long-term policy implications of the Bolivian ESF

Because the Bolivian ESF was, from its inception, informed crucially by strategic political considerations, and because it involved successful cooperation between the political representatives at the highest level (global and national) and local business elites, it became a model case for targeted interventions aimed at securing a stable environment for austerity measures and liberalization packages. Although a prominent Bolivian businessman was the Executive Director of the ESF, the program itself was established under the direct command of the President (Paz Estenssoro). Implemented through imperial powers, the ESF was independent of other governmental sectors.[51]

The Bolivian ESF emerged as a paramount framework for targeted interventions in situations where financial liberalization together with broad based privatization orientated adjustment was bound to lead to political resistance from the adversely affected and/or the most politically vocal groups in society. To be able to respond with financial incentives was timely as it not only facilitated the liberalization process itself (especially of the financial sector - see next chapter), but combined with its neo-liberal focus on private/individual entrepreneurial values it consciously aimed to contain political opposition by disciplining through creditor-debtor relationships, as well as by attempting to create an ideological appeal at the grassroots for capitalism.

Given that the ESF was motivated primarily by strategic political concerns, the strategy aimed to target not the new poor but the poor from the period preceding the implementation of the NEP. The so called old poor outnumbered the new poor. The targeting through the ESF of the majority 'old' poor, rather than the equally disenfranchised 'new' poor reflected a strategy of divide and rule, aimed at fragmenting opportunities of solidarised political opposition.

> The ESF did not build support for the government among the sectors most directly affected by the adjustment program - the miners in particular, but instead among large numbers of the nation's poor that had been previously neglected by the state. The strategy was successful because in numerical terms the miners were a minority, and because the ESF had sufficient financial resources to reach a number of poor that was significant relative to Bolivia's total population.[52]

Thus, the ESF deliberately sought to undermine the significance of resistance politics to the process of political transition. Because the ESF framework seemed adept at solving many of the problems classically encountered by the IMF and the World Bank, particularly with reference to their SAPs, the question of its replicability became the immediate focus of the institutions' researchers. Their response was affirmative. Although the ESF in Bolivia had come about under quite specific circumstances, it was concluded that its basic patterns - given certain contextually contingent amendments and modifications - were salient enough to provide a framework for more general application. For example, it was observed that

> (..) in a nation where the organized base of opposition was relatively larger, or where resources were more limited, the political dynamic might not be the same, and the issue of who the program targeted might have to take very different criteria into account, if contributing to the political sustainability of adjustment was a major goal of the compensation program.[53]

Taking into consideration the proposed modifications in context, it was noted that the microcredit minimalist component of the ESF was particularly replicable because,

> The *basic principle of a financial intermediary* that provides grants to local groups on a demand - driven basis using flexible and well designed management strategies is more *globally applicable*.[54]

The ESF evolved in Bolivia as a temporary measure to bridge the period of economic adjustment and recovery; ('adjustment with a human face'). Meanwhile, however, the ESF approach replicated by the World Bank through its 'Social Funds' (SF) policy framework, has been transformed into a long-term development and poverty reduction strategy.[55] The strategy has been appropriated in the context of IMF-World Bank policy coordination to counter the risks posed by the social consequences of adjustment processes to the *process of political transition* itself. Since the Bolivian ESF targeting for poverty-reduction has been back on the World Bank's agenda in a big way, particularly since it has been acknowledged that the social costs of adjustment may itself be a long-term consequence and not as previously envisaged a temporary consequence.[56]

Further implications of the NEP: low intensity democracy and grassroots disciplining

Some further implications of the ESF are briefly addressed here as they bear relevance to the argument of this chapter and the politics of microcredit, particularly in the context of debt-restructuring initiatives (see also chapter 7). Upon the decision to implement the NEP which was adopted in response primarily to the Bolivian debt crisis, 'the official community supported Bolivia with new credits despite Bolivia's policy of nonpayment of interest to the banks', and by 1988 Bolivia was granted some debt relief.[57] The ESF in Bolivia was thus implemented in the context of the Bolivian debt restructuring process.[58]

Bolivia, as a sovereign debtor received preferential treatment by the US government and also other creditors.[59] This may have been motivated by a variety of foreign policy reasons.[60] Of these the most important were, the US interests in the Bolivian drugs trade (coca) and the potential ideological threats of the Bolivian social and economic climate to capitalism. The size and geographical standing of Bolivia made its strategic targeting all the more of a foreign policy concern of the US.

The Bolivian coca 'industry' grew significantly in the 1970s. 'After 1978, illegal cocaine exports became a very important source of foreign exchange' for Bolivia.[61] 'Coca exports in the 1980s are generally estimated to equal the sum of tin and natural gas exports'.[62] 'In the mid-1980s, it was estimated by the U.S. Drug Enforcement Authority(DEA) that Bolivian foreign earnings on coca paste exports roughly matched the sum total of all legal Bolivian exports.'[63] The coca was largely cultivated for export to the U.S.

The U.S. were also very keen to stabilize democracy in Bolivia.[64] The propensity for socialism has always been imminent in Bolivia. Since Che Guevara's efforts to revolutionize Bolivian society, there have been several other attempts.[65] In this sense, 'democracy' was really conceived in terms of establishing a framework for capitalism.

Bolivia's debt-restructuring initiative was thus tied in with foreign policy objectives of its creditors, particularly the US. The new Bolivian government of Paz Estenssoro effectively *traded* the following for its debt – restructuring.

1. The NEP which entailed an austere stabilization and liberalization policy was to be implemented in a context of democracy.[66]

2. In 1986, the Bolivian government began to undertake joint military operations with the U.S. government to interdict coca paste exports and to drive down the internal price of coca leaf.[67]

Thus, the political situation was as follows: because of the NEP's underwritten anchoring in democratic consent, which implied a shift from the 'tradition' of authoritarian regimes and their endorsement and sustenance through US foreign policy, support for the NEP had to be popular. Yet, at the same time, the potential outcomes of the NEP were anticipated - in the case of the economic and financial liberalization as well as for the anti-drugs foreign policy objective of the US. In the light of peasant resistance to the ban on coca farming (coca is considered a curative as well as miraculous plant by many Bolivians, and 'is used to fight hunger and the effects of physical stress in populations with very low standards of nutrition'.[68]), democratic consent thus had to be engineered. The predestination of the process of democratic will formation by the Bolivian elites and their US advisors reveals their conception of democracy to be 'low intensity', and functionalist. However, from the perspectives of the IFIs this was a model of democratization *cum* development to be replicated in the context of future SAPs.

The NEP was 'not a simple stabilization package, but a more profound process of state and societal reorganization'.[69] It is in this context, that the extensive grassroots targeting with microcredit was also consolidated with the agenda for democracy at the national level. These efforts were advanced through the 'promulgation of the Law of Popular Participation' (LPP) in 1993 which sought among other things to tie distribution of resources (including credit) into the structure of the new political system.[70] The tying in of resource provision (*access* to resources or in this case microcredit) to political patronage and 'popular participation' is clear with reference to the evolution of extensive NGO networks in Bolivia in the context of the NEP. These NGOs were either 'largely linked to the middle class'[71] or were dependent on foreign donors who in turn tied aid (resource provision) to their own foreign policy objectives.[72] The LPP in many ways was an opportunity to further the interests other than that of the poor and marginalized.

> The ample freedom given by the new Bolivian Government to the private sector in the area of social policies will certainly not be used solely by the traditional NGOs. ..(..) owing to the incorporation of NGOs established by the business community, by groups of professional consultants, by politicians and political parties, and by Protestant sects. The Law of Popular Participation (LPP), in particular, provides them with new freedom and an institutional and financial framework for action: a framework which provokes and mobilizes a diverse set of responses which, in principle, may provide the municipalities with human and financial resources like never before in the history of the country. [73]

Linking participation to *access*, and *access* to political patronage, is not a new strategy (cf. the case study of Bangladesh, chapter 6). Infact, it is at the core of most if not all 'safety-nets' provisions, particularly those of the IMF-World Bank and other MDBs. In the case of Bolivia, the LPP as well as overall NGO surveillance mechanisms (chapter 1), provided 'foreign funding agencies' (as well as local) with 'important indicators of the kinds of relationships existing between NGOs and the grassroots'.[74] The grassroots disciplining and shaping of state-society relations in accordance with neoliberal politics is one of the objectives of the *democracy cum development* strategy underpinning the new constitutionalism (chapter 2). In this sense, as Stephan Haggard has stated, the Bolivian experiment 'represents an important example of successful stabilization within a democratic political context.'[75] The role microfinance interventions in facilitating this stabilization was crucial.

Poverty: A Security Issue Revisited

IMF and World Bank policy coordination to mitigate the political costs of adjustment

The Bolivian experience served to highlight to the IMF and World Bank the potential strengths of the political opposition to be encountered in the implementation of economic restructuring programs which resulted in, for instance, subsidy cuts , labor retrenchment, and capital outflow. Encountering the possibility of political backlash on their projects in other countries subject to SAPs[76], both institutions recognized the urgent need to proactively counter-act any such tendencies. The IMF Fiscal Affairs Department observed in 1986, that

> (...) If Fund-supported adjustment programs imply that specific income classes (and in particular the poor) inevitably bear the brunt of the economic costs involved, then those programmes would be both less acceptable and, in the long run, less effective than the available alternatives.[77]

This was reiterated in the IMF's 1989 Annual report,

> (The Board) (....) welcomed the increased attention being paid to the important impact of Fund-supported adjustment programs on income distribution and the poorest population groups. The Board saw this concern as justified not only on moral grounds but also because it enhanced the adjustment programs' chances of success by minimizing public resistance to them.[78]

These acknowledgments were incorporated into the IMF at the level of policy from 1988 onwards, through 'confidential standard instructions'.[79]

> These instructions stipulate that missions must inform governments (..) of the possible socioeconomic consequences of the adjustment program. (..) followed by the question whether the authorities are interested in arranging exceptional measures in order to limit this damage. (...) If the answer is

affirmative, the Fund, in concert with the member country, may seek a solution within the framework of the programme.[80]

Meanwhile, Michel Camdessus, then Managing Director of the IMF, provided renewed instructions according to which, 'missions should on their own initiative take social factors into consideration'.[81] Thus, although the initial appropriation of microcredit by the World Bank for strategic political objectives can be traced back to 1986 (Bolivian ESF), it was not until 1988 - the year the IMF acknowledged the political need for 'confidential standard instructions' in the context of adjustment programs - that a distinctly reformed poverty focus also evolved in the World Bank. Timely parallels may thus be drawn between the IMF's 'Confidential Standard Instructions' and the evolution of the policy of Targeted Interventions in the World Bank. However, it has been noted that prior to this, in '1987 the World Bank's Operational Guidelines were amended to require analysis of the impact of adjustment programs on the poor and attention to measures to alleviate their negative effects'.[82] This is in keeping with the complementary roles that both institutions play in structuring the development framework which has been described in the following terms :

> If the Fund supports structural adjustment top-down (...) the Bank in contrast supports adjustment bottom-up.' (..) *This different approach means that the Bank's programs are discussed in a wider context than those of the Fund.*[83]

In the context of attempts to legitimize the role of the World Bank in grassroots political risk management, *poverty* was once again brought back in a big way into the World Bank's public discourses. On January 29, 1988, then President of the Bank, Barber Conable, in a draft resolution for a General Capital Increase (GCI), which listed the Bank's "Lending Objectives", cited as a prime objective the World Bank's intent to 'reassert and expand its role in the attack on poverty through a targeted program focused on eradicating the worst forms of poverty"[84] The highlighted targets included ' (..) the poorest groups in countries that are undertaking adjustment programs'.[85] The campaign for the GCI included a "Master Plan" which was to be monitored for Congress and was to report among other things on the Bank's '(..) involvement with NGOs, poverty programs, women's programs, and ***micro-enterprises***,'[86] By the early 1990s clear policy was intact in the Bank regarding targeted poverty interventions (cf. the World Development Report of 1990), and in 1991 the O.D. 4.15 on Poverty was approved. The Bolivian experience and the relative 'success' of the ESF effectively set the precedent for the development of future poverty focused targeted interventions at the policy level of the World Bank. By 1995, '(a)bout 18 Latin American and Caribbean countries' had adopted 'some version of the ESF model'.[87]

Strategic motives and normative discourses of poverty reduction

The Bolivian ESF has been described by the World Bank as a strategy that provided '*temporary* assistance and *income earning opportunities* to those hardest hit by the country's economic crisis'. [88] No mention has been made of its strategic underpinnings: the appeasement and containment of political resistance to the adjustment process. Nor of it's facilitatory role in liberalization of the financial sector. In the context of legitimating the replication of the ESF approach it was to be embedded in discourses of poverty reduction. As the issue of poverty moved up on the World Bank's agenda as a potential security threat, so did targeted approaches to poverty reduction, and with them microcredit. For example, the 1990 WDR on *Poverty* was to cite microcredit and particularly the Grameen Bank approach as potentially viable strategies for poverty reduction. To those on the outside, particularly the World Bank's critics it may have seemed that the World Bank was finally responding to calls for 'adjustment with a human face'.

Poverty: IMF – World Bank Response as Political Risk Aversion ?

Poverty, and poverty reduction strategies, have figured in the context of IMF-World Bank policy making primarily as a response to a political risk factor. Fear of the perceived behavioral responses of the poor or those generally disenfranchised and disenchanted with the *status quo*, or more specifically with capitalism, has been the underlying motive for the institutional efforts to reduce poverty. In this sense, policy responses to poverty have been designed to discipline the poor who struggle for political alternatives and greater equity, rather than to actually ameliorate their conditions of poverty and survival insecurities. In defense of the IMF and the World Bank, it may be possible to argue that given their institutional limitations and constraints outlined in the beginning of the chapter, microcredit minimalism and its likes is what one may expect from these institutions in the light of their own objectives. Even from such a perspective, however, they cannot be excused for deliberately misrepresenting their strategic motives by employing a normative discourse that suggests otherwise.

For both the IMF and the World Bank discourses of poverty reduction have been an important part of an overall strategy to extend global governance and legitimate these discreet forms of interventionism. Poverty and poverty reduction discourses have been an important normative tool resorted to as and when it served a purpose Thus, instrumental in global governance strategies, the institutional appropriation of microcredit to purportedly mitigate the social costs of adjustment, especially through its social funds modality, is one of the latest and more innovative strategies for political risk management and the disciplining of the poor. This has been achieved while expanding opportunities to manage the capacity crisis, as well as externalize its social costs.

While limitations in the mandates of the IMF and World Bank to enable *actual* efforts to ameliorate poverty and insecurities are recognized, it has been elucidated in this chapter that the design and amending of their respective mandates have been deliberate.[89] The IMF and the World Bank have both been key institutions instrumental in executing disciplining strategies under the predispositions of a broader global governance agenda (see chapter 2). As the IMF was adopted to promote macro-economic change in 'developing states' along policy lines conducive to the interests of Western states and local social elites, the mandate of the World Bank was also shaped to *target* lending in the Third World both, geographically and socially. Consequently the World Bank gradually moved from an institution lending for 'specific projects' to devising wide-ranging development strategies.

Especially in the context of the cold war, these developments were valuable instruments for the containment of the dissent of the disenfranchised who, in their attempts to bring about a *social revolution* through political struggle, were perceived not only to be instigating 'social unrest', but fundamentally to pose a *security* threat to the norms and structures of capitalism. If the absolute poor who sometimes were also the most vocal politically, were targeted *within* countries disciplining strategies were also put in place to target the poorest countries at the state level. One example of this is the IMF-World Bank overall policy documents for certain member States: Policy Framework Papers (PFPs). PFPs outline the planned economic policy over a wide terrain, both at the micro-and macroeconomics level, complemented by prescriptions for institutional change (e.g, liberalization of respective policies). These documents are evaluated annually, and if necessary readjusted. Each organization has to contribute to the realization of the tasks set by the PFP according to its mandate. For the present the PFPs are limited to the poorest members. [90]

Governance and Poverty Reduction Discourse

In the latest and renewed efforts of both institutions to govern through enhanced policy coordination, the focus has been that of applying a combination of disciplinary measures both at the state level and targeting at grassroots. Poverty reduction has once again become a key point of policy reference to extend disciplinary strategies at both levels. This is particularly evident in the latest international debt restructuring initiatives (e.g., the HIPC initiative). In the context of this initiative, reductions in debt service payments are tied to obligations to adopt poverty reduction strategies or basic needs programs. This objective is at the core of the latest IMF-World Bank coordinated PRSPs. It is anticipated that the PRSP will over time replace the PFPs. Microcredit is a key component of the PRSPs, figuring at the level of safety-net in the same way in which it was employed through the Bolivian ESF in the context of the NEP.

Since the Bolivian ESF of 1986, the World Bank has rapidly increased its portfolio for Social Fund type programs. At the end of fiscal year 1996, the Bank had approved 51 SF in 32 countries. All but five were IDA -financed.[91] The controversial issues surrounding social funds[92] are displaced through public discourses representing the approach as poverty reduction strategies and not as an 'add on' for the purposes of broader objectives- mitigating the political cost of structural adjustment, while at the same time facilitating the agenda.

> The fact is that emergency social funds, even when technically oriented and rhetorically apolitical , do not operate in a political vacuum. (...) despite their objectives of alleviating poverty and/or changing relations between the state and society – attempt to build political sustainability and to *serve as social tranquilizers*.[93](Emphasis added)

At a broader level, 'especially in the case of lending institutions, it seems clear that the *political* function' of Social Funds (and safety-nets in general) is central.[94] More recently as the application of Social Funds increased, the appropriateness of microcredit as an intervention into poverty reduction has been placed on the global agenda (e.g., the Microcredit Summit). The socially disciplining power of debt-dependency and the political conditionalities associated with making *access* to desperately needed resources at the grassroots have played a vital part in the disciplinary process. The political maneuverings associated with Social Funds or safety-nets in general are consistent with the research findings that have uncovered causal connections between safety net programs or targeted poverty reduction programs and local political outcomes, including formal eloctorally based outcomes.[95] (cf. the ideological and practical implications of the Grameen Bank in Bangladesh and its role in that country's efforts to overcome resistance politics in the context of attempts to establish a market economy [See chapter 6]).

The strategic motives underpinning microcredit and poverty reduction have been legitimated by reference to its many 'success' stories, particularly the sustained publicity of discourses on the Grameen Bank in Bangladesh. For the World Bank as indeed for the IMF 'bandwagonning', the Grameen story provided an excellent opportunity to capitalize on the strategy. Through an appeal to popular normative conceptions: participation, empowerment, inclusion of women, self-reliance through self-employment - microcredit and microfinance minimalism could be extended and targeted at the grassroots. The establishment of the CGAP itself has been legitimated on these grounds. On one reading of the Bolivian ESF, it has been observed that '(m)ost importantly [it] had encouraged the international development banking system to experiment with funding projects that addressed the social costs of adjustment'.[96] These projects coincide with the logic of the expansion of the trade in services agenda, and specifically its financial services dimension.

The next chapter takes a close look at the CGAP and its role in replicating the core features of the Bolivian ESF (and the Grameen Bank) on a global scale. In so doing the role of the World Bank in expediting financial liberalization through a microcredit and poverty reduction agenda is explicated.

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[1] E. Denters, *Law and Policy of IMF Conditionality*, (The Hague: Kluwer Law International, 1996) p. 125

[2] Denters, *Law and Policy of IMF Conditionality*, p. 158

[3] Denters, *Law and Policy of IMF Conditionality*, p. 3

[4] It is noteworthy that the Statutes of the IMF do not contain a 'ban on political interference' in member states unlike that of the World Bank. However, since membership of the IMF is a prerequisite for membership of the World Bank, by extension it may not be possible to wholly conceive of the World Bank, as an *apolitical* institution. Rather both the IMF and World Bank have been important institutions that have been instrumental in shaping not only the terms of the relations between Part I and Part II member countries, but also in shaping the politics *within* its Part II member countries.

[5] Robert L. Ayres, *Banking on the Poor – The World Bank and World Poverty,* (London: MIT Press, 1984) pp. 226-227

[6] See, for example, Frances Stewart with William van der Geest, 'Adjustment and social funds: political panacea or effective poverty reduction ?' in Stewart, *Adjustment and Poverty – Options and Choices,* (London:Routledge, 1995) p.115. '(..) Observers note that a prime objective of the Bolivian scheme was to contribute to the political sustainability of the adjustment process'; see also Carol Graham, 'The Politics of Protecting the Poor during Adjustment: Bolivia's Emergency Social Fund' in Graham, *Safety Nets, Politics and the Poor – Transitions to Market Economies,* (Washington, DC: Brookings Institution, 1994) pp. 54-82

[7] Giovanni Andrea Cornia, Richard Jolly, and Frances Stewart (eds), *Adjustment With a Human Face, Vol.1, Protecting the Vulnerable and Promoting Growth,* (Oxford: Oxford University Press, 1987)

[8] CGAP, ' A Review of the World Bank's Microfinance Portfolio' (Washington, DC: CGAP Secretariat- World Bank, 1997)

[9] Denters, *Law and Policy of IMF Conditionality,* p. 78, see note 25 and p. 78, note 36. See also p.79

[10] Denters, *Law and Policy of IMF Conditionality,* p. 91

[11] Denters, *Law and Policy of IMF Conditionality,* p. 92

[12] Denters, *Law and Policy of IMF Conditionality,* p. 91

[13] For excellent study on this see, Caroline Thomas, *New States, Sovereignty and Intervention,* (Hants: Gower Publishing Ltd, 1985), see also Caroline Thomas, *In Search of Security – The Third World in International Relations,* (Brighton: Wheatsheaf books, 1987)

[14] Devesh Kapur, John P. Lewis and Richard Webb, *The World Bank, Its First Half Century,* Vol.1: History (Washington DC: The Brookings Institution, 1997) p.52

[15] Kapur, Lewis and Webb, *The World Bank, Its First Half Century,* p. 371

[16] Kapur, Lewis and Webb, *The World Bank, Its First Half Century,* 54

[17] Kapur, Lewis and Webb, *The World Bank, Its First Half Century,* p. 53

[18] Ayres, *Banking on the Poor,* p. 1

[19] Kapur, Lewis and Webb, *The World Bank, Its First Half Century,* p. 7

[20] Kapur, Lewis and Webb, *The World Bank, Its First Half Century,* p. 8

[21] Kapur, Lewis and Webb, *The World Bank, Its First Half Century,* p.8

[22] Kapur, Lewis and Webb, *The World Bank, Its First Half Century,* p. 9, 11

[23] Kapur, Lewis and Webb, *The World Bank, Its First Half Century,* p.3

[24] Kapur, Lewis and Webb, *The World Bank, Its First Half Century,* p. 6-7

[25] Kapur, Lewis and Webb, *The World Bank, Its First Half Century,* p. 14

[26] Kapur, Lewis and Webb, *The World Bank, Its First Half Century,* p. 1121

[27] International Development Association, *Articles of Agreement and Report of the Executive Directors of the International Bank for Reconstruction and Development on the Articles of the Agreement*, p. 34

[28] Kapur, Lewis and Webb, *The World Bank, Its First Half Century,* p. 1152

[29] International Development Association, *Articles of Agreement,* (Washington, DC: IDA, 1991) p. 35 (emphasis added)

[30] See also on this point, Susan Strange, *Casino Capitalism,*(Oxford: Basil Blackwell (1986), p. 32, 'I believe the reasons given at the time for turning the idea down have been proved by subsequent experience to have been groundless. (..) it was not true that the rich countries could not afford SUNFED (..)'.

[31] Kapur, Lewis and Webb, *The World Bank, Its First Half Century,* p1121, see note 2.

[32] International Development Association, *Articles of Agreement,* p. 35

[33] Kapur, Lewis and Webb, *The World Bank, Its First Half Century,* p. 112

[34] Kapur, Lewis and Webb, *The World Bank, Its First Half Century,* p.113

[35] Kapur, Lewis and Webb, *The World Bank, Its First Half Century,* p. 197

[36] Kapur, Lewis and Webb, *The World Bank, Its First Half Century,* p. 1149 (original emphasis)

[37] Kapur, Lewis and Webb, *The World Bank, Its First Half Century*, p. 168 (emphasis added)

[38] Kapur, Lewis and Webb, *The World Bank, Its First Half Century*, p. 208

[39] P. W. Preston, *Development Theory, An Introduction*, (Cambridge Mass: Blackwell Publishers, 1996) p.237

[40] For more on the political implications of this, see Stephen Gill, *American Hegemony and the Trilateral Commission*, (Cambridge: Cambridge University Press, 1990)

[41] Michel Camdessus, in *Time*, July 31, 1989, quoted in Denters, *Law and Policy of IMF Conditionality*, p.1

[42] Barry Gills, Joel Rocamora and Richard Wilson (eds), *Low Intensity Democracy – Political Power in the New World Order*, (London: Pluto Press, 1993)

[43] For more on this see, James Dunkerley, Bolivia- *Political Transition and Economic Stabilization, 1982-1989*, (London: Institute of Latin American Studies, University of London , 1990) and Jeffrey D.Sachs (ed), *Developing Country Debt and Economic Performance : Volume 2, Country Studies - Argentina, Bolivia, Brazil and Mexico*, (London: The University of Chicago Press, 1990) esp. pp.157-266

[44] Sachs (ed), *Developing Country Debt and Economic Performance*, p.159, 'In the first half of the 1980s, Bolivia experienced and economic crisis of extraordinary proportions,' which included, '(..) the cut off in lending from the international capital markets'. See also pp.188, 238-239

[45] Dunkerley, *Bolivia -Political Transition and Economic Stabilization, 1982-1989*, p.32

[46] Steen Jorgensen, Margaret Grosh and Mark Schacter, *Bolivia's Answer to Poverty, Economic Crisis, and Adjustment- The Emergency Social Fund*, (Washington, DC : World Bank, 1992) p.26. The Executive Director, and 'designer' of the ESF was a dynamic Bolivian Businessman, Fernando Romero, who 'took pride in asserting that he had never served in government, though he had been an *eminence gris* in the design and execution of the NEP'.

[47] Kapur, Lewis and Webb, *The World Bank-Its First Half Century*, p.365

[48] Jorgensen, Grosh and Schacter, *Bolivia's Answer to Poverty, Economic Crisis, and Adjustment- The Emergency Social Fund*, p.6 The other three cited include : (1)economic infrastructure-infrastructure closely related to productive activities, such as road upgrading, urban improvement irrigation, flood

control and reforestation: (2) social infrastructure - infrastructure for health and education, water and sanitation and basic housing : (3) social assistance - recurrent costs in education and training, vaccinations, school breakfast and production of school materials. It is interesting to note that as the focus was the implementation of 'labor intensive' activities , little attention was paid to the capabilities of the workers in relation to the projects. With reference to an assessment of the technical quality of works, the following was identified, 'In 1988, strong concerns arose that the technical quality of the physical works was so low as to jeopardize their value.' p.38

[49] Jorgensen, Grosh and Schacter, *Bolivia's Answer to Poverty, Economic Crisis, and Adjustment- The Emergency Social Fund*, p. 6.

[50] Jorgensen, Grosh and Schacter, *Bolivia's Answer to Poverty, Economic Crisis, and Adjustment- The Emergency Social Fund*, p. 120

[51] Jorgensen, Grosh and Schacter, *Bolivia's Answer to Poverty, Economic Crisis, and Adjustment- The Emergency Social Fund*, p..119 [President Paz Estenssoro's personal commitment is cited under the header of 'The ESF was given strong protection from political interference.]

[52] Jorgensen, Grosh and Schacter, *Bolivia's Answer to Poverty, Economic Crisis, and Adjustment- The Emergency Social Fund*, p.51, , In a review of the ESF evaluations - the following conclusion is drawn under the sub-header of 'From Popular Image to Political Sustainability' :

'The *perception* that the government is doing something to make the adjustment process less painful or costly is important to the political process of sustaining adjustment. (...)If this did not create direct support, it at least reduced potential opposition to the government and its program.

[53] Jorgensen, Grosh and Schacter, *Bolivia's Answer to Poverty, Economic Crisis, and Adjustment- The Emergency Social Fund*, p.51,

[54] Jorgensen, Grosh and Schacter, *Bolivia's Answer to Poverty, Economic Crisis, and Adjustment- The Emergency Social Fund*, p.114 (emphasis added)

[55] Helena Ribe, Soniya Carvalho, Robert Liebenthal, Peter Nicholas and Elaine Zuckerman, *How Adjustment Programs Can Help the Poor*, (Washington, DC: World Bank 1990)

[56] See , Philip J. Glaessner, Kye Woo Lee, Anna Maria Sant'Anna, Jean-Jacques de St. Antoine: *'Poverty Alleviation and Social Investment Funds, The Latin American Experience'*, (Washington, DC: World Bank, 1994) p.xiv

[57] See, Sachs (ed), *Developing Country Debt and Economic Performance*, p.29

[58] Sachs (ed), *Developing Country Debt and Economic Performance*, pp. 159-268, esp. pp. 188-189,225. 'The NEP embraced widespread liberalization of trade and finance, as well as fiscal austerity. In principal stabilization measures are 'short-term' measures, while the liberalization measures are oriented toward 'long-run' growth.' p.238

[59] Sachs, *Developing Country Debt and Economic Performance*, p. 29

[60] Sachs, *Developing Country Debt and Economic Performance*, p. 29

[61] Sachs, *Developing Country Debt and Economic Performance*, p. 171

[62] Sachs, *Developing Country Debt and Economic Performance*, p. 162

[63] Sachs, *Developing Country Debt and Economic Performance*, p. 257

[64] Sachs, *Developing Country Debt and Economic Performance*, p.254 , see note 9 on p.265-66

[65] Sachs, *Developing Country Debt and Economic Performance*, p. 182, see note 4 on p. 261

[66] Sachs, *Developing Country Debt and Economic Performance*, p. 189

[67] Sachs, *Developing Country Debt and Economic Performance*, p. 266, see note 4.

[68] Sachs, Developing Country Debt and Economic Performance, p171, see note 5 on p. 260

[69] Carlos F. Toranzo Roca, 'Dualism transformed or the reproduction of inequality' in Frits Wils (ed), *Non-Governmental Organizations and Their Networks in Bolivia* (Netherlands: the Hague, 1995), pp. 37-59. See p. 54

[70] Nico van Niekerk, 'NGOs in Bolivia: an introduction to the debate on the definition of their new role from 1985 onwards' in Wils (ed) , *Non-Governmental Organizations* , p. 5. For a detailed discussion of the LPP see also Rodolfo Soriano L, 'Decentralisation and popular participation' in Wils (ed), *Non-Governmental Organizations*, pp. 183-98

[71] Frits Wils, 'NGOs and their networks in Bolivia: towards a synthesis, conclusions and recommendations' in Wils, *Non-Governmental Organizations*, p. 202

[72] Roca, 'Dualism transformed or the reproduction of inequality', p. 55

[73] Wils, 'NGOs and their networks in Bolivia: towards a synthesis', p. 202

[74] Wils, 'NGOs and their networks in Bolivia: towards a synthesis', p. 203

[75] Stephan Haggard, *The Political economy of democratic transitions*, (Chichester: Princeton University Press, 1995) pp.17-18

[76] Vivian, ' "How Safe are Social Safety nets"? – Adjustment and Social Sector restructuring in Developing Countries' in Jessica Vivian (ed), *Adjustment and Social Sector Restructuring* (ed) (London: Frank Cass, 1995) p. 4

[77] Denters, *Law and Policy of IMF Conditionality*, p.135

[78] *IMF Annual Report 1989*, (Washington D.C.: IMF, 1989) p.37: See also Denters, *Law and Policy of IMF Conditionality*, p.135

[79] Denters, *Law and Policy of IMF Conditionality*, p.135-ftns. 70 & 71,

[80]Denters, *Law and Policy of IMF Conditionality*, p.136

[81] Denters, *Law and Policy of IMF Conditionality*, p.135/6 see note 38

[82] Vivian , ' "How Safe are Social Safety nets" ', p. 3

[83] Denters , *Law and Policy of IMF Conditionality*, p.158 (emphasis added)

[84] Kapur, Lewis, Webb, *The World Bank-Its First Half Century*, p. 368

[85] Kapur, Lewis, Webb, *The World Bank-Its First Half Century* , p. 368

[86] Kapur, Lewis, Webb, *The World Bank-Its First Half Century*, p.368 (emphasis added)

[87] See, for example, Lourdes Beneria and Breny Mendoza, 'Structural Adjustment and Social Emergency Funds: The Cases of Honduras, Mexico and Nicaragua' in Vivian, *Adjustment and Social Sector Restructuring*, p. 54

[88] World Bank, *The World Bank's Partnership with Nongovernmental Organization* (World Bank : Washington, D.C., 1996) *Emphasis added.*

[89] The mandates of the IMF have continuously been amended to suite the aspirations of the advanced capitalist states, especially the United States. See also on this point, Strange, *Casino Capitalism*, p. 43

[90] See Denters, *Law and Policy of IMF Conditionality*, p.159

[91] Deepa Narayan & Katrinka Ebbe, *Design of Social Funds-Participation, Demand Orientation, and Local Organizational Capacity*,(Washington, D.C., World Bank, 1997) p.2-3

[92] Stewart, van der Geest, 'Adjustment and social funds: political panacea or effective poverty reduction ?'

[93] See, for example, Beneria and Mendoza, 'Structural Adjustment', p. 54

[94] Vivian, ' "How Safe are Safety nets" ' p. 15 , and Beneria and Mendoza, 'Structural Adjustment' esp. p.68

[95] Vivian, ' "How Safe are Safety nets" '

[96] See, for example, Beneria and Mendoza, 'Structural Adjustment', p. 56

CHAPTER 4.

THE WORLD BANK, THE IMF AND POVERTY REDUCTION: FINANCIAL FRAMEWORK SETTING -THE CGAP

The primary objective of this chapter is to substantiate one aspect of the dual purpose of microcredit: its role in facilitating financial liberalization. The chapter illustrates in detail the way in which microcredit is conducive to financial sector liberalization. It demonstrates how this potential has been researched, recognized and institutionally incorporated by the World Bank. The CGAP receives detailed attention. The financial focus of the argument then links back to the politics of social funds discussed in chapter 3, and provides further evidence of convergence of social funds with the financial services agenda. Finally, the dual purpose of microcredit are shown to converge in the Social Funds agenda. The reliance of the CGAP's global replication efforts on the Grameen Bank model with its normative public transcripts and its minimalist development approach is highlighted.

The chapter is organized in nine sections. Sections one and two introduce the CGAP as the World Bank's hybrid institutional arm for facilitating and expanding the global microfinance agenda. The role of the CGAP in expediting financial sector liberalization through a microfinance for poverty reduction approach is demonstrated. Section three locates the CGAP's activities within the broader financial sector objectives of the World Bank. Section four draws attention to the World Bank's recasting of policy on financial sector operations in order to accommodate microcredit and microfinance minimalism. Section five embeds these institutional trends within the context of IMF-World Bank policy co-ordination. The implications of the institutional financial framework setting is shown to reflect the objectives of the global financial services agenda. Section six concentrates on the CGAP's present agenda and plans for the near future. Section seven reconnects the arguments advanced so far with the strategic and political objectives of the Social Funds agenda. Section eight provides a snap shot of concerted institutional efforts to advance microfinance. Section nine concludes the argument by drawing attention to the social implications of the hidden transcripts of the microfinance agenda. The politics of concealing these hidden agendas behind the public transcripts of poverty reduction through self-help and empowerment are highlighted.

Introducing the CGAP - A Microfinance Program

The World Bank, in announcing the launch of the CGAP initiative in June 1995 quoted it's president James Wolfenson on microfinance as follows,

> Micro-level credit schemes help people help themselves by starting small scale income generation projects and business' (..) They are a particularly effective way of reaching women, thereby helping to improve the incomes and well-being of their children and families.[1]

The CGAP, three years later, in its *Status Report* of June 1998, under the header of

'Why CGAP?' justifies itself on the basis of the merits of micro-finance in poverty reduction efforts,

> Micro-finance is an effective weapon in the fight against poverty. Providing financial services, savings, and credit to the very poor households creates opportunities for the economically active poor to create, own, and accumulate assets. Developing country practitioners working at the grassroots level have demonstrated this fact beyond doubt.[2]

The CGAP, is a multi-donor initiative established specifically 'to reduce poverty by increasing *access* to financial services for very poor households through financially sustainable institutions'.[3] The CGAP was initially established 'for a three year period, with the participation of ten bilateral and multilateral donors.' [4] A review of its operations at the end of its first phase, found it to be "*... a successful innovation in supporting micro-finance development and improving donor activities in micro-finance'.*[5] Based on these findings , the CGAP was 'renewed by its member donors for an additional five years, starting July 1, 1998.'[6] The CGAP under Phase II, referred to as CGAP2, essentially 'seeks to expand upon the achievements of the first phase.'[7] In 1998, the CGAP referred to its core objective as its 'mission', which is to 'expand poor people's access to high quality financial services from sustainable or potentially sustainable micro-finance institutions'.[8] The CGAP is best seen as a catalyst for microfinance, as well as, financial liberalization. This includes advancing the trade in financial services agenda.

As noted in chapter 1, the CGAP secretariat is housed in the World Bank's Finance and Private Sector Development Vice-Presidency (FDPVP). The CGAP is made up of a Consultative Group (CG), an Executive Committee, a Policy Advisory Group (PAG) and an Investment Committee.

The CG is responsible for 'setting CGAP's strategic direction, making policy decisions, approving its budget, and reviewing achievements'.[9] Ismail Serageldin, vice president Special Programs of the World Bank, has been the chair of the CG. It is presently chaired by the vice president, Private Sector Development and Infrastructure, of the World Bank.[10]

The CGAP Investment Committee has five members, which include, the Principal Financial Specialist, Financial Sector Development, World Bank, the Director, Financial Markets Advisory Department of the International Finance Corporation (IFC), the Director, Poverty Division, PREM, and a Legal Advisor, Private Sector Development and Legal Reform.

The present manager of the CGAP Secretariat is a former Managing Director of JP Morgan Securities for Emerging Markets, is a specialist on debt-management, which includes debt-trading.

(See Appendix for a detailed account of the CGAP operations structure and investments)

The CGAP and Financial Sector Liberalization *for* Grassroots Poverty Reduction

The role of the CGAP is substantial in the drive for financial sector liberalization. Furthermore, given that the CGAP pro-actively seeks partnerships specifically with the *private-sector* in target countries, and not public institutions (state efforts are deliberately by-passed) in order to channel funds for poverty-reduction, liberalization in the wider context is also facilitated.

The CGAP can be described as one of a new breed of 'hybrid institutions'[11] that seek to intensify the changing process of GPE through policy design. 'Hybrid multilateral organizations are beginning to bring together NGOs and MDBs in new ways', [12] and the CGAP it is argued is an example of these evolving trends. Thus, in seeking to establish financial intermediaries within countries, the CGAP not only targets policy change in the financial sector, but also stimulates a shift in the mode of delivery of resources for poverty reduction. Through such an approach, the private sector and its associated set of commercial norms are privileged over the public sector and notions of public goods. In this sense, the CGAP operational dynamics can be seen to work well – even complement – the strategic political motives underpinning the World Bank's Social Funds (see chapter 3).

CGAP maintains important linkages to the World Bank's Social Funds to which the argument will return later in the chapter. First, however, the focus will be on elucidating the CGAPs role and contributions towards financial liberalization not only, but also through the design and promotion of innovative financial investment strategies. As noted already, financial sector liberalization has been a key objective of the Western states (particularly the G7) since the early 1970s. Their efforts in this policy direction have however, encountered several obstacles especially from developing states (see chapter 2). These obstacles however, seem for the moment to have been overcome by Northern states through their *instrumental* use of the IMF and World Bank as agents in the extension of this policy objective.

In the context of their respective roles in bringing about financial sector liberalization (see chapter 2), a strategy pursued by the IMF and the World bank has been to link issues of poverty and development to a liberal free-flowing financial sector. This has been achieved through systematic efforts by creating a crucial link between a set of pre-defined financially steered poverty reduction tools – microcredit and microfinance - to enhanced IMF-World Bank policy collaboration. Having linked debt–reduction *to* poverty reduction (potentially obligatory under the HIPC initiative or in the latest PRSPs) and poverty reduction in turn to microcredit and microfinance, it has become possible to argue that a liberal financial order is the most appropriate environment for the flourishing of microcredit and microfinance and by extension supportive of enhanced poverty reduction efforts. Thus, by making poverty reduction one of the motives for financial liberalization, the strategic imperative has been inverted and legitimized through normative appeal in the public sphere. In doing so, the obstacles toward financial liberalization have effectively been written away or made unsustainable against the moral force *for* poverty reduction. Through such an approach there is practically *no* alternative for those developing states looking to break free from the chains of humanely unsustainable debt-servicing[13] and establishing *humanely* sustainable development pathways. [14]

The World Bank's embedding of its renewed poverty reduction agenda in microcredit and microfinance has immensely benefited the global financial sector objectives, in terms of both, achieving fast-track financial liberalization and facilitating the comodification of money (trade 'in' money). The CGAP efforts in microfinance for poverty reduction has thus been a crucial institutional as well as legitimating strategy for the extending and structuring of global financial sector objectives to the grassroots, especially in the context of the World Bank's own poverty agenda.

The CGAP: Phase I – June 1995-June 1998

The CGAP was formally constituted on June 27 1995. It does not have a separate 'identity or constitution' to the World Bank. Although, it does have its own 'internal policies and programs which are overseen' by its 27 member donors (since its inception 11 new member donors have joined) The World Bank is so far the largest contributor to the CGAPs Investment Fund. The CGAP Policy Paper originally stated six specific objectives integral to the advancement of the Micro-Finance program, which continue to constitute its operational framework. [15] These are restated in slight variation in the CGAP's 1998 *Status Report* as follows, [16]

1. Identify and disseminate best practice for delivering financial services to the poor on a sustainable basis

2. Support financial sector policy work to create an enabling environment for micro-finance
3. Strengthen donor coordination and activities in micro-finance
4. Mainstream micro-finance in World Bank Group and other donor operations
5. Help micro-finance institutions and regional and global networks to achieve broader coverage, reach poorer segments of the population, and move toward financial sustainability.

<u>To create an enabling environment for microfinance</u>: An enabling environment encompasses appropriate policy on financial sector operations and appropriate legislation (regulatory measures) for microfinance operations. Here, an overall liberal (commercial) financial sector is promoted as are appropriate laws. The Bolivian PFP (see chapter 1) or the PKSF's criteria which *forbids* its Partner Organisations (e.g., NGOs) to lend to the poorest at an interest rate below that of the commercial rate may be cited as examples of the latter (see chapter 6 on Bangladesh). Enabling environment thus includes assessment of financial sector policy and an overall assessment of potential risk factors that may obstruct or impede microfinance growth and expansion. The legislative environment pertaining to NGO status in general which would include their capacity to act as financial intermediaries are further examples of factors that may be evaluated in this context.

<u>The dissemination and advice on microfinance best-practice</u>: Best practice usually refers to a set of rules and norms that may best contribute to the two criteria of

success in evaluating the global microcredit and microfinance agenda: financial viability/institutional sustainability and outreach. These rules and norms are best conceived of in terms of a constantly evolving set of practices, hence the recent addition by CGAP of the noun 'learning' to precede 'dissemination'.[17] Best-practice is disseminated to a wide audience which includes: private investors of the capital markets (e.g., CGAP collaboration with the IFC)[18]; grassroots practitioners (NGOs and/or MFIs); global actors (MDBs , donors other interested parties such as, Monsanto); national level (governments) policy makers[19].

<u>The mainstreaming of microfinance best-practice in World Bank and donor operations</u>: Mainstreaming microfinance entails working towards broadening and expanding the World Bank's (and indeed other donor's) portfolios of microcredit and microfinance operations along best practice lines. The CGAP may advise the World Bank on appropriate strategies to be pursued to enhance microfinance within its programs and how best to make it acceptable to potential governments. Thus, the CGAP approach would capitalize on the World Banks capacity to leverage policy changes in the financial sector. In this context, the CGAP also engages substantially in 'capacity building initiatives' at global, regional, national and local levels. Capacity building initiatives may entail several forms, from high-level policy forums to informal policy dialogues on microfinance and poverty reduction based on best-practice. The CGAP will also provide *grants* rather than loans for capacity building initiatives to enable the necessary enabling environment (e.g. structural changes of national institutions to incorporate policy change) for microcredit and microfinance.

Channel funds to programs/institutions to help build sustainable specialized institutions: The CGAP will provide funds to 'broaden and deepen the reach of microfinance institutions that service the poor and strive for sustainability'. [20] The CGAP will provide *grants* to support NGOs to start up and scale-up their microfinance operations along best-practice guidelines. This support is offered directly at the local level and also indirectly through CGAP-supported national and even regional capacity building initiatives. The various institutions and agents that receive CGAP grants to 'on-lend' are generally referred to as CGAPs Partner Institutions (PIs). The CGAP has disaggragated its PIs along the following categories.[21] (In it's reproduction below, some original wording is used)

1. International networks – typically include NGOs with networks of local, usually legally independent, intermediaries of financial and non-financial services that reach the poor (e.g. Grameen Trust, Women's World Banking, CASHPOR).
2. In-country wholesalers – are local apex or second – tier institutions that could disperse CGAP funds to various local intermediaries that meet its eligibility criteria (e.g. PKSF in Bangladesh).
3. In-country retailers – constitute a variety of micro-finance institutions and include NGOs, specialized banks, individual credit unions and cooperatives and microfinance projects. CGAP anticipates such involvement to have a catalytic effect in terms leveraging other donor interests and thereby increase the flow of funds towards microfinance.

4. Start-up operations of new PIs supported by established practitioners: support for such initiatives is deemed to be an efficient and effective way of multiplying micro-finance programs for the very poor.

The bulk of CGAP funding according to its policy paper is to be directed towards programs in IDA countries,[22] and the majority of it is expected to be made in the private sector.[23] Although the CGAP provides *grants and not loans*[24] its portfolio is referred to as the 'Investment Fund'. CGAP will generally provide matching grants to eligible PIs.[25] Interestingly, although the CGAP itself provides *grants* it does so on the basis that its PIs would on-lend these grants on a commercial basis, preferably at all levels of the lending structure and *mandatory* at the level of the loans made directly to the poor. While CGAP PIs may be diverse, they nevertheless according to the CGAP, '*share a common feature* – the potential for massive growth and outreach and steady progress toward *commercial viability*'.[26]

In addition to its purported poverty impact microfinance and microcredit are widely associated with the empowerment of women. It may be noted in this context, that the CGAP policy paper itself does not subscribe to directing its investments along a gender bias. However, since this policy paper gives each donor flexibility in deciding their investment procedures, any gender bias may well figure sporadically and on an *ad hoc* basis. The World Bank's *own* contributions towards CGAPs investment portfolio, however, carries with it a commitment to ensure that at least '50 per cent of the client base of the PIs it funds are women'.[27] In addition, the World Bank's own contributions to the CGAP are well scrutinized and managed by the Investment Committee (See Appendix). Although the World Bank stands as a quasi-external agency to the CGAP, it's key contributions towards the CGAP mandate are less clear cut, with a significant amount of policy overlap between the two.

World Bank Financial Objectives and the CGAP

The World Bank, has several policy commitments *written into* the CGAP policy document which serve to support and work towards the realization of the CGAP mandate. Thus, as CGAP's umbrella organization, the World Bank makes policy commitments aimed at facilitating the CGAP mission through support for its four pronged approach. Special attention is paid by the World Bank to the issue of mainstreaming best practice into donor policy and providing operational support for the creation of enabling environments for microfinance.

These commitments by the World Bank are explicitly stated in paragraphs 12 to 14 of the CGAP policy document . Paragraph 12 is quoted at length. [28]

<u>Number 12</u> : The World Bank will endeavor, as part of its policy dialogue with governments, to improve the overall macro-economic environment for micro-finance programs through :

- instruments such as poverty assessments, private sector assessments, financial sector work, country economic memoranda, and other economic and sector work, to be more inclusive of micro-enterprise and micro-finance development related issues and recommendations ;

- advice on *improving the legal and regulatory environment for micro-enterprises*, focusing on : entry, growth and exit of small businesses, as well as opening up competition; *and improving the legal environment for recovery of bad debt (property rights, collateral)*;

- *advice on financial sector policy reforms* more conducive to sustainable micro-finance institutions such as: *removal of ceilings on interest rates, removal of competing subsidized credit schemes, less restrictive banking laws to encourage new entrants, and prudential regulation and supervision to accommodate non-bank financial institutions*, particularly those involved in savings mobilization and uncolateralized credit to individuals through solidarity groups.

CGAP-World Bank collaboration for financial sector liberalization has been initiated to date in a selected set of countries. This has been achieved partly through what may be best described as the back-door approach. The CGAP plays a crucial role in designing capacity building initiatives for microfinance, and in the words of the CGAP by 'taking advantage of its special status as a neutral multidonor body with a *technical focus'*.[29] This strategic approach, together with the fact that the CGAP - housed in the World Bank - enables it to take advantage of the capacity of the World Bank to leverage financial sector policy changes from governments. Thus, the 'CGAP Secretariat is able to draw policymakers' (of the World Bank) attention to micro-finance, which in turn will require financial sector liberalization. The case of Tanzania is cited as an indicative example where the CGAP 'facilitated a unique partnership between the World Bank, the Bank of Tanzania, and several CGAP donors to advance a national strategy for developing a microfinance industry'. The Secretariat claims to have 'guided similar efforts in Brazil, China, Ethiopia, Peru, Vietnam, and nine West African countries'.[30]

The case of the nine West African countries is an interesting example of the coercive capacity of the World Bank (and by extension the CGAP) to bring about policy *shift* towards financial sector liberalization This case, extracted from CGAP's *Status Report* [31]is reproduced below.

Policy forum for 16 West African countries

A large portion of West Africa's private sector is informal, and micro-finance institutions in the region play an important role in alleviating poverty. Recognizing micro-finance institutions' ability to mobilize savings, the governments of seven West African nations that make up the Union Economique et Monetaire de l'Ouest de l'Afrique (UEMOA) promulgated a law on the governance of credit unions in December 19993. The law provides a legal framework only for credit unions, leaving the regulatory and supervisory status of other micro-finance institutions somewhat ambiguous. But the law does subject West Africa's micro-finance institutions to usury laws, which place a ceiling on interest rates and limit micro-finance institutions' ability to become financially sustainable.

To address these policy and operational challenges, CGAP joined with the Centre International de Developpement et de Recherche, Caisse Francaise de Developpement, Canadian International Development Agency, and World Bank to organize a June 1996 forum for 16 West African countries. The forum sought to build awareness among governments about how best to assist the informal sector, identify policies and regulations needed to support the development of micro-finance institutions in the region, and define the roles of the various players in the process. The forum's most significant achievement was that the central banks of these 16 nations agreed to develop ways to define usury rates that are better suited to micro-finance operations.

Source: *Report of the West Africa High-Level Policy Forum on Micro-finance* (March 1997)

One immediate up-shot of this policy forum was that 'MFIs subject to the Law on Usury, were urged by UEMOA Ministries of Finance to seek an exemption from the ceiling by approaching their respective Ministry'.[32] This outcome it must be noted, transpired despite 'little consensus, [however] between practitioners and authorities from the UEMOA countries on the new Credit Union Law'.[33] It does not need spelling out what the entailed long-term implications for financial sector policy are in recasting of legislation to make it more appropriate for microfinance. Discussions on this particular case were on-going as of November 1999, with the 'CG members and the West African Central Bank' (BCEAO) on investigating the best option for MFIs under a proposal of four potential legal options.[34]

The CGAP-World Bank collaboration on financial sector liberalization is purposeful. Indeed, the decision to locate the CGAP Secretariat within the World Bank (in addition to strengthening the World Banks microfinance portfolio) was based on the recognition of the fact that 'through its policy dialogue with governments, the [World] Bank is an excellent position to influence macroeconomic and financial sector policy'.[35] To this end, the CGAP has 'collaborated on World Bank projects in several countries to leverage the Bank's ability to create enabling policy environments'.[36] CGAP-World Bank collaboration has resulted in,

> *expedited financial sector reform* in such countries as Angola, Argentina, Armenia, Benin, Brazil, Cambodia, China, Ethiopia, Ghana, Guatemala, Honduras, India, Jamaica, the Kyrgyz Republic, Lao PDR, Mexico, Moldova, Mozambique, Pakistan, Panama, Peru, Sri-Lanka, Tajikistan, Tanzania, Togo, and Vietnam.[37]

The World Bank has made good progress with the CGAP in facilitating an enabling environment for microfinance: the outcome has been expedited financial liberalization. This has been achieved through 'policy dialogue' with governments of the South. The World Bank has complemented its strategy of policy dialogue in leveraging the re-

regulation of national policies through the recasting of its Operational Directive (OD. 8.30) on Financial Sector Operations. OD 8.30, established in the early 1990s had set the precedent for the Bank to fundamentally recast financial sector operations in the direction of the liberalization trend. However, 'due to uncertainty about how to implement the guidelines into practice'[38], O.D. 8.30 was recast as an Operational Policy (O.P. 8.30) in 1998 (see also the previous chapter on this point)

The new O.P. 8.30 has been drafted specifically to directly tie-in microfinance to global financial sector objectives. This outcome is consistent with the World Bank's commitment in the CGAP policy document to work towards this objective through leveraging other sets of policy tools, in addition to the policy dialogues. Thus, in similar fashion to the CGAP the World Bank also pursues what may be described as a combination of *non-lending and lending* tools to achieve financial liberalization.

The World Bank: O.P. 8.30, Financial Intermediary Lending (FIL) and Microfinance for Poverty Reduction

The World-Bank-CGAP partnership on mainstreaming microfinance through direct lending strategies is made clear in the CGAP policy document:

Paragraph 13: In addition to policy support, the World Bank will learn more about micro-finance best practices; and leverage direct assistance to micro-finance programs, by linking them with the broader financial systems in the countries of operation. The

Bank will also seek to retain its focus on poverty and the needs of very poor groups in society.

Paragraph 14: CGAP will mainstream best practice within the World Bank through systematic dissemination of information on strengthening macro and micro linkages and integrating micro-finance issues into broader projects. (…)

The World Bank's redrafting of O.D. 8.30 reflects these commitments. The main objective of O.P. 8.30, on FIL[39] is to establish private or semi-national financial intermediaries (FIs) in respective countries. The role of the FIs would be to on-lend or extend the process of FIL in country, based upon the World Bank's FIL criteria.[40] (MFIs may be considered to be FIs). In the recasting of its policy on financial sector operations, the World Bank effectively set out the direct lending strategy for the implementation and operation of microcredit and microfinance projects/programs. From a top-down perspective, O.P. 8.30 has managed to incorporate microcredit effectively into broader financial sector objectives by anchoring the FIL approach in the context of poverty reduction. From a bottom-up perspective, it provides the call for the enabling environment for microcredit.

It is interesting to note how O.P. 8.30 progresses towards its policy on micro-credit. For instance, it states that the Bank will not accept a member country's wish to pursue state intervention in the setting of interest rate policy, which includes interest rate subsidies, except for purposes of 'directed credit'.

> However, under certain circumstances, the Bank may support programs that include *directed credit or subsidies.*[41]

Microcredit steered poverty reduction programs fall under the Bank's rubric of *directed credit* under its Programs of Targeted Intervention. A detailed exposition of *directed credit*, is explicit on its micro-finance focus,

> In many borrowing countries , increasing access to credit by specific sectors (e.g. *micro-finance institutions* or the rural sector) is a major policy objective of the government, and some use directed credit to pursue this objective. A Bank FIL may support directed credit programs to promote sustained financing for such sectors, *provided the programs are accompanied by reforms to address the underlying institutional infrastructure problems and any market imperfections that inhabit the market-based flow of credit to these sectors.* Such reforms include measures to (a) address obstacles that impede the flow of funds to the credit recipients, or (b) *enhance the creditworthiness of the intended beneficiaries through appropriate approaches such as mutual group guarantees.*[42]

O.P. 8.30, specific to financial sector operations, thus sets the precedent for financially steered poverty reduction strategies and explicitly incorporates the microcredit agenda. It is particularly sensitized to microcredit/microfinance minimalism, and has written-in as policy the core features of the Grameen Bank approach.

However, these enhanced developments for financial sector liberalization in the World Bank since the 1990s (e.g., the adoption of OP. 8.30), already came to prominence in the 1980s.[43] The World Development Report of 1989 for example, focussed on financial liberalization and explicitly on the potential of innovative financially oriented investment tools in development processes.[44] References to the merits of the Grameen Bank and the potentials of microcredit minimalism in poverty reduction efforts were explicit.[45] These trends in the World Bank (particularly the establishment of the CGAP) are congruent with the global financial services agenda (see chapter 2) and are effectively attempts to remove all obstacles to the smooth flowing of finance from the global to the local.

Both the IMF and the World Bank have been key agents *instrumental* in extending and sustaining the interests (particularly financial sector interests) of the economically powerful states and other actors, such as transnational social entities that stand to benefit from such policy outcomes (chapters 2 and 3). The full political content of these policy developments in the World Bank therefore can be better established and understood through an assessment of the division of labor between the World Bank and the IMF in the context of extending and supporting the global financial services sector objectives.

IMF- World Bank: Financial Framework Setting for Poverty Reduction

The World Bank is obliged by statute to design its operations in accordance with IMF objectives (see Article V Sect 8 of the IBRD statutes).[46] The division of labor between the IMF and the World Bank has been outlined in their 'memorandum for mutual cooperation'.[47] This document identifies the Bank as having 'primary responsibility for the composition and appropriateness of development programs and project evaluation, including development policies.'[48] Importantly, among other things the 'Bank should focus in practice on the *reforms of administrative systems, production, trade and financial sectors....*'[49]

In keeping with this division of labor, and in the context of global financial trends, it has been stated that the World Bank's initial O.D. 8.30 on Financial Sector Operations was the result of the 1992 Levy Report which 'challenged the Bank to find new ways to do business in the field of finance'.[50] Thus the development of the enhanced financial instruments in World Bank operations must be set in the context of global financial services sector objectives and the division of labor between the World Bank and the IMF as agents instrumental in executing these objectives. In this sense, it can be argued that policy transformation in the World Bank may be said to be intrinsically linked to policy transformations in the IMF (see also on this, chapter 3). IMF policy making in turn is influenced by the key actors of the world economic system, particularly the US, and also other members of the G7. Policy trends in the IMF are consistent with the evolving global norms on financial service operations. For example, at the IMF's Annual meeting in Hong Kong SAR in September 1997,

> (..) the Interim Committee issued a *Statement on the Liberalization of Capital Movements Under an Amendment of the IMF's Articles of Agreement.* (..) to make the liberalization of capital movements one of the purposes of the IMF and extend, as needed, the IMF's jurisdiction in this area.[51]

The attempt at recasting the IMF mandate is thus in keeping with the emerging global financial framework.[52] (see, chapters 2 and 7). Thus, global policy and trends on financial sector operations, which became institutionalized at the level of the IMF, have been extended through the World Bank (and the CGAP efforts) to the level of the grassroots through a poverty reduction framework. It is important to note here that microcredit as a financially steered grassroots poverty reduction approach, as much as it is an extension of this framework *also* facilitates this framework.

An investigation into the politics of policy coordination of global financial institutions, particularly between the IMF and the World Bank has elucidated the linking of microcredit based poverty reduction efforts to the global financial agenda. The CGAP initiative, in this context, has made a significant contribution to structuring and legitimizing this outcome in the face of opposition and obstacles to the project of financial liberalization and financial globalization. In the light of this, the CGAP statement that during phase I it has been successful in achieving some 'notable milestones', is appropriate.[53] To this end, its phase II 'strategy represents a significant shift in the allocation of the CGAP Secretariat's time and resources.'[54]

CGAP 2 – Phase II July 1998 – FY 2002

CGAP's mission remains the same under phase II: 'to significantly expand very poor people's *access* to quality financial services from sustainable or potentially sustainable microfinance institutions'. Its new strategy however, is said to be 'anchored on building MFI retail capacity in order to achieve its mission'.[55] This is based on a 'key assumption (..) that the lack of retail institutional capacity is the single largest constraint to rapid expansion of micro-finance services'.[56] The CGAP mandate contained five strategic themes for pursuit of its mission under phase II. Three of these themes may be identified as extensions from phase I operations and two may be considered additions.[57]

<u>Phase I extensions into phase II</u>:

Institutional Development

Support Changes in member donor practices

Improve the Legal and Regulatory framework for microfinance

<u>New strategic themes of phase II</u>

- Increasing understanding on depth of poverty outreach of microfinance services
- Facilitate the "commercialization" of the micro-finance industry

The CGAP has during the first year of phase two (1998-1999) worked on these five themes, largely building on its efforts under phase I. While some of the approaches have been merely enhanced some policies have been sharpened. For example, on the issue of institutional development the CGAP funds will now be made available primarily to private institutions (applicable to all levels of the lending structure). In addition to prospective PIs being in the private sector, the majority of their clientele must be poor and include as a minimum 50 per cent women. The PIs should also have proven to have achieved significant scale (at least 3000 clients) in their existing portfolio. In addition they must show potential to achieve outreach and financial viability. [58]

The CGAP as of June 1998 however, '*did not have a practical yardstick for the measurement of poverty*.[59] Thus, the new addition on understanding poverty may be read in the context of this limitation. Here, the CGAP makes reference to what must be one of the most fundamental questions of microfinance and poverty reduction – the issue of impact. At the end of its fourth year of promoting microfinance for poverty reduction the CGAP states that questions such as *'how poor are microfinance clients?' and 'what is the impact of micro-finance on poor clients' – remain unanswered.*[60]

<u>Regulation and supervision of the microfinance industry</u>: the CGAP commissioned a study on regulation and supervision of the microfinance industry.[61] This has raised interesting issues, stating that for example, the rush to regulate (effectively re-regulate for deregulatory practices) has thrown up unanticipated consequences – such as, providing an opportunity for national governments to actually regulate NGOs and

MFIs through subjecting them to usury laws and so forth (e.g., ceilings on interest rates). For these reasons, a paper based on the CGAP study argues that giving microfinance a low-profile may in certain cases actually be beneficial to realizing the global microfinance agenda (here the evolution of MFIs in Latin America is cited as a good example).[62] Overall, on this issue, the CGAP has a clear preference for *private* rather than *public* regulation.

The commercialization of the micro-finance industry: on the issue of commercialization, the CGAP has noted that 'the micro-finance industry, particularly in Latin America, is unmistakably moving towards increasing reliance on commercial sources of capital'[63] The movement towards the commercialization of microfinance is identified as resulting for various reasons and 'taking place in several different forms'.

> Some credit-only NGOs are transforming into full financial intermediaries (such as rural banks or specialized banks) to mobilize public savings (for example CARD in the Philippines, K-Rep in Kenya). Some rural banks and commercial banks (Banco de Desarollo in Chile, Banco do Nordeste in Brazil, Ahantaman and Nsoatreman rural banks in Ghana) are entering the micro-finance market after perceiving returns that have piqued their interests.[64]

In the first year of CGAP2, 85 per cent of its funds were allocated to institutional development and approximately 3.5 percent toward commercialization. By comparison, the low level of direct spending to facilitate commercialization of the microfinance industry was based on the fact that a 'better understanding of the players and issues surrounding this theme' was needed before CGAP fully launched this initiative. Also, 'donors such as USAID and the Inter-American Development Bank are already spearheading a fair amount of work in this area'.[65] However, although the direct lending instruments have been relatively small for commercialization, CGAP2 has made membership of the Consultative Group mandatory upon donors *committing* to the CGAP mission and policy approach. Thus, for example, CGAP guidelines for '*Selecting and Supporting Intermediaries*'(pink-book, see chapter 1*)* must now be adopted officially. This 'pink-book' based upon microfinance minimalism effectively sets a clear commercial approach for policy on microfinance. Thus, commercialization has been achieved through *converging* donor policy across the board with microfinance best-practice.

CGAP2 has furthered some of the key strategies adopted in its second phase. At the global level CGAP2 'involves itself in a few selective activities based on "targets of opportunity"'.[66] In this sense, donor-coordination under phase 1 has been intensified to the degree that the CGAP may 'consider whether it can selectively take on a leading role at the country level' on the basis that such a positioning of the CGAP can have 'benefits in terms of harmonizing donor programming and promoting *agreement on standards and policies with governments*'.[67] To this effect, potential country choices may be taken proactively by the Secretariat and will be based on the perceived strategic importance of respective countries to the donors/MDBs (contemporary examples may be China, Eastern Europe). These decisions will also be based on the potential of the CGAP involvement to create a 'demonstrative' (e.g., catalytic) impact which the CGAP relies on for legitimating microfinance expansion. As for mainstreaming microfinance in the World Bank, it has been noted that:

> The CGAP Secretariat no longer needs to be the focal point for mainstreaming micro-finance in the World Bank, as the Bank has created its own mechanisms for internal mainstreaming. Rather, it will act as a resource to the Bank on best practices in strategically important ways, (...) For example, the Secretariat could provide general guidance on how World Bank financial sector work should incorporate analysis of micro-finance.[68]

This decision is consistent with the fact that the CGAP has already achieved considerable milestones with reference to mainstreaming microfinance in World Bank operational policies (cf. the World Bank's recasting of O.D. 8.30 as O.P. 8.30 in 1998). Moreover , the CGAP Secretariat played a key role in establishing the 'Rural, Micro-Finance, and Small and Medium-Size Enterprise Thematic Working Group' (RFMG) in the World Bank. The RFMG has now purportedly become the World Bank's internal microfinance co-ordinator. The CGAP has stated that 'since October 1997 the RMFG has taken steps to internalize the mainstreaming work started by the CGAP'.[69] It must be noted in this context however, that the CGAP Secretariat is a core team member of the RMFG.[70] The Secretariat also 'prepared the World Bank Group's Institutional Action Plan' for the follow up meeting of the Microcredit Summit's Meeting of Councils in June 1998.[71]

If the CGAP no longer works directly on mainstreaming issues with the World Bank, it does however continue to work with the World Bank directly on the role of microfinance in reducing vulnerabilities of the poor. The CGAP has provided input on this issue to the World Development Report of 2000/2001, which focuses explicitly on poverty. The World Bank–CGAP coordination on this issue is consistent with the Word Bank's commitment to 'seek to retain its focus on poverty and the needs of very poor groups in society' in the context of linking microfinance 'with the broader financial systems in the countries of operation' (see CGAP Policy paper, paragraph 13). This strategy effectively squares the circle of tying in microfinance to the World Banks Social Funds policy framework and brings the argument back to the role of microfinance in disciplining the poor.

The World Bank – The CGAP: Poverty Reduction, Microfinance and Social Funds

Since the recasting of World Bank policy on Financial Sector operations, the World Bank has been working on revising its operational directive on Poverty Reduction (OD 4.15). It is anticipated that the forthcoming revised OD 4.15 would complement O.P.8.30 (FIL) and cite micro-credit as a key targeted intervention for poverty reduction.[72] Meanwhile, however, World Bank operations already reflect such a coordination: Financial sector objectives have been pursued along strategies as outlined in O.P.8.30 and micro-credit based poverty reduction programs have been coordinated accordingly primarily through a Social Funds approach in the context of the World Banks program of Targeted Interventions. (See previous chapter)

A review by the CGAP (completed in March 1997) of the World Bank's microfinance programs between FY91- FY96 identified five main lending modalities for microcredit excluding the non-lending modalities (e.g., policy dialogues to establish the appropriate regulatory framework). These five modalities are as follows,[73]

(i) private sector development loans: These focus primarily on SMEs and concentrate on the delivery of credit rather than financial sector development, and channel credit through existing organizations to private enterprises.

(ii) rural finance: Usually developed through state agricultural banks, or ministries, which serve as wholesalers of finance to local institutions.

(iii)stand-alone microfinance projects: Target micro-enterprises exclusively and focus on developing specialized services through microfinance institutions.

(iv) financial sector loans: Loans that include micro-finance as a component in the context of financial sector development loans. One advantage is that these projects include policy initiatives , putting micro-finance in a financial systems framework. These have the potential to become an important new vehicle for promoting micro-finance.

(v)social funds: *the most common and most popular means of extending credit to the very poor and are often set in countries undergoing major social adjustments.* Included in the characteristics of social funds is a focus on income generation or micro-finance, (..) emphasis on community participation and group delivery mechanisms. Delivery of credit is usually through government agencies or NGOs using group delivery mechanisms.

Financial objectives, Social Funds and microfinance

According to the CGAP, the most common mode of delivery of microfinance is through a social funds approach. It has had a 'high level of interest in microfinance in Africa and the Europe and Central Asia regions, both during the past six years and in the pipeline'.[74] The CGAP has stated that the World Bank 'has promoted their use in countries as diverse as Chad, Guatemala, and Albania'.[75] In practice, social funds are often implemented by 'a ministry or the Office of the President'.[76] (cf. the Bolivian case outlined in the previous chapter). The CGAP review of the World Bank's microfinance portfolio was however, critical of the social funds approach to microfinance, primarily because of its focus on disbursement rather than adhering to microfinance best-practice.

The disbursement aspect, is however in keeping with the political logic underpinning social funds: that is, the provision of an entitlement to resources - money via credit - in the context of SAPs. Interestingly, a review of the micro-finance components of the World Bank's Social Funds Portfolio conducted at the same time as the CGAPs review of the World Bank's Microfinance Portfolio (March 1997), concluded that social funds can contribute to microfinance development, if based on microfinance best-practice (financial viability). This, it stated could be achieved if social funds had 'political independence' (which in this context means, political support for market based policies on financial operations and poverty reduction efforts) and if an operational distinction was made between 'financial services and social services'. [77]

Here, there is a convergence of CGAP best-practice with the World Banks Social Funds policy, and tantamount to microcredit and microfinance minimalism for poverty reduction. This is consistent with the policies outlined in CGAP's 'pink book'.[78] CGAP2 has effectively made adoption of best-practice mandatory (see above). The World Bank's OP 8.30 on FIL further supports this policy directive. Thus, the World Bank-CGAP partnership has effectively brought together the financial services aspect of global microcredit and microfinance agenda and the strategic political motives of *targeting at the grassroots* for poverty-reduction (it disciplinary aspects). Thus, the circle has been squared: the poor are disciplined while at the same time making their predicament *profitable.*

Microcredit and microfinance have been applied widely not only, but particularly through a social funds modality. It's implementation has often been through the linking of social funds to imperial rule. In this context, the CGAP2 focus on retail, that is in country-apex institutions, cannot be mere co-incidence – apex institutions are often attached or closely associated to the office of the President/Prime Minister (CGAP's work and advice to President Alberto Fujimori's in Peru on 'MiBanco' is an example)[79] There are many more similar cases.[80]

Financial Framework Setting and Poverty Reduction Discourse

Social Funds are primarily political safety nets (chapter 3). Microcredit and microfinance constitute a key dimension of Social Funds. For example, in 'December 1997 there were 21 World Bank projects with micro-finance components being developed or in the pipeline in 19 countries, including 13 low income African countries'.[81] Given the high level of interest in Social Funds particularly in the African context, the CGAP was instrumental in designing what has been referred to as a 'mini' CGAP in the African Development Bank (ADB); that is, the ADB's Micro-finance Initiative for Africa, (AMINA).[82] The high level interest, promotion and exposure of microfinance in Africa (as in Latin America) is not surprising. The region has experienced structural adjustment programs extensively: 'Between 1980 and 1986 alone, 36 sub-Saharan African countries initiated 241 adjustment programmes'.[83] It is in the context of opposition to these adjustments that some form of safety nets often accompanied these programs. The AMINA initiative, an outcome of close collaboration of the CGAP-World Bank, is best evaluated in the context of resistance politics in Africa, as much as in the context of Africa's sovereign debt-restructuring initiatives.

The CGAP review of the World Bank's microfinance operations (cited above) makes recommendations to the World Bank on the design of a 'strategy for microfinance', in this context, it states that the 'Africa Region's strategic approach can serve as a model for the Bank'.[84] It identified the three pronged approach adopted by the region: the regulatory framework and policy level (e.g., the case of the UEMOA, see above); institution building, (MFI capacity building); and the promotion of best-practice (minimalism and financial performance targets). In citing the Africa region as an example, the CGAP also recommends that the World Bank 'include potential micro-finance lending and non-lending activities in the Country Assistance Strategy'.[85] This advice has effectively been incorporated through the linking of microfinance to the newly created PRSPs (for more on this see chapter 7). The strategic political implications of microcredit/microfinance are also clearly evident in the make-up of the interests of CGAP's Investment Committee, as well as in its staff specialisms (see Appendix).

Microcredit, Hunger and Poverty

The political implications of microfinance and poverty reduction have to date not only been well concealed, but have been deliberately given a normative appeal to sustain and legitimate the strategic agenda. The World Bank it is said *entertained the idea of microcredit* because of a genuine commitment to eradicate hunger and poverty. At the Conference on Actions to Reduce Hunger Worldwide in 1993, Lewis T. Preston, then President of the World Bank, made the following statement, 'Micro-level credit schemes, such as those undertaken by Grameen Bank of Bangladesh, the Badan Credit bank of Indonesia, and the International Fund for Agricultural Development have proven to be highly effective at the grassroots level. The basic idea behind these schemes is to help small-scale income generation projects and businesses. *They are a particularly effective way of reaching women, thereby helping to improve the incomes and well-being of their children and families*[86]. (emphasis added - these were the same words quoted by James Wolfenson, at the beginning of this chapter)

Preston continued, to make public the idea that was to be the CGAP,

The World Bank is willing to work with its partners to expand effective micro-level credit schemes for the poorest of the poor, perhaps by joining other donors who might be willing to take the lead in establishing a consultative mechanism that could focus not only on funding, but also on the dissemination of best practices.

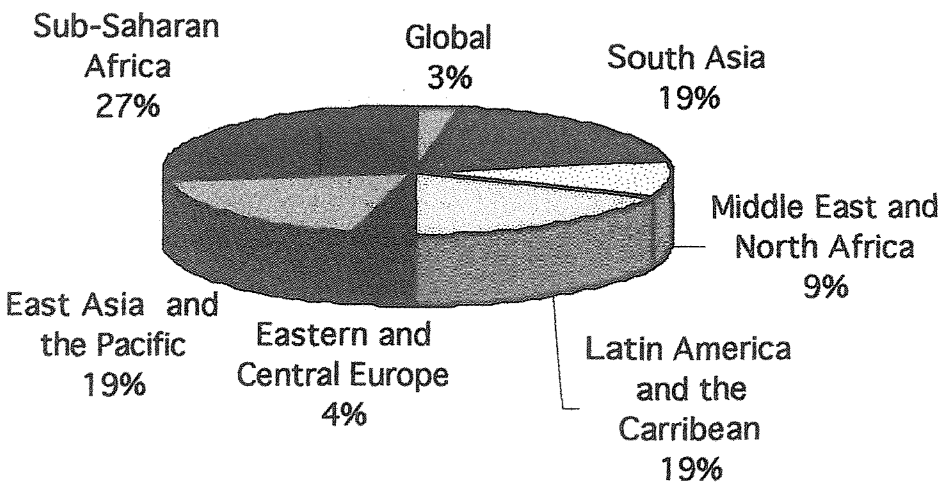
In the meantime, the Bank is ready to make the concept action-oriented. The Grameen Trust, represented here by its founder, Dr Muhammad Yunus, has already initiated a program to provide seed capital to some thirty to forty micro-credit schemes in various countries during the next five years. A number of donors have already contributed to this program, and I am pleased to announce that the bank is also willing to contribute a US$ 2 million grant to help cover the Grameen Trust's start up needs. As you may know, the Bank generally does not provide grants. We are prepared to make an exception in this case because the need is urgent and because, as I indicated, we hope it might help catalyze a broader response from the donor community' [87].

If the CGAP was intended to be a global co-ordinating institution for microfinance - one that would also create a potential catalytic impact- success on this objective is clearly evident. Based on information submitted by 18 of it's members donors the following results, based on preliminary data, provide a notional idea of CG member activity in the micro-finance sector.

> Between 1990-2000, CG members report roughly 650 projects with micro-finance components totaling about US$ 2.6 billion. (..) The largest flows are to Sub-Saharan Africa, 27 percent of the amount of the funds (US$661 million) are invested in roughly 250 projects. (…) In countries such as China, India, Laos, Vietnam, and to some extent in the Philippines, a significant amount of funds are passed through *apex institutions* or wholesalers.[88]

It is worthwhile to note here, given that funds for microfinance are primarily disbursed through apex-institutions, - the strategic role of apex institutions - in the context of adjustment programs and social funds (see discussion above). The diagram below, also based on preliminary data, extracted from the CGAP's *Annual Reaport FY1999,*[89] is a very rough approximation of the regional spread of microfinance globally .

Regional Distribution of CG funding for micro-finance, 1988-2001



The expansion of microcredit globally has been facilitated through concerted and co-ordinated efforts between donors and MDBs (including the Regional Development Banks). The figure above is only representative of part of the CG portfolio and does not include all NGO portfolios, nor commercial investments (e.g. of the IFC). Moreover, this must be evaluated in the context of the circulatory impact of microfinance: capital accumulation and expansion created through the returns from the interest on credit . The circulatory impact is thus also a crucial contributing factor to microfinance expansion, as well as of course to the objectives underpinning the trade in financial services agenda. Thus the CGAP has stated that

> (c)onservative estimates project that the retail micro-finance institutions working with CGAP in May 1998 will expand their outreach to very poor clients from 180,000 in 1997 to 500, 000 by 1999. But preliminary monitoring suggests that this estimate is likely to be *far surpassed.*[90]

As for the World Bank, if it made an exception by providing a grant to the Grameen Trust (see quote above), it has made further exceptions for microfinance by providing funds to the CGAP to on-lend as *grants*. This decision was approved by the Executive Directors of the World Bank. Contributions to CGAPI came from the World Bank's Special Programs Budget. Moreover, consecutive funding for CGAP2 was made available by the World Bank through the creation of a Development Grant Facility in 1998.[91].

The World Bank and the CGAP have justified the exceptional policy developments with reference to microfinance through claims to support efforts that empower the poor. It may be worth recalling at this point that the CGAP initiative made public at the conference on actions to reduce global hunger in 1993 was preceded by the recommendations of the 1992 Levy Report that challenged the World Bank to 'find new ways to do business in the field of finance'.[92] No mention has however been made in the public statements on microfinance and poverty reduction to the complex embedding of microfinance in strategic objectives, nor of intentions to *bank on the poor*. To this end, the Grameen Bank has served as an excellent public relations strategy for the World Bank. The disjunction between the rhetoric and realities of Grameen impact however is extensive. This disjunction is not something that the World Bank was (and is) unaware; yet even as late as 1998 the CGAP approved $50 million dollars for Grameen Bank Securitization.[93] The next chapter looks at the realities of Grameen social and political impact.

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[1] World Bank News, 'International Donors Provide Big Backing for Small Loans', http://www.worldbank.org/html/extdr/extcs/wbn0720.htm, p. 1

[2] CGAP, *Status Report – Consultative Group to Assist the Poorest,* (Washington DC: CGAP Secretariat, Word Bank) No publication date stated. However, the report summarizes CGAP's activities from its inception in June 1995 to may 1998, pp. 6, 7.

[3] 'About CGAP' – see http://www.worldbank.org/html/cgap/about.htm, p. 1, (emphasis added)

[4] CGAP, *Focus No. 1* (CGAP Secretariat, World Bank: Washington DC, 1998 – revised edition), p. 1

[5] CGAP, *Focus No. 1*, p.4

[6] CGAP, *Focus No. 1*, p.2

[7] CGAP, *Focus No. 1*, p. 2

[8] CGAP, *Focus No.1*, p. 1

[9] CGAP, *Report 2000,* (Washington DC: The CGAP, The World Bank, 2000) p. 18

[10] CGAP, *Report 2000*, p. 20

[11] Jannik Lindbaek, Guy Pfeffermann and Neil Gregory. 'The Role of International Financial Institutions in the 21st Century', (A paper submitted to the European Investment Bank in commemoration of its 40th anniversary, June 1988). The authors are based at the IFC . The paper has a disclaimer stating that its contents are of the authors and not of the IFC. www.worldbank.org/ifc/PICTURES/JUNE98.HTM

[12] Lindbaek, Pfeffermann and Gregory, 'The Role of International Financial Institutions in the 21 st Century'

[13] See for instance, Stephen Brown, *Beyond aid: from patronage to partnership*, (Aldershot: Ashgate Publishing, 1999), pp. 63-67, Walden Bello, *Dark Victory-The United States , Structural Adjustment and Global Poverty*, (London: Pluto Press, 1994), pp.51-63, E.M. Young, *World Hunger*, (London: Routledge, 1997) pp.42-43, 150

[14] See, Nicola Bullard, Walden Bello & Kamal Malhotra, 'Taming the tigers: the IMF and the Asian Crisis, *Third World Quarterly*, Vol. 19, No. 3, (1998)

[15] CGAP policy document: 'A Policy Framework for The Consultative Group to Assist the poorest (CGAP) – A Microfinance Program'- September 5 1995, p. 2

[16] CGAP, *Status Report*, p.7

[17] CGAP, *Status Report*,, p.2

[18] CGAP, *Status Report*, p. 3

[19] For a detailed list of CGAP's external 'consultants' which include , Citicorp Foundation and the Bankers Trust Company, see CGAP, *Status Report*, p.17

[20] CGAP, *Status Report*, p.2

[21] The details below have been extracted from the CGAP, Policy Document: 'A Policy Framework for The Consultative Group to Assist the poorest (CGAP) – A Microfinance Program'- September 5 1995. See paragraphs 19-27 (Funding for Micro-Finance Programs and Use of Funds)

[22] CGAP: 'A Policy Framework for The Consultative Group to Assist the poorest (CGAP) – A Microfinance Program'- September 5 1995. See Annex 1, paragraph 1, on Eligibility Criteria of the Participating Institutions (PIs)

[23]CGAP: 'A Policy Framework for The Consultative Group to Assist the poorest (CGAP) – A Microfinance Program'- September 5 1995. See Annex 1, paragraph 2, on Eligibility Criteria of the Participating Institutions (PIs)

[24] CGAP: 'A Policy Framework for The Consultative Group to Assist the poorest (CGAP) – A Microfinance Program'- September 5 1995. See Annex 1 on Eligibility Criteria of the Participating Institutions (PIs), although paragraph 8 of this document does not exclude the possibly of the CGAP providing loans.

[25] see Annex 1 on Eligibility Criteria of the Participating Institutions (PIs). See paragraph 27 on Use of Funds

[26] CGAP, *Status Report,* p. 4 (emphasis added)

[27] The CGAP Policy Document: 'A Policy Framework for The Consultative Group to Assist the poorest (CGAP) – A Microfinance Program'- September 5 1995. See Annex 1 on Eligibility Criteria of the Participating Institutions (PIs), See paragraph 25.

[28]The CGAP Policy Document: 'A Policy Framework for The Consultative Group to Assist the poorest (CGAP) – A Microfinance Program'- September 5 1995, p. 3 (emphasis added)

[29] CGAP, *Status Report,* p. 3 (emphasis added)

[30] CGAP, *Status Report,* p. 2

[31] CGAP, *Status Report,* p. 21

[32] CGAP, *Newsletter,* Issue No. 3, January 1997 (Washington DC : The CGAP Secretariat, World Bank) p. 7

[33] CGAP, *Newsletter,* Issue No. 3, p. 8 The 'UEMOA is the Economic and Monetary Union of the following seven West African nations: Benin, Burkina Fasa, Cote d'Ivoire, Mali, Niger, Senegal, and Togo.' For more on this see also CGAP, *Newsletter,* Issue Number 2, September 1996, (Washington DC : The CGAP Secretariat, World Bank) pp. 1, 10-11

[34] CGAP Annual Report – July 1998-June 1999 (FY1999) – http://www.cgap.org./reports/year4.htm, p. 22

[35] CGAP, *Status Report,* p. 22

[36] CGAP, *Status Report,* p. 24 (emphasis added)

[37] CGAP, *Status Report,* p. 24

[38] CGAP, 'A Review of the World Bank's Microfinance Portfolio' (pamphlet) Washington, DC: World Bank (1997)

[39] World Bank , Operational Policy 8.30 (OP 8.30), Financial Intermediary Lending (FIL), (World Bank Operational Manual, July 1998)

[40] On the stated eligibility criteria for potential FIs the Bank's requires assurance that FIs acting as onlenders in FIL and other investment operations are viable institutions, having, among other criteria 'adequate managerial autonomy and *commercially oriented governance*' (particularly relevant when state-owned or state - controlled FIs are involved. (Emphasis added) , see paragraph 9.

[41]World Bank , Operational Policy 8.30, Financial Intermediary Lending, paragraph 6. (emphasis added)

[42] World Bank , Operational Policy 8.30, Financial Intermediary Lending, paragraph 7. (emphasis added)

[43] The financial liberalization drive, although brought to the forefront of policy making since the 1980s, was already taking shape since the 1970s. This may be recalled by reference to the IDA and its role in advancing agricultural credit.(see chapter 3). The rural financial markets were one of the first inways in the World Bank's drive for financial liberalization. (see chapter 6, for the Ohio School influence on the World Bank)

[44] World Bank, *Financial Systems and Development,* (Washington, DC : World Bank, 1990) This document formed the text of the WDR 1989. With the WDR 1989 out of print, this was officially reissued in its place.

[45] World Bank, *Financial Systems and Development,* For example, p.3 states 'an emphasis on credit availability is preferable to interest rate subsidies, which undermine the financial process'. On the issue of microcredit and the Grameen Bank see esp. pp. 98-103.

[46] E. Denters , *Law and Policy of IMF Conditionality,* (The Hague, The Netherlands: Kluwer Law International, 1996) p.153 , Ref. Art. V Sect. 8 (b) Clause 'In making decisions on application for loans or guarantees relating to matters directly within the competence of any international organization of the type specified in the preceding paragraph and participated in primarily by members of the Bank, the Bank shall give consideration to the views and recommendations of such organization' Denters has stated that this implicitly points to the Fund and that there is no equivalent in the Fund's Statutes.

[47] Denters , *Law and Policy of IMF Conditionality* , p. 160 ,(see ftn. 36 : Doc.SM/89/54, March 31, 1989). Denters also points out here that an 'earlier Memorandum concerning cooperation was drawn up in 1966. Neither memorandum is publicly available'.

[48]Denters , *Law and Policy of IMF Conditionality*, p 160

[49] Denters , *Law and Policy of IMF Conditionality* p.160 (emphasis added)

[50] CGAP, 'A Review of the World Bank's Microfinance Portfolio', p.2

[51] IMF, Annual Report 1998, (Washington D C: IMF, 1998)pp 74 - 77. See also pp.3-4,

[52] Sydney J. Key, 'Trade liberalization and prudential regulation: the international framework for financial services', in *International Affairs,* Vol.75, No.1 (1999) Key provides an account of the roles of the IMF and the World Bank in the process of financial liberalization under the GATS (*Services 2000),* in the WTO.

[53] CGAP, "CGAP Phase II", starting July 1, 1998 for a period of five years (Washington DC: CGAP Secretariat, World Bank)

[54] CGAP, 'CGAP Phase II-Announcement of Funding Policy', (Washington DC: CGAP Secretariat, World Bank)

[55] CGAP, "CGAP Phase II"

[56] CGAP, 'Annual Report – July 1998-June 1999 (FY1999)', p.3

[57] The CGAP, "CGAP Phase II"

[58] CGAP, 'Phase II-Announcement of Funding Policy'

[59] CGAP, 'Phase II-Announcement of Funding Policy'. See note 1 on poverty measurement and note 2 on 'operational self-sufficiency'. (emphasis added)

[60] CGAP, 'Annual Report – July 1998-June 1999 (FY1999)', p.4 (emphasis added)

[61] CGAP, 'Annual Report – July 1998-June 1999 (FY1999)', p. 21

[62] Robert Peck Christen and Richard Rosenberg, 'The Rush to Regulate- Legal Frameworks for Microfinance' (Washington, DC: CGAP, World Bank, 1999)

[63] CGAP, 'Annual Report – July 1998-June 1999 (FY1999)', p. 5

[64] CGAP, 'Annual Report – July 1998-June 1999 (FY1999)', p. 5

[65] CGAP, 'Annual Report – July 1998-June 1999 (FY1999)', p. 23

[66] CGAP, 'Annual Report – July 1998-June 1999 (FY1999)', p. 21

[67] CGAP Review/Renewal and Governance Committees, 'Consultative Group to Assist the Poorest : Recommendations for the Future', (Washington DC: CGAP Secretariat, World Bank, January 16, 1998) p. 9 (emphasis added)

[68] CGAP, Review/Renewal and Governance Committees, p.9 emphasis added.

[69] CGAP, *Status Report*, p. 3

[70] CGAP Secretariat Quarterly Report- Quarter 1, Fiscal Year 1998 (July 1 – September 30, 1997) p.6

[71] See CGAP Secretariat Quarterly Report- Quarter III, Fiscal Year 1998 (January 1- March 31, 1998) p. 10 For the details of this action plan see RMFG website.

[72] Interview with the Director of the World Bank's 'Poverty Reduction and Economic Management' network, Michael Walton. Washington D.C. February 1999.

[73] CGAP, 'Review of the World Bank's Micro-Finance Portfolio', see esp. pp. 16-19 (emphasis added)

[74] CGAP, 'Review of the World Bank's Micro-Finance Portfolio', p.i

[75] CGAP, 'Review of the World Bank's Micro-Finance Portfolio', p. 18

[76] CGAP, 'Review of the World Bank's Micro-Finance Portfolio', p. 18

[77] World Bank's Working Group for the Social Funds Portfolio Review, 'Portfolio Investment Program: Review of the Social Funds Portfolio', March 1997, p. 38. Quoted in CGAP, 'Review of the World Bank's Micro-Finance Portfolio', p. 19

[78] The 'pink book', *Micro and small Enterprise Finance: Guiding Principles for Selecting and Supporting Intermediaries*, produced by Committee of Donor Agencies for Small Enterprise Development and Donors' Working Group on Financial Sector Development. Available from the CGAP Secretariat, World Bank.

[79] CGAP, *Status Report*, p.20

[80] For a list of social funds in various countries see 'Annex 2 – Design Features of Selected Social Funds' in Deepa Narayan and Katrinka Ebbe, *Design of Social Funds- Participation, Demand orientation, and Local Organizational Capacity'*, (Washington, DC: World Bank, 1996)

[81] CGAP, *Status Report*, p. 23

[82] Proposals for this initiative were discussed as early on as Oct-Dec. 1996. See the CGAP Secretariat Quarterly Report II – Fiscal Year 1997 (October 1- December 31, 1996).

[83] Fantu Cheru, 'Transforming our common future: the local dimensions of global reform', *Review of International Political Economy*, Vol. 7, No. 2, (2000) p. 354

[84] CGAP, 'Review of the World Bank's Micro-Finance Portfolio', p. 24

[85] CGAP, 'Review of the World Bank's Micro-Finance Portfolio', p. 24

[86] Lewis T. Preston, 'Partnership to Fight Hunger', in Ismail Serageldin, Pierre Landell-Mills (eds), *Overcoming Global Hunger : Proceedings of a Conference on Actions to Reduce Hunger Worldwide* hosted by the World Bank and held at the American University, Washington, DC., November 30 – December 1 1993. (Washington, DC: World Bank, 1994) p.7

[87] Preston, 'Partnership to Fight Hunger', p.7

[88] CGAP Annual Report – July 1998-June 1999, pp. 17-18 (emphasis added)

[89] CGAP Annual Report – July 1998-June 1999, p. 17

[90] CGAP, *Status Report*, p.4

[91] The CGAP Secretariat 'had on-going' discussions on the creation and design of such a facility (an umbrella grant facility) with the World Bank. See CGAP Secretariat Quarterly Report IV – Fiscal Year 1997 (April 1-July 15, 1997) p.5 : See CGAP Secretariat Quarterly Report – Quarter I, Fiscal Year 1998 (July 1- September 30, 1997) p.6

[92] CGAP, 'Review of the World Bank's Micro-Finance Portfolio', p. 2

[93] CGAP Secretariat Quarterly Report- Quarter IV, April-June 30, 1998, p. 8

CHAPTER 5.

THE GRAMEEN BANK IN BANGLADESH

The Grameen Bank in Bangladesh has enjoyed a global reputation as a unique financial institution – a microcredit minimalist institution - that has been successful in lifting many families out of abject poverty. It has also had a special reputation for *empowering* particularly the women of those families.

The Grameen story has been a powerful one, and the normative load underpinning its achievements has had far reaching global political implications.

This chapter critically engages with the public transcripts of Grameen social impact. In so doing the objective is to explore and elucidate the adverse social and political implications entailed in the Grameen approach and its global replications in the form of microfinance minimalism. The Grameen Bank is discussed with an eye to exposing the hidden transcripts of its institutional success. The chapter elucidates the limits of the Grameen approach, as well as demonstrates its logic as a mainstream – top down-approach. The chapter will reveal the Grameen approach as grassroots capitalism. This will set the background for chapter 5.

The chapter has five sections. Section one provides a preliminary survey of public transcripts of the success of the Grameen Bank and some policy implications. Section two provides a detailed account of the practices of Grameen Bank microcredit minimalism, and critically engages with contradictions between Grameen's self-presentation and it's actual impact at the grassroots. Section three specifically engages further with Grameen's claims of empowering women. Section four draws attention to the recognition of the limitations of microcredit minimalism by key policy makers and practitioners. Section five offers a political interpretation of the Grameen approach.

Public Transcripts of Grameen: Some Political Implications

The Grameen story was made public in the US *as early on as July 1987* when a telephone press conference was organized in Washington D.C., with Muhammad Yunus, its founder and Managing Director. The July 1987 event was organized by RESULTS, who were also to be the main organizers of the Microcredit Summit in Washington D.C., in February 1997. The press conference, 'in which editorial writers from 40 newspapers from across the USA participated', was part of a strategy by RESULTS to generate support for the lobbying of a microenterprise bill in the House and the Senate. *In December of 1987*, Congress passed the bill and the President of the United States signed into law the microenterprise legislation. 'In addition, the House Foreign Aid Authorization Bill, which had its own micro enterprise provision, was adopted as part of the continuing resolution'.[1] More recently, in July 1997, a testimony by the Grameen Bank on its developmental achievements was a key contribution to a hearing before the United States Congress, Subcommittee on International Economic Policy and Trade, on the issue of '*Microcredit and Microenterprise: The Road to self-reliance*'.[2]

Normative conceptions of Grameen achievements have played a significant part in legitimating the policy shift of global development finance institutions: that is, the shift from public to private, market based models of 'safety nets'. For example, one of the first public statements made by the World Bank on the viability of microcredit as a global poverty reduction strategy (at the 1993 conference on *Overcoming Global Hunger)*[3] was explicitly associated with the social and economic achievements of Grameen. At this conference, Lewis T. Preston, then President of the World Bank, made a pledge that the World Bank would support poverty reduction efforts along the core operational features of the Grameen Bank (see previous chapter). The World Bank's new policy prescriptions were reiterated and the strategy was once again legitimated through discourses of Grameen at an associated event, *on "Effective Financing of* Environmentally *Sustainable Development"*, in October 1995.[4] Public discourses on Grameen social and economic achievements are extensive, and it would not be an overstatement to suggest that the role of *microcredit in the empowerment of women* is generally, in the first instance, associated with the Grameen Bank of Bangladesh.

However, against the broadly construed favorable presentation of Grameen's role in poverty reduction, there have emerged several critical studies, based on policy analysis and participant observation, which seriously challenge the dominant accounts of Grameen's benign effects on the situation of the rural poor. These critical findings point to the fact that the Grameen intervention has resulted in the downward regression of the livelihoods of many at the grassroots. Accounts of such very real and sad experiences, with far reaching social and political implications, have been and indeed are still being excluded from representations of the Grameen Bank which reach a wider global public. Critical analysis of Grameen impact on the ground has drawn attention to the limitations of its 'minimalist' approach to poverty reduction. These findings raise the question of the salience of the global replications of the Grameen model as a key targeted poverty reduction strategy.

The Grameen Bank - An Introduction

Grameen is a specialized bank in Bangladesh: as a financial institution it enjoys unique status in that its operations are not subject to the Banking Companies Ordinance of 1962.[5] Grameen has a mandate to 'provide credit with or without collateral security, in cash or in kind, for such term and subject to such conditions as maybe prescribed, to landless persons[6] for all types of economic activities including housing, but excluding business in foreign exchange transaction..(..)[7] The Grameen Bank poverty reduction strategy is based upon *microcredit minimalism.* That is, the provision of *credit only* for investment in income generating activities, with no accompanying skills training, marketing assistance or even social and environmental assessment of potential investments at the local level. Upon membership, Grameen members are obliged to purchase a share in the Bank, worth 100 *Taka,* which theoretically means that the borrowers own the Bank. As of May 2000, Grameen membership stood at 2, 370, 008 of which female members constituted 2, 246, 977 and male members constituted 123, 031.[8]

The gender bias of Grameen loanees was not a focal point of its early days. However, since the early-mid 1980s a set of informal norms have directed Bank workers to target women, rather than men, as credit recipients. As of July 1999, no formal policy paper existed in the Bank on the issue of Grameen's preference of women as borrowers. As a supplement to the credit provision, Grameen claims to educate and thereby further *empower* women through the institution's *sixteen decisions*, which it's members are required to memorize and put into practice.

Grameen Bank's Sixteen Decisions [9]

1. We shall follow and advance the four principles of the Grameen Bank – discipline, unity, courage and hard work – in all walks of our life.
2. Prosperity we shall bring to our families.
3. We shall not live in a dilapidated house. We shall repair our houses and work towards constructing new houses at the earliest opportunity.
4. We shall grow vegetables all the year round. We shall eat plenty of them and sell the surplus.
5. During the plantation seasons, we shall plant as many seedlings as possible.
6. We shall plan to keep our families small. We shall minimize our expenditures. We shall look after our health.
7. We shall educate our children and ensure that we can earn to pay for their

education.

8. We shall always keep our children and the environment clean.
9. We shall build and use pit-latrines.
10. We shall drink water from tube-wells. If it is not available, we shall boil water or use alum to purify it.
11. We shall not take any dowry in our son's weddings, nether shall we give any dowry in our daughter's wedding. We shall keep the center free from the curse of dowry. We shall not practice child marriage.
12. We shall not commit any injustice, and we shall oppose anyone who tries to do so.
13. We shall collectively undertake larger investments for higher incomes.
14. We shall always be ready to help each other. If anyone is in difficulty, we shall all help him or her.
15. If we come to know of any breach of discipline in any center, we shall all go there and help restore discipline.
16. We shall introduce physical exercises in all our centers. We shall take part in all social activities collectively.

The Grameen Bank is as noted above, first and foremost a financial institution. Thus, its loan portfolio is at the core of its *raison d'être.* Grameen provides a mix of 'micro-loans' and larger 'macro-loans'. The following is an overview of Grameen's loan structure.[10]

(1) General loans

(2) Seasonal loans

(3) Housing loans

(5) Share-cropping loans

(6)Leasing loans

The last two loan types fall within the range of a macro-loans category. These two loan categories were introduced in 1996. The leasing loan is usually more than one hundred thousand *Taka.*[11] Loan repayment of principal amount (spread over 50 weeks) plus the interest charge commences a week following the loan disbursement. The interest rate on loans is set at twenty percent. In addition to the direct interest charge, there are other compulsory charges and saving schemes. Borrowers are also entitled to take out consecutive loans for which repayments may run simultaneously.

Complementing its institutional structure, Grameen introduced pioneering mutual (group) guarantee mechanisms as a substitute for conventional forms of collateral. In practice, this means that members self-select themselves into groups of five, and upon forming eight such groups a Grameen 'center' is established. In the case of default on loan repayments, the group members become liable for the repayment of the defaulting members loan. Should they not wish to repay the bad debt or are unable to do so themselves, other members of the center become responsible for repayment. Social collateral, structured in such a manner ensures that irrespective of the measures taken between the members to repay the installment(s), the Bank has a fairly secure guarantee of receiving the outstanding amounts. In reality, therefore, the employment of social collateral, which may be cast as 'peer support' or 'peer pressure' on the ground, means that the loans are effectively not collateral free, as is claimed. Social collateral provides for the lender precisely the same function of security as do conventional forms of collateral against loans. What changes are the kinds of risks that borrowers take, which are social, interpersonal and direct in the case social collateral, and legal, formal and indirect in the case of conventional collateral.

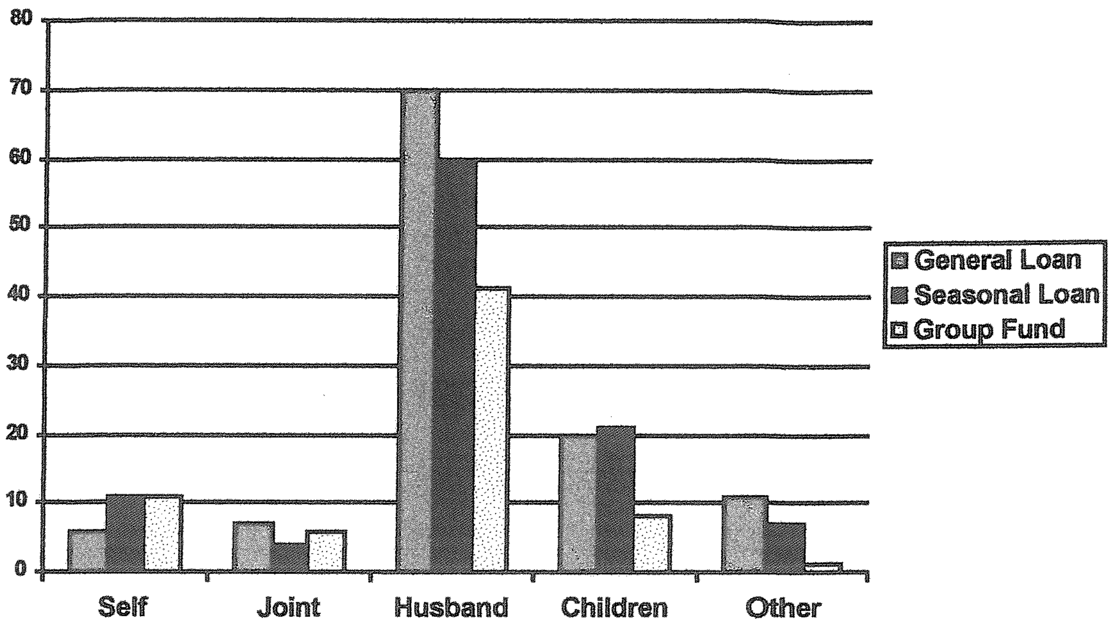
As an institution of local financial intermediation, Grameen can lay claim to considerable successes, with an impressive 98% loan repayment rate often cited as a reflection of its institutional success. The public discourses on Grameen associate a corresponding positive social impact with this institutional success, a major proportion of which is sustained by the institution itself.[12] A key aspect of these discourses are the claims to Grameen delivering particularly the *empowerment of destitute women.*[13]

However, Aminur Rahman among others, has substantially demonstrated the 'rhetoric and realities' of Grameen social impact,[14] findings which have been reaffirmed by my own participant observation. An engagement with some of the normative claims follows through a discussion with reference to key issues, in the next section.

Loan use: who takes the credit ? [15]

Grameen claims to *empower* women through microcredit: the micro-loans are said to enable marginalized and destitute women to engage in income generating activities which will result in their economic self-sufficiency. On the issue of the *actual loan users,* however, research studies have concluded that although women take the credit, and are responsible for the debt, a majority of them do not invest the money in *their own* microenterprises. These findings differ from between 25% to 97% on the proportion of women borrowers who did not invest the credit themselves.[16] This means that according to one of these studies, only 3 per cent of women borrowers actually used the loans themselves. The following chart is an illustration of the actual loan users of three loan categories in Rahman's study.[17]

Actual Loan User Categories



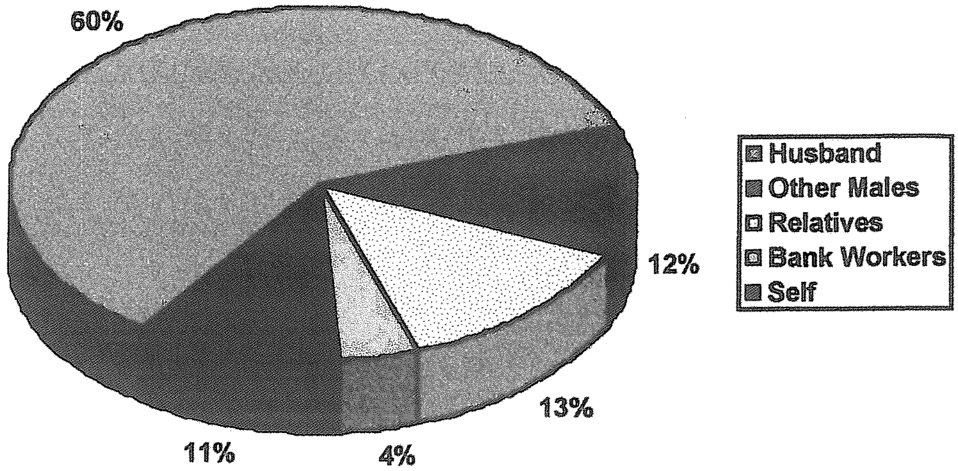
Rahman states that in his study area, the Grameen Bank workers were well aware of the fact that 'in the household it is men who use the loans and who make the installments'.[18] On raising this issue with Senior Grameen Bank officials, the latter, rather than dispute these findings, provided me with a new explanation of what they mean by *empowerment*: given the cultural context of Bangladesh, they explained, the fact that *women take* the loans, is in itself a process of *empowerment*. This is contrary to the many public images and rhetoric sustained on Grameen, both by the institution itself and by other official development bodies, including the World Bank.

Rahman's analysis of this gender bias points to strategic objectives associated with the targeting of women. He argues that women's positional vulnerability (constraints on physical mobility) in rural Bangladesh is exploited and utilized for the purposes of ensuring loan repayment. In situations of repayment crises, their positional vulnerability is exploited and their *ijjat* (women's honor) undermined. Women's *ijjat* is a concept of much significance and its protection is central to social and cultural understanding in rural Bangladesh. The targeting of women as credit recipients in this context Rahman argues is strategic, because the safeguard of women's *ijjat* 'by men in the society gives the lending institution an unwritten guarantee of getting back regular installments from its women borrowers.'[19] Rahman quotes a woman member explaining the social significance of womens' ijjat at the local level, which also reveals how women themselves perceive the undermining of their *ijjat* as a strategy employed by Grameen to ensure loan repayments

> When a woman fails to make her installment on time, she experiences humiliation through verbal aggression from fellow members and bank worker in the loan center. Such humiliation of women in a public space gives males in a household and the lineage a bad reputation. (*durnam*) In an extreme case peers may take the defaulter to the bank office. (..) If this happens to a women then it will bring durnam to her household, lineage and village. .[20]

Rahman, goes on to quote an example given by this woman of how the undermining of a woman's *ijjat* due to default on repayments resulted in the taking of her own life.[21] The charge that Grameen's targeting of women is strategic is further supported by evidence that the majority of women members did not make the decision to join

Grameen themselves, but rather were asked to do so by men. The pie-chart below disaggregates who actually influenced women to join Grameen.[22]



The strategic use of women in the loan disbursement process is further illustrated well through the following response from a (male) bank worker, regarding one of the few male centers in the village that was operating below its maximum membership capacity (6 to 8 groups.)

> Our superior officers have instructed us not to recruit any new male members and eventually to eliminate all male groups from the loan operation. The loan center previously had six groups and thirty male members, some of whom have either left the group or have been expelled by their peers, but we have not replaced them. (...) In the field it is hard to work with male members. They do not come to the meetings, they are arrogant, they argue with the bank workers and sometimes they even threaten and scare the bank workers. It is good that

our superior officers have decided not to recruit new male members, although we do not have any written instruction about it.[23]

The assertion that the Grameen Bank experience and understanding of female borrowers as easier targets for disciplining, and therefore posing less of a default risk to the Bank's practices and operations is also backed up by Helen Todd's analysis. She explains the shift toward the Grameen gender bias in the mid-1980s as 'mainly in response to increasing repayment problems within male centers'.[24] Unlike the Bank's new-found definition of the *empowerment* of women, analysis of such critical findings led to the conclusions that 'women have taken over the task of securing loan installments for their male relatives, but not of managing new economic initiatives. In effect, they have become an unpaid intermediary for credit institutions'.[25] Moreover, Rahman's study has also highlighted cases where pressure and aggression have been directed against women because they did not wish to join Grameen by their spouses or male relatives.[26]

Economic empowerment or regression of livelihoods?

It may be taken as a fact that '[w]omen borrowers bring their loans to the household economy, and household members use the loans in accordance with the priorities in the household'.[27] Any assessments of the economic impact of Grameen loans therefore may be conducted through an assessment of improvements of living conditions at the level of the household of its members. In most cases, however, it is not possible to make an assessment of the *direct* loan impact on asset creation, this is primarily because most loans are not always invested in income generating activities as stipulated by the public discourses; rather, they may be used for 'household consumption, repayment of other loans, medical treatment, house-rebuilding' and even be misused 'by husbands, and also [be used as] payment of dowries and even money-lending.'[28] Rahman's findings posit the discrepancy between real and projected use of loans to be around 78 %.[29] This means that in most cases the credit input complements existing household income, and therefore any economic improvements in the household cannot necessarily wholly be attributed to loan input. Ensuing household benefits may vary in each context and may be contingent upon local social and economic dynamics: for example, the level of economic development of the area and the local social and political stability, and the degree of vulnerability of members to environmental impacts (floods , cyclones), and indeed the developmental perceptions and aspirations not only of the individual borrowers but also of the local social community.

Bearing in mind the methodological limitations of economic impact assessment, it is nevertheless, possible to cite some examples of households bettering their economic conditions through the use of loans even if they were not invested directly in the productive sector. However, it has been argued that such cases are rather the exceptions and thus cannot provide a benchmark for the overall project impact.[30] Examples of the loan use in some of the 'successes' are as payments to employment agencies as a fee to securing job(s) in the Middle-East or in Malaysia, mostly as factory workers or domestic laborers.[31] However, even these successes may be easily turned around as Rahman's examples have illustrated.[32] There are many examples of the loan input resulting in negative social and economic consequences for poor households, with particularly harsh repercussions for the women members.[33] Furthermore, given that the concept of the household in Bangladesh may generally refer to the extended family, the social costs of 'downward mobility' are extensive.

The reasons for the regressions of the household living standards as a result of Grameen interventions are varied, and are indeed not confined to cases where borrowers have failed to invest the loan as proposed. There are cases where the loans have been invested in a proposed project, but have nevertheless resulted in failure due to the loss of the investment through natural disasters (for example floods and cyclones) or other natural calamities, such as the death of a cow. Others reasons include the low level of returns on the investment thus making the loan *a liability* rather than an asset. This is mainly because the interest rate charged by Grameen is so high that 'it is incompatible' with the profit made on investments.[34] As Rahman has elucidated, contrary to the public transcript that the Grameen interest rate is 20 %, in 1994-95 , 'the actual annual interest realized from borrowers was 31.68%'.[35]

In some cases the ill health of one or more members of the household may have a negative impact on the investment, particularly, if it were to be a male member on whose skills or service the investment was primarily dependent. The loan repayment schedule too, whereby loan repayments commence a week after loan disbursement, creates a bottle-neck for many borrowers living on the edge, particularly for those members who did investment the loan as proposed but did not anticipate failure. In such cases, repayments must be made from any other existing household income, if any, and this is often done through recourse to the already vulnerable survival strategies, and in many instances at the expense of the 'downward mobility'[36] of the livelihoods of household members.

There are many documented cases of households losing their meager belongings, such as their tin roofs and/or having to take out more loans from Grameen, sell their fruit trees, and 'borrow cash from all available sources to keep up the installment payments'.[37] In many cases, it has become common practice to either sustain repayments through taking out second or third loans or by borrowing from other NGOs operating similar credit programs on the ground (this process is referred to as *overlapping)*, or indeed resorting back to the local money-lenders.[38] Through these options of last resort, repayments to the Bank have been sustained and many have done so through a spiraling circle of debt. While the government of Bangladesh has written off many of its loans in the aftermath of natural calamities, the Grameen Bank has not, and as a policy never does. Indeed, even in an event of death, the deceased members' family or kin have become liable for the repayment of any outstanding loans.[39] The Grameen Bank's formal and informal policy prescriptions have ensured that its standing as a financial institution operating on a commercial basis will not be compromised.

To maintain institutional success, the Grameen Bank strategy relies on maintaining outstandingly low default rates. The discussion above engaged with the social and economic implications of sustaining loan repayments, irrespective of a member's capacity to do so. Much of these repayments have been sustained through the social implications of employing peer pressure on the ground, which is a key factor that ensures Grameens institutional success. Grameen's operational structure is crucial to sustaining it's institutional success.

Grameen management strategy has been explained in terms of the management basing its operational structure upon a 'series of "circles within circles". Each bigger circle would pass on the responsibility to the immediately next smaller circle within itself, while keeping watch on each constituent smaller circle'.[40] In the Grameen Bank structure the smallest circle is the group unit, and it is this unit that must bear full responsibility of the loan risk: this unit must ensure timely and stringent repayments. That is, they must be responsible for their own individual loans and also be fully responsible for each others loans in the case of default. The Grameen Bank it seems has attained its institutional success through the passing down of the risk associated with lending policy to the level of the individual, which is sustained at the grass-roots through group pressure or social collateral.

The public discourses on social collateral are usually cast in terms of *peer support*. Peer support between members does exist, whether it is played out in terms 'supporting' the more creditworthy and excluding the more risky in the membership self-selection process. Sometimes, it may even cast itself in opposition to Grameen objectives. One example of this is the case of Grameen members of an entire district (Tangail) rising up against the Bank and demanding that their savings be returned and not be held in lieu of other members' bad debts or indeed as investment capital for Grameen's own expansion.[41] Grameen Bank workers are keen to ensure that a male household member takes responsibility for the loans, in order to avoid the risk of default associated with lending to 'destitute' women.[42] I personally encountered such a situation. In this situation, other members advised a 'potential' member *not* to disclose her 'destitute' status to the bank workers. Peer support in this sense, however, is not always the case.

The many examples demonstrated above show that the downward mobility of many households has resulted from the imperative to sustain loan repayments. The vulnerabilities and income insecurities of many rural families mean that their choice of survival options are limited. Many, therefore, welcome microcredit for consumption based existential reasons. Thus, it may not be difficult to generate peer pressure on the ground in conditions of general insecurities. An example, may be a situation where a member desperately in need of money (for 'consumption' purposes or payment to an employment agency) is told that a forthcoming loan is to be withheld as a consequence of a defaulting member. Here, it may be the case that 'peer pressure' rather than 'peer support' will be applied *against* members. In practice, therefore, the strategy of employing social collateral as a substitute for conventional forms of collateral, among those *in* conditions of economic vulnerabilities and insecurities, is tantamount to instigating the development and deployment of coercive mechanisms at the grassroots level. The strategy employed in the context of social vulnerabilities in effect demands individualistic and competitive behavior at the local level.[43] Aminur Rahman's study has revealed that peer- pressure has led to an escalation of violence in Grameen villages stemming from the strategies applied to recover installments. [44]

In my own experience, I encountered a woman who worked for an NGO as a laborer in order to repay her sister-in-law's outstanding loans. This woman explained to me that she, like many others, did so as they were too fearful of the social consequences that may follow if they did not. The consequences of 'pushing-down' responsibility for timely and stringent payments of installments to the level of the individuals has meant that irrespective of the social and economic conditions of the member, the institutional standing of the Bank is not compromised and its core objective, sustaining repayments, is met. The pressure to sustain repayments has been aptly portrayed in the words of a Bank worker,

> [a]s a bank worker our first responsibility is to collect *kisti* [interest] from every member. We are not expected to return to the branch leaving behind any of our installments in the field. So we try our best to collect all due installments from the loan centers by all possible means.[45]

This responsibility of the Grameen employee has meant that in Rahmans' study area it helped the 'local branch of the Bank to achieve and maintain a 98% repayment rate'.[46] However, the equation of a 98% commercial success with the successful achievement of purported normative goals is seriously challenged.

Grameen Ideology, the *Empowerment of Women* and Poverty Reduction

The Grameen rhetoric of *empowering* women through *their* self- employment based on the provision of small loans is a comprehensive misrepresentation of the practices on the ground. While my own experiences support the critical studies, I was not, however, prepared to learn that very poor, single women, including the 'older' (middle-aged) had to lie to the Bank workers and hide their social status in order to be able to join Grameen and gain *access* to microcredit. Without an economically secure male guarantor these *destitute women,* to use the Grameen Bank's own terminology are considered too high a 'lending' risk by the Bank workers whose own employment security relies upon sustaining and enhancing Grameen's institutional success. [47]

Most, if not all, Grameen women members are married which gives Grameen the security of knowing that its members are fairly securely confined territorially. In practice, therefore, single women are generally not included in the lending portfolio, based on the premise that they would probably move from the village upon marriage. Grameen's strategic use of women, has, thus, rather provided an opportunity to lay the burden of the social cost of Grameen success on women through an appeal to the distinctly patriarchal norms and practices they seek to eradicate. Such practices support the conclusions of Mubina Khondkar, that the credit intervention does not *empower* women, because it does not challenge the social and cultural norms which are at the foundations of women's subordination: '[a]lthough women's access to and use of credit and the functioning of the MFIs have some impact on women's social empowerment but the extent of such impact is so limited and complex that we cannot infer that credit is empowering women socially rather the question of reinforcement arises.[48]

Grameen's *sixteen decisions* claim to make a social impact, particularly the decision on the acceptance and providing of *dowries* for women. In practice Grameen loans are themselves used for payment of dowries.[49] As for the other decisions, they have been described as nothing more than 'Mrs. Beacham's Better Housekeeping for rural Bangladesh'.[50] Furthermore, while to the 'outsider' with particular perceptions of women and life in rural Bangladesh many of the 'sixteen decisions' may sound worthwhile and commendable, again, adherence to practices such as growing fruit and vegetables in one's household is rather the *norm* than the exception. This has been aptly demonstrated by Sarah White, based on a study area without a women's development program.[51] Moreover White's study on *Gender and Class in Bangladesh: Arguing with the credit crocodile* provides an excellent tool to critique the limited notions of conceptual understandings of oppression, subordination and *empowerment* associated with the 'women and the microcredit intervention'. With reference to some of Grameen's other claims, such as 'educating' women these have, in practice, consisted of ensuring that women who previously could not write are now capable of producing a legible signature on the loan form.

Public discourses of Grameen claim that the poor women *own* the Bank. However, not all borrowers are even aware that they had purchased a share of the Bank, and had never seen the share certificate. This has also meant that on leaving the Bank they did not get their share money back.[52] As of June 1999 no dividends were ever paid to the Grameen share-holders (borrowers).

The Grameen Bank: the Rhetoric and Realities of Microcredit and Poverty Reduction in Bangladesh

There is widespread awareness in Bangladesh regarding the critical effects of microcredit. An impact assessment study of the PKSF's poverty alleviation program – (the PKSF is the apex microfinance institution in Bangladesh responsible for managing the World Bank's own Microfinance Poverty Alleviation project for Bangladesh[53]) - concluded the following,

> (..) part of the loan is used for consumption. (..) This is a universal phenomenon in microcredit in Bangladesh..(..) Overlapping is also becoming a problem. This is a universal phenomenon in Bangladesh. The activities for investment have not really expanded over time. The areas of investment have remained stagnant. (..) This is a source of threat at a time when MFIs are

> increasing loan amount and overlapping is also becoming a common phenomenon. [54]

Over-lapping, in this context, basically refers to the situation when the same borrower(s) borrow from one NGO or MFI to pay off the other. This too has been identified as a 'common phenomenon'.

> A common phenomenon that has emerged as a significant impediment to the smooth functioning of Microcredit Operations (MCOs) is that of overlapping. Unhealthy competition among microfinance institutions (MFIs) in luring one another's beneficiaries has been retarding the pace of development of MCOs.[55]

Despite these findings, the public discourse on microcredit and poverty reduction still maintains a positive representation embedded in the broader discourses of *empowerment.* In the Bangladesh context, it has been argued, (see below) that the credit intervention has been crucial to containing Islamic Fundamentalism, (presumably through modernization based development efforts and the credit intervention being used conditionally in the context of its extension to those who use it for consumption smoothing). The association of Grameen and the microcredit approach in general with 'Islamic Fundamentalism' is said to command support among different interest groups who perceive this to be a 'bigger' and common threat. The Grameen Bank (as well as some NGOs) encourages its members to actively engage in local politics. Senior management of Grameen expressed a possibility of a link between Grameen presence and decline of Islamic Fundamentalism. Others have pointed to the national pride associated with the achievements of Grameen globally as reason to sustain these representations. Ensuing social implications suggest that the substitution of one form of oppression for another may be occurring. Indeed, in the words of an elderly man in Rahman's study area,

> The Grameen Bank is a kind of British Raj, in this country who unfairly takes advantage of the poor people's poverty. It replaces one evil by another, for instance, moneylenders charge exorbitant interest rates on a smaller scale, the Grameen Bank charges lower interest rates but on a mass scale. Instead of eliminating moneylenders from rural Bangladesh, the Bank is now creating a new class of moneylenders within its own borrowers. [56]

This statement raises the question of the salience of the Grameen approach as a poverty reduction strategy. Grameen was founded on the conjecture that financial resources were fundamental to economic development, and yet the traditional banking system failed the poor who were desperately in need of credit, as they were not considered creditworthy.[57] Grameen is thus a result of an 'action research program launched in 1976 by Muhammad Yunus to explore the possibilities and to design a framework which will bring the rural poor within a viable banking network.'[58] This objective, in itself, does not mean (in context of issues discussed above) that it would necessarily translate into the 'biggest development wonder' as opined by Muhammad Yunus.[59] Yet, the sincerity of the aspirations of Muhammad Yunus to eradicate poverty would be hard to doubt. However, what Muhammad Yunus has failed to recognize is that aiming to reduce poverty does not mean making someone better off while substituting another in his or her place. He has said of the Grameen Bank,

> "Again it's like a ship , we've picked up 2 million marooned families. Now the job is to take them as far they want to go. This ship will not abandon them at any stage even if they become the 2 million *richest* families in Bangladesh'
>
> Yunus continues
>
> "And to those who raise the question, what about the others who are marooned ?' I say, 'You know what to do : build another ship.'"[60]

Given that poverty and inequality are outcomes of social power relations, the most appropriate question to be addressed in this social context should be, rather, *what are the entailed external and internal social costs of building this ship* bearing in mind the *purpose of the ship.* I raised the social *implications of* the Grameen project with senior management: I asked specifically of their concern of the negative social impact and implications of the credit input (investment) on both the borrowers and the non-borrowers in the village with reference to, for example; certain Grameen members using the credit to purchase or 'lease in' land from the extremely poor or poorer persons/families, or in technology that may facilitates the sale of drinking water; the impact of market saturation of investments of similar type and the lack of assessment of environmental sustainability of purported investments. These implications are of concern because they are some of the very conditions that Grameen purports to eradicate. To these questions, I received the response that it would not be proper for Grameen to interfere with the mechanisms of 'supply-and demand'.

The Grameen Bank *as* Grassroots Capitalism

In the context of global replications of the Grameen Bank model as a successful poverty reduction approach , Muhammad Yunus has stated:

> (..) credit is a universal tool that unlocks human capabilities. (..) the Grameen model does not require the culture of Bangladesh to succeed. (..) there will be many innovators from many different fields, and the entire philosophy of *grass-roots capitalism* will show its genius in many practical applications , perhaps even by other organizations and groups which have no connection with us.[61]

It is in Grameen's ideological convictions and practical support of capitalism that an explanation may be found for its negligence of the adverse social *implications* of its institutional success, - which is a vital omission from the public discourses of Grameen. This negligence, it seems may actually stem from Muhammad Yunus's commitment to the capitalist ideology and his belief that this system best offers human liberty and its many associated virtues including *freedom* and *entrepreneurship.* In outlining an alternative vision *of the* capitalist world, he stated:

> (..) instead of one motivating factor ("greed") to keep it in motion, we can introduce social consciousness or social dreams as another motivating factor. Both types of people can be in the same marketplace, using the same tools and concepts of capitalism but pursuing completely different goals. (..) I think this is the most realistic vision of the world under any framework, capitalist or non-capitalist.
>
> I am inclined to believe that the role of social-consciousness- driven entrepreneurs in the new configuration of the capitalist world is assigned to the State in a socialist framework. The state did not do a good job in this role.
>
> Can capitalists concepts, tools and framework allow, support and promote economic activities leading to achievements of social objectives in parallel with narrow personal objectives ? My answer is emphatic yes. [62]

However, the vision that Yunus envisages and stipulates probably does lie within the realm of 'social dreams'. A dangerously naïve *utopia,* as Karl Polanyi has so well explained.[63] Thus, as an approach *for* poverty reduction and economic development the limitations of the Grameen minimalist approach not only in terms of ensuring productive capability but also in terms of its market sustainability (competitive potential) in the context of globalization has led to a cautious assessment even by the World Bank.

(..) relying primarily on the credit demand of the poorly-educated entrepreneurs may prove too costly for the Grameen Bank. As the economy grows, commercial banks and other development financial institutions could finance projects that produce similar non-farm goods on a larger and more profitable scale. The low cost production of large - scale enterprises may drive down the profit margins of small-scale projects financed by the Grameen Bank, eventually forcing them out of this sector.[64]

Furthermore, another version of an impact assessment study of Grameen by the World Bank has explicitly stated,

In Bangladesh, for example, microfinance programs sponsored by the Grameen bank and other organizations - with increasing support from donors - are emerging as a strong instrument for poverty reduction. The available literature does not, however, indicate whether microfinance can reduce, if not eliminate poverty....(...) ...programs benefit only the portion of the poor that is able to use loans productively. The ultrapoor who lack this ability as well as land (a source of employment) do not join microcredit programs and thus targeted wage employment schemes or other transfer mechanisms are more appropriate.[65]

Critical findings, such as these, are omitted from the global discourses on the Grameen

Bank and its role in poverty reduction. Instead global support has been built ideologically around particularistic accounts of Grameen Bank success stories which suggested that all that was needed to eradicate poverty and aid development was credit to the poor.[66] At the global level, the sustaining and promoting of the normative discourses has provided an excellent legitimization for the expansion of microcredit, together with its associated political objectives. As critics pointed to the 'losers' in the process of globalization, the Grameen model suggested itself to be the *alternative*, gender-sensitive, grass-roots oriented *egalitarian* development approach. In reality the Grameen model is the institutional success story of a private sector – market oriented, disciplinary neoliberalism based political safety net.

The following chapter examines these implications further through an analysis of the embedding of the Grameen approach in the context of competing political ideologies in Bangladesh, Capitalism and Socialism. The replication of the Grameen Bank *in* Bangladesh, is evaluated in the context of social and political attempts to steer the society in a direction of *alternatives* to capitalism.

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[1] *Credit for Self Employment of the Poor - Transcript of Telephone Press Conference held with Professor Muhammad Yunus in Washington DC on July 22 ,1987* (Dhaka: Grameen bank, 1988) p. i (preface).

[2] *Microcredit and Microenterprise: The Road to Self-Reliance,* Hearing before the Subcommittee on International Economic Policy and Trade of the Committee on International Relations House of Representatives, One Hundred Fifth Congress, First Session (Washington, DC: US Government Printing Office, 1997) pp. 23-24

[3] Lewis T.Preston, 'Partnership to Fight Hunger', in Ismail Serageldin, Pierre Landell-Mills, *Overcoming Global Hunger : Proceedings of a Conference on Actions to Reduce Hunger Worldwide,* hosted by the World Bank and held at The American University, Washington, DC. November 30-December 1, 1993, (Washington, DC: World Bank, 1994) p.6-7

[4] Ismail Serageldin, Afaf Mahfouz, (eds), *The Self and the Other - Sustainability and Self-Empowerment,* An Associated Event of the Third Annual World Bank Conference on Environmentally Sustainable Development, co-sponsored by the Conference of Non-Governmental Organizations and the World Bank (Washington, DC: World Bank, 1996) p.56

[5] *The Grameen Bank Ordinance 1983* (As amended upto July 31 1990 - Dhaka: Grameen Bank) p. 4

[6] Grameen Bank defines 'landless persons' as 'any person who, or whose family, own less than fifty decimals of cultivable land or who or whose family owns property, both movable and immovable, the value of which does not exceed the value of one acre of cultivable land according to the prevailing market price in the union in which the person normally resides': *The Grameen Bank Ordinance,* p.3

[7] *The Grameen Bank Ordinance, p.8*

[8] See the *Grameen Dialogue,* No. 43, July 2000 (Dhaka: Grameen Bank) p. 16

[9] See, Muhammad Yunus (with Alan Jolis), *Banker to the Poor- The autobiography of Muhammad Yunues, founder of the Grameen Bank,* (London: Arum Press, 1998) pp. 115-116

[10] Aminur Rahman, *Rhetoric and Realities of Micro-Credit for Women in Rural Bangladesh: A Village Study of Grameen Bank* (PhD Thesis, Department of Anthropology, University of Manitoba, Canada, 1998) pp. 115-118

[11] An approximate conversion rate in 1999, £1=65.70 *Taka.*

[12] For literature supporting these public discourses see for example the many writings by Muhammad Yunus, the founder and Managing Director of the Grameen Bank. Supportive literature by other authors are also included here, most of which have been published by the Grameen Bank itself: Muhammad Yunus, *Credit for Self Employment for the Poor* ; Muhammad Yunus, *Combating Poverty Through*

Self-Help: German Parliamentary Committee Hearing - Public Hearing of Experts by the German Parliamentary Committee on Economic Cooperation on the subject of Combating Poverty Through Self-Help on June 20, 1988 in Bonn, Bundeshaus (Dhaka: Grameen Bank, Re-print January 1996); Muhammad Yunus, *Alleviation of Poverty is a Matter of Will, not of Means* - Acceptance Speech on the occasion of receiving the CARE Humanitarian Award, 1993 on May 14, at the State Department banquet Hall in Washington DC, USA (Dhaka: Grameen Bank, 1994); Muhammad Yunus, *Grameen Bank- Does the Capitalist System have to be the Handmaiden of the Rich ?* - keynote address delivered at the 85th Rotary International Convention held in Taipeu, Taiwan, on June 12-15, 1994. (Dhaka: Grameen Bank, 1996); Muhammad Yunus, *Towards Creating a Poverty-Free World* - Address presented at the Annual Meeting of the U.S. Committee for World Food Day (Dhaka: Grameen Bank, 1995); Muhammad Yunus, *Public Hearing on Self-Help-Oriented Poverty Alleviation, October 25, 95, Parliamentary Committee on Economic Cooperation and Development, German Parliament, Bonn, Germany* (Dhaka: Grameen Bank, 1995); Muhammad Yunus, *Grameen Bank, Experiences and Reflections* (Dhaka: Grameen Bank, 1995); Andreas Fuglesang and Dale Chandler, *Participation as Process - Process as Growth* (Dhaka: Grameen Bank, 1993); Andreas Fuglesang and Dale Chandler, *Participation as Process - what we can learn from the Grameen Bank, Bangladesh* (Dhaka: Grameen Bank, 1994); Atiur Rahman, *Demand and Marketing Aspects of Grameen Bank - A closer look* (Dhaka: Grameen Bank, 1994); David S. Gibbons (ed), *The Grameen Reader,* 2nd Edition, Reprint (Dhaka: Grameen Bank, 1995); S. Shuler and S. Hashemi, 'Credit programs, Women's empowerment, and contraception use in rural Bangladesh', *Studies in Family Planning,* No.25 (1986); R. Shehabuddin, *Empowering Rural Women: The Impact of Grameen Bank in Bangladesh* (Dhaka: Grameen Bank, 1992); Alex Counts, *Give Us Credit - How Muhammad Yunus's Micro-Lending Revolution Is Empowering Women from Bangladesh to Chicago* (New York: Times Books, 1996) - Alex Counts is a member of the Grameen Trust and promoter of Grameen replications; Helen Todd, *Women at the Centre: Grameen Bank Borrowers After One Decade* (London: Westview Press, 1996). Helen Todd is an active member of Grameen replication programs in South East Asia. Todd's research findings suggest a balance between the success and failures of microenterprises, although Todd herself has since defended the 'failures' in the overall context of the approach. and its replications.

[13] The Microcredit Summit in Washington DC, in 1997 focussed primarily on the potential of microcredit to *empower* 'destitute' women and the Grameen Bank was a key model in this context. Indeed, Muhammad Yunus himself often narrates the story of the beginnings of Grameen by relating his encounter with a 'poor women' who he personally provided credit to, as capital for her investment, so she could make a reasonable profit from her production. He did this to break the woman out of the'bondage' of the local money lender. See, for example, Muhammad Yunus, *Joriman of Beltoil Village & Others : In Search of Future* (Dhaka, Bangladesh: Grameen Bank, 1984)

[14] Rahman, *Rhetoric and Realities of Micro-Credit for Women in Rural Bangladesh*; Aminur Rahman, 'Micro-credit Initiatives for Equitable and Sustainable Development: Who Pays?', *World Development*, Vol.27, No.1 (1999); Mubina Khondkar *'Women's Access to Credit and Gender Relations in Bangladesh'*, (University of Manchester, U.K.: PhD thesis, Institute for Development Policy and Management, 1998) ; Mubina Khondkar, 'Micro-Finance and Women's Economic Empowerment', paper presented at the Development Studies Association, Norwich, 1997; Mubina Khondkar, 'Socio-Economic and Psychological Dynamics of Empowerment of Grameen Bank & BRAC Borrowers', paper presented at the Institute of Development Studies, Sussex, 1998; Goetz, M and Sen Gupta, R. 'Who takes the credit ? Gender power and control over loan use in rural credit programs in Bangladesh', *World Development*, Vol. 24, No.1, (1996) pp 44-64; See also Todd, *Women at the Centre: Grameen Bank Borrowers After One Decade.*

[15] Goetz and Sen Gupta 'Who takes the credit ?'

[16] See Todd, *Women at the Centre: Grameen Bank Borrowers After One Decade*, Khondkar, 'Micro-Finance and Women's Economic Empowerment', p.14; Khondkar, *'Women's Access to Credit and Gender Relations in Bangladesh'*, p. 275; The findings of my own participant observation suggest the ratio to be within the latter category.

[17] Rahman, 'Micro-credit Initiatives for Equitable and Sustainable Development: Who Pays?', p.76

[18] Rahman, 'Micro-credit Initiatives for Equitable and Sustainable Development: Who Pays?', p. 70

[19] Rahman, 'Micro-credit Initiatives for Equitable and Sustainable Development: Who Pays?' , p. 70, Rahman, *Rhetoric and Realities of Micro-Credit for Women in Rural Bangladesh*, pp. 86-90

[20] Rahman, 'Micro-credit Initiatives for Equitable and Sustainable Development : Who Pays?', p.70

[21] It must be noted here that Rahman states in this context that '[s]uch examples given by informants, whether they are *myth or fact*, reinforce the significance of women's honor and its protection in the village culture'. Rahman, 'Micro-credit Initiatives for Equitable and Sustainable Development : Who Pays?', p.70 (emphasis added)

[22] Rahman, 'Micro-credit Initiatives for Equitable and Sustainable Development : Who Pays?', p. 70

[23] Rahman, 'Micro-credit Initiatives for Equitable and Sustainable Development : Who Pays?', p.70

[24] Todd, *Women at the Centre : Grameen Bank Borrowers After One Decade*, pp.159-60, See also Rahman, 'Micro-credit Initiatives for Equitable and Sustainable Development: Who Pays?', 1999. p.69

[25] Mubina Khondkar, 'Socio-Economic and Psychological Dynamics of Empowerment of Grameen Bank & BRAC Borrowers', p.8

[26] Rahman, 'Micro-credit Initiatives for Equitable and Sustainable Development: Who Pays?', 1999p.70

[27] Rahman, 'Micro-credit Initiatives for Equitable and Sustainable Development: Who Pays?', 1999 p.75

[28] Khondkar, 'Micro-Finance and Womens Economic Empowerment', pp. 6-7: See also Rahman , 'Micro-credit Initiatives for Equitable and Sustainable Development: Who Pays?' p.75, Rahman, *Rhetoric and Realities of Micro-Credit for Women in Rural Bangladesh*, pp.123-140

[29] Rahman, 'Micro-credit Initiatives for Equitable and Sustainable Development: Who Pays?', 1999. p.75

[30]Khondkar, 'Micro-Finance and Womens Economic Empowerment', pp. 6-7

[31] Khondkar, 'Micro-Finance and Women's Economic Empowerment', p.6/7, see also Rahman, 'Micro-credit Initiatives for Equitable and Sustainable Development: Who Pays?', 1999 p.75-78

[32] Rahman, *Rhetoric and Realities of Micro-Credit for Women in Rural Bangladesh*, pp.121-168, See also Khondkar, 'Women's Access to Credit and Gender Relations in Bangladesh', pp. 137-168. While clearly an opportunity to work in the Middle East has helped many rural families, the insecurities and physical and emotional abuse that may come with this option are clear. On this issue, see 'A time bomb in the desert- Foreign workers, angry at their lowly and exploited state, stunned Kuwait last year with an explosion of violent protest. Fuses are burning all over the Gulf' in the *Financial Times, Weekend* June 10/June 11 2000. p. i

[33] Rahman, *Rhetoric and Realities of Micro-Credit for Women in Rural Bangladesh*, p. 147

[34] See for example, Rahman, *Rhetoric and Realities of Micro-Credit for Women in Rural Bangladesh*, p. 132

[35] Rahman, *Rhetoric and Realities of Micro-Credit for Women in Rural Bangladesh*, p. 154 (see note 54)

[36] Rahman, 'Micro-credit Initiatives for Equitable and Sustainable Development : Who Pays?', 1999. See also, Rahman, *Rhetoric and Realities of Micro-Credit for Women in Rural Bangladesh*, esp. pp. 133-168 . See also Khondkar , 'Women's Access to Credit and Gender Relations in Bangladesh' pp. 137-168, 253-278

[37] Rahman, 'Micro-credit Initiatives for Equitable and Sustainable Development : Who Pays?', 1999, p. 77,

[38] Rahman, *Rhetoric and Realities of Micro-credit for Women in Rural Bangladesh*, pp. 162-163

[39] Rahman, *Rhetoric and Realities of Micro-credit for Women in Rural Bangladesh*, pp.94-95

[40] Susan Holcombe, *Managing to Empower- The Grameen Bank's Experience of Poverty Alleviation*, (London, Zed Books, 1995) p.137

[41] Rahman, *Rhetoric and Realities of Micro-credit for Women in Rural Bangladesh*, p. 165

[42] Rahman, *Rhetoric and Realities of Micro-credit for Women in Rural Bangladesh* , p. 160

[43] See also on this issue, Todd, *Women at the Centre: Grameen Bank Borrowers After One Decade*, p. 166

[44] Rahman, 'Micro-credit Initiatives for Equitable and Sustainable Development : Who Pays?', pp 71-72, See also Rahman, 'Disbursement and Recovery of Loans: Bases for Escalation of Violence?' in Rahman, *Rhetoric and Realities of Micro-credit for Women in Rural Bangladesh*, pp. 115-148

[45] Rahman, *Rhetoric and Realities of Micro-credit for Women in Rural Bangladesh*, p.108

[46] Rahman, 'Micro-credit Initiatives for Equitable and Sustainable Development: Who Pays?', 1999. p.71

[47] Indeed the membership of women in the Grameen Bank has to be sanctioned by a female member's father, spouse, or other male relative on Grameen's official membership document.

[48] Khondkar, 'Women's Access to Credit and Gender Relations in Bangladesh', pp. 203-211

[49] Rahman, *Rhetoric and Realities of Micro-credit for Women in Rural Bangladesh*, p. 111-112, See also Todd, *Women at the Centre: Grameen Bank Borrowers After One Decade*, p. 160. 'The decision which advocates the most fundamental change –the ban on dowry- is (..) the least observed'.

[50] Todd, *Women at the Centre: Grameen Bank Borrowers After One Decade* , p. 160.

[51] Sarah White, *Arguing With the Crocodile-Gender and Class in Bangladesh*, (Dhaka: The University Press, 1992) p. 51

[52] Rahman, *Rhetoric and Realities of Micro-credit for Women in Rural Bangladesh*, p.156, Rahman's findings are consistent with those of my own participant observation.

[53] World Bank, *Bangladesh -Poverty Alleviation Microfinance Project*, (Washington, DC: World Bank, 1996) p. 4

[54] Dewan A.H.Alamgir, *Microfinancial Services In Bangladesh- Review of Innovations and Trends* (Dhaka: Credit and Development Forum, 1999) p.37 Here, Alamgir references his 1998 study of the 'Impact of Poverty Alleviation Program of the Palli Karma-Sahayak Foundation' (PKSF).

[55] Md. Hasan Khaled, 'Overlapping Problems in Microcredit Operations', *The Microcredit Review*, Vol.1, No.1 (December 1998). pp. 43-47 *The Microcredit Review* is produced by the PKSF.

[56] Rahman, *Rhetoric and Realities of Micro-credit for Women in Rural Bangladesh*, 1998, p.153

[57] Gibbons (ed.), *The Grameen Reader*, (Dhaka: Grameen Bank, 1995) p.11

[58] Gibbons, *The Grameen Reader*, p.11

[59] Gibbons, *The Grameen Reader*, p.11

[60] Yunus, quoted in David Bornstein, *The Price of A Dream – The Story of the Grameen Bank and the Idea that is Helping the Poor to Change their Lives*, (New York: Simon & Schuster, 1996) p. 292

[61] Yunus, *Banker to the Poor*, p. 194 (emphasis added)

[62] Yunus, *Grameen Bank- Does the Capitalist System have to be the Handmaiden of the Rich ?* pp. 20-21

[63] Karl Polanyi, *The Great Transformation*,. (New York: Octagon Books, 1975)

[64] Shahidur R.Khandker, Baqui Khalily, Zahed Khan, *Grameen Bank, Performance and Sustainability* ; Discussion paper 306, (World Bank: Washington D.C, 1996) p.86

[65] Shahidur Khandker, *Fighting Poverty with Microcredit*, (World Bank, Poverty and Social Policy Department- unpublished research document) p.2. Khandker has also noted 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', p. 48

[66] M.Yunus, *Credit as a Fundamental Human Right*, (Grameen Bank:Bangladesh,1996 edition. [First edition 1987])

CHAPTER 6.

BANGLADESH: GLOBAL DISCIPLINARY NEOLIBERALISM, DOMESTIC POLICY MAKING AND GRAMEEN IDEOLOGY AT THE GRASSROOTS

> I find that credit has a powerful economic and social function. It is a powerful economic weapon. Through correct credit policies and appropriate credit institutions, it is possible to move a society in a pre-determined direction. (...) It is possible to predict who will exercise political, social and economic power tomorrow from a study of people who will have access to credit today. And it is equally possible to predict who will be without such power, for want of such access.
>
> Muhammad Yunus, Founder and Managing Director of the Grameen Bank,[1]

The objective of this chapter is to provide a case study to substantiate the argument that microcredit is facilitating financial liberalization and that it simultaneously functions as a political safety net (its dual purpose). In order to be able argue this with reference to complex social and political settings in Bangladesh, the chapter engages with key issues of the politics of social formation in Bangladesh. Against this broader background, it draws attention in detail to the ideological and political implications of the Grameen Bank for development processes in Bangladesh. The chapter demonstrates the dynamics of support for microcredit minimalism from the international donor community, as well as of the interests of key global players in the domestic affairs of Bangladesh. The role of Bangladesh as a 'test-case' for development is illustrated. The ensuing political outcomes are discussed in relation to their development and consequently poverty implications.

The chapter is divided in eight sections. Section one provides an overview of microcredit and microfinance for poverty reduction in Bangladesh, with a focus on its role in the context of top-down implementation of SAPs. Section two sets out the background of domestic politics and social formation, proceeding along an historical approach. A specific focus is on rural social formation which forms the background for assessing the implication of the microcredit intervention. The section draws attention to external political interventions in attempting to shape rural social formation in the context of social and political struggle. Section three illustrates Grameen's ideological purposes, as encompassed in its counter-cultural approach. This is contextualized in section four with the allegiance of the Grameen Bank program to a capitalist political ideology. Section five interprets Grameen's political impact of the expansion of disciplinary neoliberalism to the grassroots. Section six contextualises these political implications with an account of the role of microcredit in the broader context of privatization and adjustment. Here, a case for the dual purpose of microcredit is argued by reference to World Bank policy documents. These expose the strategic linking of SAPs with microfinance. Section seven critically engages with the politics of development in Bangladesh by highlighting the hidden transcripts underpinning the making of development policy. Section eight puts the microcredit agenda into perspective by drawing attention to the role of Bangladesh as a globally important test-case for development: a test-case in terms of countering social struggles that aspire to alternatives to capitalism.

The politics of Grameen

There is a strong case to be made that the Grameen approach is as much about directing *social change* along a particular set of values as it is about poverty reduction. Analysis of the Grameen strategy in the context of domestic policy making in Bangladesh suggests that the Grameen ideology implemented at the grass-roots *parallels* ongoing transformations towards the political right or laissez faire approaches to development at the global level. Therefore, bringing the Grameen ideology to the grassroots anticipates the creation of bottom-up support for these ongoing political transformations. Read critically, the microcredit approach can therefore be seen to be instrumental in transmitting the minimalist social values of neoliberalism to the grass-roots. Appropriately, the Grameen approach to poverty reduction has been described by its founder and Managing Director, Muhammad Yunus as grass-roots capitalism.[2] Grameen operational dynamics on the ground are tantamount to generating and enforcing a liberal-individualistic and competitive set of social norms. The Grameen Bank has important implications for development policy and practice in Bangladesh.

Microcredit in the Social and Political Context: An Overview

In Bangladesh, microcredit minimalism pioneered by the Grameen Bank, has been widely adopted as a targeted poverty reduction strategy by the NGO sector and also by the public sector. However, not all development practitioners have always subscribed to the minimalist credit only approach. Rather most development NGOs working for and with the poor tended to pursue a more holistic approach to development. This entailed education through conscientization,[3] skills development and so on. Credit and other forms of material intervention constituted one aspect of these development efforts, but not the central aspect. It has been argued that 'the emergence and the growth of the Grameen Bank project (..) can be regarded as being an important factor in the shifting of the balance between the two approaches'.[4]

Another explanation for the shift in development approaches is that the application of microcredit minimalism on an extensive scale in Bangladesh has had widespread support from the International Donor Community, particularly USAID, the World Bank and also the Asian Development Bank. These agents have long been advocating policy 'reform' that is, deregulation and privatization in Bangladesh, particularly of the financial and agricultural sectors.[5] Microcredit minimalism facilities this process (e.g., its linkage to financial sector policy objectives) and serves as a cost effective political and social safety net in the context of liberalization and privatization achieved via SAPs.

It is through the attaching of conditionalities to the provision of donor funds by these and other agencies that developing countries' domestic policy is often adjusted along the prescriptions of neoliberal integrationists (see chapter 3). Bangladesh, far from being an exception to this case, has since independence been overtly targeted as a candidate in the context of conditionalities and the political economy of policy change. Policy changes prescribed by institutions such as the IMF, World Bank and USAID have been sustained at the domestic level mainly because of the acceptance of those policies by the various governments of Bangladesh. With more than 80% of it's development budget being aid-dependent,[6] Bangladesh has, like many other developing states, come to accept perhaps as inevitable these global policy trends and transformations. This is not to suggest that the dominant political actors in Bangladesh since 1975 (when the most comprehensive privatization and liberalization policy was initiated)[7] did not themselves subscribe to the overall premises of a market rather than a socialist economy. The acceptance of such policies by government officials however, may not necessarily be easily translated into policy *implementation.* A prominent Bangladeshi economist and political analyst, Rehman Sobhan, has summed up this situation well with reference to the official acceptance of the contents of a 1990 IMF and World Bank PFP for Bangladesh. He states, that the Government of Bangladesh (GOB),

> (…) probably knew at the time it signed a loan agreement that many of the conditions attached to a particular loan were unimplementable for a variety of institutional and political reasons. The concerned officials thus negotiated and signed the agreement knowing there would be a default on many of the

conditions attached to the loan. In all likelihood this knowledge was implicitly if not explicitly shared by the GOB officials with the expatriate consultants and the aid agency team which designed and evaluated the loan. The governments malfeasance was driven by their immediate compulsion to access the external resources under negotiation. The complicity of the donors derived from a bureaucratic imperative to demonstrate to the top management of these institutions that the officials of the donor agency have extracted formal commitment for reforms from the GOB.[8]

The IMF and World Bank's 1990 PFP for Bangladesh was according to Sobhan, 'prepared after the infructuous Bangladesh Aid Consortium meeting in Paris in 1990'.[9] This PFP of August 1990, 'thus originated in the 1990 Consortium meeting'.[10] The outcome of this meeting was that 'a number of donors did not make any aid pledges and it was agreed that that the final pledging of aid be subject to the GOB giving categorical commitments to accept and implement an agreed set of policy reforms.'[11] The PFP was thus signed by the GOB under these coercive conditions. As Sobhan observed,

> This same PFP was approved by the donors in the Consortium meeting held in Dhaka in November 1990 on the eve of the fall of the autocratic regime of General Ershad. Ironically the meeting gave its good housekeeping seal of approval to the GOB just as it was been rejected by the people on the streets.[12]

Therefore, although policy change may be accepted at the level of government officials, it may not necessarily be accepted by those who stand to be affected by the outcome. This opposition may be expressed for example in terms of political protest often played out through direct action (such as strikes by organized labor) or through social upheaval at the grass-roots, bringing with it serious questions not only of the legitimacy of the policy in question but also of that of the national government. These various forms of resistance may in effect become a serious political obstacle to the envisaged reform process (cf. case of Bolivia, chapters 3 and 7) It is in such a context, that the Grameen strategy finds its potential for political appropriation. The Grameen approach has been adept at countering local resistance by using the credit intervention to smooth consumption through what effectively becomes a vicious debt cycle. The *idea* of the Grameen approach and its associated virtuous outcome also contributes to changing perceptions of *how* development is to be achieved, and thereby lends legitimacy to the process of domestic policy implementation along a neoliberal approach. Indeed even if the perceptions of those targeted do not change, the practical upshot for those embroiled in debt-dependent social relations may be that as a consequence of debt dependency they may have little choice but to support the demands of their local patrons.[13] These demands may take the form of disciplining the dissenting voices by making obligatory, for example, support for the reform process at the grassroots, thereby softening the resistance to the social implications of policy implementation. In order to pursue this line of argument a few things need to be said about social formation in Bangladesh, particularly in the rural settings and with to its political implications.

Bangladesh: Domestic Politics and Social Formation

Rural Bangladesh is characterized along lines of factionalism (horizontally) and by patron-client relationships (vertically). Rural social formation in Bangladesh is a highly complex process, whereby, the purely *economic* aspect of issues cannot be disembedded from the wider social relations. This can be seen from a study on peasant perceptions, which argues that in rural Bangladesh:

> economic interactions largely follow the same channels as those that form the web of social relations. Breakdown in social links, whether for an individual or a group, result in significant changes in patterns of economic exchange. Even within stable sets of social ties, the volume and other parameters that regulate economic exchange (prices, wages, interest rates) are correlated to the closeness and intensity of those ties. Thus, to build models of economic behavior on the basis of assumptions that take account only of the quantitative properties of choice-making is quite inadequate for describing rural economic behavior. If one is to discover a logic in the economic choices being made at this level, then this logic must be derived from the "logic" of the social structure – the basic principles and norms that regulate and continually reconstruct the system of social organization.[14]

To fully understand the dynamics of the political implications of these social structures, it is important to look at social formation in Bangladesh, in the context of the rural setting and in turn, the relationship between rural society and the state apparatus. In Bangladesh, the central political apparatus has been highly dependent on maintaining a strong and visible link with the rural base from which it primarily draws its political power. This has resulted in political regimes establishing administrative and bureaucratic links in term of resource provision, from state to rural society, on the basis of political patronage. Basing relations between the state and rural society on political patronage has meant that the political regimes in Bangladesh, to date, have kept close association with the powerful at the village level. Kirsten Westergaard, provides a detailed and comprehensive account of this dynamic. Her study (upto the period of 1982) concluded that,

> At the local political level, the interests of the dominant village groups coincided with those of the social classes in power at the state level, not only during the colonial time, but also in independent Bangladesh. Neither economic crisis nor several wars produced a revolution in Bangladesh, as the political leadership throughout the period of study was interested in sustaining, rather than changing the structures of power.[15]

The political implications of working with these relationships rather than against them are clear. They have a positive impact for the objective of steering social change and administering local politics along a given agenda. That is, political support for central government policies are sustained through the regime lending support to the local elite *class or local power factions,* who in turn command the political support of their local clients for the central regime.[16] Local social formation in Bangladesh must also be evaluated in the global context, given that external linkages have had a significant impact in shaping domestic politics.

Bangladesh: domestic dolitics, external linkages and local social formation

Bangladesh emerged as an independent state through the violent civil war which ended in December 1971. The struggle for independence brought together two different agendas which had been characteristic of social struggles in the East Bengal enclave of 'greater Pakistan': On the one hand there were the emancipatory aspirations of a Bengali Muslim elite concerned with abolishing what was perceived to be alien rule. On the other hand, the majority of its people, disenfranchised and impoverished, were struggling for greater social equity. [17] Independence delivered on the first of these two strands, while the political and economic aspirations of the poor people which had been integral to securing mass support for the independence struggle, remain unfulfilled.

This aspect of the continuity of the struggle against widespread poverty has underpinned the short political history of Bangladesh since the secession from Pakistan. The sequence of governments attempting to balance the demands for social and economic advancement with the external demands of donors, as well as building and consolidating a nation under difficult infrastructural and social conditions testifies to the difficulties faced by Bangladesh in the context of, among other factors, the cold war global order. Tendencies to pursue policies more akin to socialist programs in Bangladesh,[18] inaugurated by the Awami-League government of Mujib, met with the resistance of pro-American factions,[19] and clashed with the realities of a country dependent primarily on US aid.[20] Donor pressure in the immediate context of a vulnerable economy meant that the domestic political situation was open to disciplining interventions on behalf of Western powers eager to contain any tendencies towards socialism on the sub-continent.[21] Under these pressures,[22] as well as under the impact of major disasters (cyclones, flooding and near famine conditions), Mujib's government was driven towards more and more authoritarian measures,[23] and was finally brought down in a bloody coup. This ended the more overtly socialist experiments of national reconstruction, and, ultimately, inaugurated the rule of the pro-American government of Ziaur Rahman.

Under Zia's government, the US aid budget's contribution to Bangladesh's economy grew significantly,[24] despite his redrafting of the constitution which departed from the previous secularism towards an Islamic religious state (this was essentially a strategy to ensure the continuing support of conservative Muslims domestically, while opening crucial channels with the Arab world). Despite his assassination by a 'leftist army officer', [25] Zia's regime is widely credited with having effectively ended tendencies towards socialist revolutionary politics in Bangladesh. His successor, General Ershad continued and consolidated liberalization policies and the privatization drive, which survived his own political demise during a popular uprising in 1990.

A study based on a USAID research project on *Privatization in Bangladesh,* acknowledges 'the emergence of a comprehensive privatization policy in 1975 under the regime of President Ziaur Rahman'[26] but also states that it was 'General H.M Ershad, (who) took a bold step to dramatically force the issue.' [27] Throughout these times the struggle for the social revolution continued in Bangladesh, and yet for the reasons of power implied it was not to be realized. As Geoff Wood has observed in his study *Bangladesh, Whose Ideas, Whose Interests,*

> The Awami League, as the nationalist party of Bengali independence inherited political office but rapidly abused its mandate in a orgy of incompetence and corruption. From the beginning of 1975, it engaged in the wholesale repression of political opposition, especially that of the Marxist left, organized in various regional groupings, as it attempted to establish a one-party state under presidential rule. The coup in August 1975, followed by the sequence of coups in November 1975, brought the army under Ziur Rahman to power, and continued the repression of the Left, both within the military and outside it. With the domination of the army continuing more or less unbroken until December 1990, the opportunities for political parties openly to espouse the interests of the poor against the vested interests of those dominating the state was severely restricted. At best, a benevolent dictatorship could be hoped for which would, of course, be more accountable to foreign donors than to progressive internal opinion.[28]

It is against this broad social and political background that an alternative path to social equity and social justice was sought by young Bangladeshis who turned 'to the voluntary, and eventually funded, NGO sector as the outlet for their frustrated ambitions on behalf of the poor in their newly liberated country'[29] and the 'more imaginative development NGOs played an increasingly crucial role in this delicate political equation.'[30] Some sought through this approach to bring about the social revolution, but as Wood goes on to observe, 'there have not been many examples of success by this route, and even these have degenerated into Animal Farm'.[31] Of the few who have worked for the 'human rights of the poor, (..) some were imprisoned by the state during the seventies and early eighties for these commitments.'[32] One such group has been the Gono Shahajo Sangstha (GSS). The GSS focuses primarily on challenging social power relations at the grassroots and has been deliberately cautious of keeping their *advocacy* approach distinct from piecemeal development incentives. In this context, they have campaigned against introducing credit interventions in the absence of broader social changes, and have also particularly rejected the Grameen Bank credit intervention model.[33] The GSS may claim some success at the grassroots, for example in the 1992 local elections '90 out of 202 GSS candidates were elected as members; 7 out of 18 candidates were elected for Chairman, which included two women.'[34] The GSS people have however paid a price for their success, both in terms of direct victimization and in terms of having to face a counter-reaction approach to social mobilization, particularly in the run up to political elections.[35]

'Counter-Culture': Grameen Ideology, Local Politics and National Policy Making

The Grameen Bank approach is one such counter-reaction to these progressive social movements.[36] Muhammad Yunus himself has stated in response to those who have suggested that Grameen success is culturally contingent, that 'to succeed in Bangladesh, Grameen has had to struggle mightily to create a counter-culture. That is why so many observers say that we are engineering a social revolution.'[37] Grameen's counter-cultural approach has been successful partly due to the support it has received from the international donor community.

As noted above, the US, along with other Western donors, has consistently pursued an agenda of directing internal development policy in Bangladesh along a capitalist path. Through the influence of the World Bank and USAID this was achieved to some degree, initially, in the agricultural sector, (and also to a degree in the financial sector) - as reflected in the governments Second Five Year Plan (cf., the commercialization of the agricultural sector here in the context of the Green Revolution with the World Bank's early strategies for poverty reduction, chapter 3).[38] Thus, USAID's project of liberalizing the agricultural sector must also be seen in the light of the strategic political dimensions of this sector. (Again, compare this to the attempts to socialize the agricultural sector by the Mujib regime shortly before his assassination).[39]

Given the extent of donor influence, particularly the US, on development policy in Bangladesh, it is no surprise, that in terms of the content of poverty-focussed rural development strategies, development discourse in Bangladesh settled early on 'only upon the general formula of entrepreneurialism and groups.'[40] Moreover, accepting this formula as a general development formula also meant accepting uncritically the Ohio School prescriptions of the role of finance in development.[41] This included the closure of public development finance institutions that provided subsidized credit, and instead the promotion of private market based finance. In sum, the Ohio School advocated the liberalization of rural financial markets. In this context, to be able to expand the minimalist credit only approach for the *poorest* was their perfect match.[42] (It is noteworthy that the emergence of the Ohio School prescriptions in development economics in the 1970s, coincided with the emergence of the *trade in services* agenda, especially its *financial services* aspects. See chapter 2).

Thus, for the donor community, the Grameen model squared the circle in terms of its financial appropriateness. Grameen's institutional success, and publicly sustained social impact, provided much needed legitimacy for the expansion of the new development framework, both within and outside Bangladesh. In Bangladesh, many NGOs chose the direction of minimalism despite previously employing the rhetoric of struggle. Geof Wood has commented on the departure from this normative agenda with reference to Grameen (and BRAC),

> it is cause for some regret that this agenda has receded for agencies like BRAC and Grameen Bank. Defining and treating people like clients is not the same as training people to become successful clients, itself a different activity from traditional conceptions of the revolution.[43]

An explanation for this may lie with Grameen consciously advocating and adopting grass-roots capitalism (see chapter 5). Grass-roots capitalism however had to be secured also at the national level. Grameen played a crucial political role at both levels, and particularly in the linking of the two.

Grameen Bank and Capitalism

The role of the Grameen Bank in establishing and extending the capitalist ideology to the grassroots in Bangladesh, is best understood through an appreciation of the political ideology adhered to by its founder. During the struggle for the independence of Bangladesh, Muhammad Yunus who was then in the US, became an active member of the Bengali expatriate community campaigning for the political independence of Bangladesh.[44] Yunus belonged to the pro-American Bengali faction. Upon his return to Bangladesh in 1972, he served briefly under the Mujib regime as 'deputy chief of the General Economics Planing Commission', but resigned shortly afterwards.[45] It is clear that the pro-Moscow stance of the Mujib regime and particularly that of the then finance Minister may not have been to the satisfaction of Yunus. Upon the overthrow of the Mujib regime, and the coming to power of a pro-American government (the Mushtaq Ahmed regime), however, he was able to influence internal policy, if not directly, then through informal channels. (For example, a close friend and colleague of

Yunus, Mahabub Alam Chashee was appointed Principal Secretary of the new government.)

These close connections aided Yunus much in his own political projects, which included a proposal to build up a political base through local government institutions at the village level.[46] President Zia who effectively extended the policies of the Mushtaq regime did discuss such proposals with Yunus, and Zia did indeed adopt political strategies along these lines.[47] It is also noteworthy as Westergaard observed, that the Zia regime which came to power in 1975, 'used the time before the national referendum to win the support of the newly elected local leaders through training, increased channeling of development funds through the local councils and patronage'.[48] This strategy pursued by Zia proved successful: 'after building a power base, the army under Zia no longer had to rule directly, but could rule indirectly under politicians.'[49] Yunus it is suggested, had a particularly close relationship with President Zia and it was apparently even suggested that he become a 'salaried employee of the BNP (Bangladesh Nationalist Party).[50]

Internally, even after the fall of the Zia regime, the Ershad regime continued to ensure close political ties for Yunus. Ershad had named a close friend of Yunus as Finance Minister, which enabled Yunus to have the Grameen Bank Ordinance passed in 1983. The Ordinance was passed directly by President Ershad, after failing twice to find support independently in the Bangladesh Banking community.[51] Yunus' close ties with the centre of political power in Bangladesh have continued to benefit both his projects and the advancement of the liberalization and privatization agenda in

Bangladesh. It has been reported that in late 1995 'rumors were circulating' to the effect that 'due to political unrest, Yunus might soon be appointed Bangladesh's caretaker prime minister until an election could be held'.[52]

In the light of the above, it may, or may not be a coincidence that the Grameen bank project actually started in 1976, and indeed 'experimented and expanded' in its early days with Government support, particularly in the context of some of the politically most problematic districts in Bangladesh.[53] To further examine the political interventionist potential of microcredit, the experience of the district of Tangail is instructive. One of the first Grameen experimental districts, Tangail has been described by Muhammad Yunus himself to have been in the midst of a 'war-like situation', where 'armed guerrillas in an underground Marxist dissident movement called the People's Army (*Gono Bahini)* were terrorizing the countryside.'[54] Yet, it seems that Yunus worked to absorb in the *freedom fighters*, as well as local 'bullies' rather than actually even attempt to work against them. As Counts has stated, 'on several occasions, Yunus was startled to see members of his staff toting machine guns under their shawls when he paid unannounced visits to the project offices.'[55] Whether Yunus was unaware of freedom fighters being recruited as Grameen Bank workers is questionable. Closer scrutiny of the strategies pursed by Grameen offers strong support of *freedom fighters* being actually recruitment targets of the Grameen Bank. Muhammad Yunus has stated of them, that they were basically 'good, hard-working, dedicated kids and provided they gave up their guns, we [Grameen] tried to hire them as bank workers.'[56] Of those who were recruited, Yunus has remarked that the 'ex-

Gono Bahini turned out to be excellent Grameen Bank staff.'[57] It is not off the mark to draw a connection here between the maintenance of excellent repayment rates and the employment of strong arm tactics, even though bank workers are supposedly told 'to avoid all violence, and even the threat of violence'.[58] (cf. the increase of violence at the grassroots as a result of strong arm tactics employed to ensure repayments. See chapter 5, on Grameen Bank).

The claim that Grameen employed and operated on a counter-cultural approach seems plausible, and is in keeping Yunus's assertion that, '[t]hrough correct credit policies and appropriate credit institutions it is possible to move a society in a pre-determined direction'.[59] The attempt to counter voices of dissent thus seems to have been a strategy pursued by Grameen from its early days. In the contemporary context, analysis of Grameen replications even within Bangladesh, suggests that the project of political direction is still in progress. As will become clearer in the course of this chapter, the Grameen project is politicized to the degree that it has in its status as well as its institutional development relied on quite particular social and political formations in Bangladeshi domestic politics. Changes supporting the emergence of these enabling formations in Bangladesh, have in turn had the support of some of the major Western powers, particularly that of the US. Through these linkages and Yunus' own political inclinations, the Grameen Bank has enjoyed a privileged position as a poverty reduction agency, and received favorable treatment particularly with reference to donor funds and subsidized finance from the Bank of Bangladesh. These subsidies have been sanctioned in order to on-lend on a commercial basis and promote entrepreneurialism on the ground.

Grameen politics and external funding

The political connections of Muhammad Yunus internally and outside Bangladesh have contributed immensely to the success of the Grameen project. The Grameen strategy of minimalism, commercial rates of interest and excellent repayment rates have all been attractive to the donor community.[60] This allowed Grameen access to extensive subsidized donor funds which enabled the rapid expansion of the project. It is noteworthy that 'as Grameen was preparing to expand across the country, it was experiencing serious repayment problems in Tangail, which it downplayed.'[61]

In terms of acquiring funds for the project, it is interesting to note that Grameen secured an IFAD loan at a 3 per cent interest rate, despite the fact that Grameen operations were not focussed on agricultural development but rather based on the premise that non-farm activities constituted an important part of rural life in Bangladesh.[62] The initial response from the IFAD team had been to decline any involvement with the project, a stance which they, however, reviewed and changed completely.[63] In addition to the IFAD money, Grameen operations to date have been heavily subsidized. The Grameen Bank has had to borrow from commercial Banks in Bangladesh only twice, between 1985-88. Grameen was given 'access to grants and cheap funds from official sources both foreign and domestic', which meant that it did not have to use borrowed funds from the commercial banks again until 1992.[64] Moreover, it is interesting to note that the percentage of foreign funds as a share of total Grameen funds has been over *90 percent since 1986*, and only declined to 58.1 percent in 1993.[65] The microcredit intervention as employed by Grameen at the grassroots has been an important contribution both practically and ideologically to the political processes that attempt to link the local to global disciplinary neoliberalism, both within and outside Bangladesh.

Grameen Politics: Disciplinary Neoliberalism at the Grassroots ?

Microcredit, Muhammad Yunus has stated, 'may not be a cure-all, but it is a force for change, not only economic and personal, but also social and political'.[66] In a Grameen Bank conference, Yunus addressed the members along the following lines, making clear the political force of Grameen together with its socially disciplining power,

> Certain zones have invented new slogans in which borrowers chant how they will support people who support them and organize against people who organize against them. We will copy and distribute these slogans and the lessons learned from local organizing. (..) Furthermore, we have unprecedented political strength. If we can ensure 100 percent voting among

the 2 million Grameen families in the next elections by ensuring 100 percent registration now, the impact will be enormous.[67]

In Bangladesh Grameen members have been found increasingly to stand as political candidates in local elections. For the Grameen Bank, pre-election campaign preparation is a calculated and well-planned task. For example, a senior Grameen Bank official confirmed the policy of pre-election preparation and the process of educating members on voting strategies. However, upon asking if the Grameen Bank *told* members *who* they should vote for, the manager responded somewhat embarrassed, and stated that Grameen Bank members are advised on *what* to vote for but not *who*. Another senior Grameen Bank official stated that members are indeed advised to vote in *unison among themselves*. The impact of this is immense, as Grameen's senior management were eager to explain. Given the structure of social relations in Bangladesh, the voting pattern of one Grameen member may be reflected similarly in the rest of the family, which includes the often large extended family networks. Grameen officials indicated their confidence that these social networks of their members would ensure the political victory of the Grameen member standing as a candidate for a local election.(See chapter 5, on the Grameen Bank). The Grameen Bank was not shy of boasting its excellent election monitoring mechanisms and data storage banks, which they pointed out were better than that of the official government election monitoring department.

Since each Grameen borrower represents one family, 'its loans have an impact on roughly 10 million people'.[68] Commenting on Grameen's political achievements, why, Yunus, has asked 'should we be surprised that in Bangladesh it has helped defeat religious fundamentalism at the ballot box ?'[69] While this may well be the case in some instances, it appears that the framing of Grameen's 'counter-culture' objective merely in terms of religious fundamentalism may well be a deliberate one: in the first instance, it meets with sentiments and value predispositions of an essentially Western liberal community of donors, aid workers, development agents and other interested factions, and is indeed an issue that is normatively hard to challenge. On a second layer, however, the counter-cultural thrust expressed as anti-fundamentalist in the religious sense, also contributes to concealing the subversive potential of the Grameen approach for *other types* of social formation such as attempts, to structure society along egalitarian, communitarian approaches. The build-up of this so called counter-culture has arguably played an important role in the ongoing attempts to liberalize and privatize in the face of radical social opposition.

For Grameen, given its approach and ideological bias, the windows of opportunity were obvious; in the late 70s and early 80s NGOs were the preferred channels of development efforts.[70] In Bangladesh, particularly in the context of the *Right/Left* tension, the Grameen strategy was not only economically cost effective but also politically appealing to the donor community given the contrast of its approach to other NGO operations.[71] As the calls for women in development advanced, Grameen delivered on this issue too. Indeed, the Grameen move unofficially to target women borrowers in the 80s seems to be informed as much by an appeal to donor perspectives as much as to the strategic dimensions of loan repayments.[72]

The many appeals of Grameen and its public portrayal of success was not without critics from the NGO community who were acutely aware of the potential implications the Grameen success posed for themselves. What for instance, 'would happen to their programs when donors, seeking "winners" for themselves, inevitably began to display a reluctance to finance anything *other* than Grameen style loans ?[73] This question has effectively been answered: for many development NGOs who did not already subscribe to minimalism, the options have been either to seek new sources of funding or to re-design their institutional and operational structure in keeping with the objective of working towards financial sustainability goals. The World Bank has recommended that their legal status be amended accordingly - that is, from NGO to bank. The Grameen Bank is held here to be one of the successful NGOs which has converted to a bank.[74] The political process of embedding microfinance minimalism – that is, the replications of the Grameen model - in the broader objectives of national policy making and policy implementation is the focus of the next section.

Bangladesh: Privatization, Adjustment and the Role of Microcredit

This section illustrates the strategic role that microcredit has been assigned at the level of policy, in the context of privatization and adjustment processes in Bangladesh. A 1994 World Bank study entitled *Bangladesh, Privatization and Adjustment* identified the need for privatization as a '*compelling necessity*'.[75] In its analysis of the potentials for and obstacles to broad based privatization and divestiture, the study states that 'labor opposition is often regarded within Bangladesh as one of the intractable problems of privatization.'[76] Nevertheless, it concludes that experiences from other countries suggest that this opposition is not insurmountable. The study also recognizes that labor is highly politicized in Bangladesh, particularly 'in and around Dhaka city'.[77] However, it recognizes that many urban workers still have many rural connections and anticipates capitalizing on these social relations in the context of the adjustment process, although it also recognizes limits to such an approach. The report states that

> [t]hese rural connections of industrial workers have considerable significance for the social impact of labor redundancies that could accompany privatization. The rural connections mean that the social impact could cut both ways; *it could ease the trauma of job loss in that redundant workers could quickly be absorbed in the informal sector.* On the other hand, where the wider family is dependent on the wages of the industrial worker, *job loss could have wider social implications.*[78]

The informal sector in Bangladesh already carries almost two thirds of the workforce, with many struggling to make ends meet. Yet, it is this sector that must absorb the anticipated redundancies. In tackling these policy implications, the study identifies various reactive and proactive measures to overcome the problem of labor opposition to privatization. Among these, one is '*self-employment oriented credit schemes.*'[79] The study cites microcredit schemes, and particularly the Grameen model, as an option to absorb this surplus labor, but explicitly rejects the Grameen model on the basis that it is an inappropriate alternative for the more skilled of the retrenched labor force because of its *limited development* potential.

> This model may not be equally applicable to industrial workers with diverse pre-and post- migration backgrounds, particularly in the urban context. *Besides, the Grameen Bank type model finances mainly simple-technology low-productivity traditional projects with very limited scale of operation.*[80]

The *minimal economic impact* of microcredit and particularly of the Grameen model is thus recognized at the highest level of development planners. At the same time, however, its strategic potential is drawn upon for the purpose of ensuring that where possible labor resistance to the macro level policy reforms is minimized. Thus, the recommendation of a widespread use of microcredit as an option to redress the potentially adverse political implications of the SAP, is based on the assumption that the redundant workers could quickly be absorbed in the informal sector. Given that over 80% of those below the poverty line already belong to the informal sector, particularly in the rural areas, the report recommends that the GOB consider a 'Poverty Alleviation Trust as a mechanism for allowing the informal sector to participate in the privatization program' as this, 'could also help win broader support for the Government's privatization program'.[81] The elements of this proposed trust have been outlined by the World Bank and among other recommendations the following is suggested

> (a) independence from Government – the trustees must be beyond reproach, be sympathetic to the needs of the informal sector and have sound business skills and (..) ... (c) the trustees should be required to coordinate their programs with the GOB; and to link up with other poverty alleviation initiatives including the Palli Karma Shahayak Foundation (PKSF).[82]

In 1996, two years after the World Bank identified microcredit as a potential strategy to appease labor opposition to privatization, it authorized through the IDA a US $ 105 million *Poverty Alleviation Microfinance Project* for Bangladesh.[83] The motivations of this project as well as its design reflects the appropriation of microfinance as a poverty reduction strategy along the logic of the dual purpose (see introduction). The World Bank's own assessment of, and recommendations for Social Funds explicitly cites this poverty alleviation microfinance project as exemplary of a Social Funds project.[84] This project entails the two components of the dual purpose, financial as well as disciplinary objectives.

As part of the agreement, the GOB is obliged to contribute an additional US $10 million of its own funds towards the project, thus making up a total of US $115[85] million. The project, based on microfinance minimalism, is justified in terms of its potential socio-economic impact by reference to a summary of impact studies of microcredit in Bangladesh.

> These results clearly show that a microfinance program such as the Grameen Bank has not only reached the poor (more than 2 million borrowers) but also helped reduce poverty among the borrowers and generated positive externality in the village economy.[86]

However, this socio-economic justification not only contradicts the discussion of the findings on Grameen impact in the previous chapter, but also contradicts the findings of the World Bank's own impact assessments and analysis (see previous chapter). It is also noteworthy that although the People's Republic of Bangladesh is the borrower of the IDA credit, the implementing agency of this *Poverty Alleviation Microfinance Project* is the PKSF. According to the terms of the agreement the GOB must borrow IDA funds and onlend to the PKSF at 1% for 20 years, with 5 years grace. The PKSF will in turn onlend these funds to its Partner Organisations (POs) – eligible MFIs- at interest rates in the range of 3.5%. The POs are obliged to set a minimum interest rate of 16 % which ensures that they do not lend below the commercial rates,[87] however, they are free to set a final lending rate to beneficiaries (expected to be in the 25-30%

range).[88] The PKSF was established in FY90 and has been defined as an 'apex financing institution to assist promising small and medium NGOs expand their poverty targeted microcredit programs'.[89] The governing body of the PKSF has included Muhammad Yunus of the Grameen Bank.[90] Although it is registered under the Companies Act of 1913 as a private non-profit organization',[91] nevertheless according to the World Bank, it

> has been profitable, mostly on account of interest income from term deposits and has pursued a policy to project itself as a sustainable institution- for staff morale and to the POs(..) The higher percentage of assets in investments is, thus, partly a reflection of the profitability objective and partly on account of its conservative lending policies. *While this policy has obviously led to sacrificing the poverty objective*, i.e. higher lending, for the reasons noted earlier it seems appropriate.[92] (emphasis added)

Thus, for the World Bank, breach of the poverty alleviation objective is entirely acceptable. The PKSF has strong selection criteria for its POs: [93] in general it can be concluded that these criteria reflect the core objectives and operational features of the Grameen model. The interest rates charged by the POs to the poor borrowers 'are much higher than rates in the formal sector. Effective interest rates range from 25-30% per annum.' This rate the World Bank tells us is '15-20% in real terms and 50-100% higher than the highest lending rates of private banks.'[94]

The IDA (World Bank) rationale for the above mentioned *Poverty Alleviation Microfinance Project* is stated with reference to the capacity of the project to support the World Bank's twin Country Assistance Objectives (CAS) for Bangladesh, namely, 'poverty alleviation and broad based economic growth'.[95] In this sense, it is also interesting to note that while on the one hand the *Poverty Alleviation Microfinance Project* operates as a cost effective political safety net, a tool proactively employed to counter political resistance to the broad based privatization project, it also facilitates the creation of an enabling environment for deregulation at policy level. The rationale for IDA involvement in the project has been underpinned by the broader objective of financial sector liberalization, in order to facilitate the expansion of the financial services industry. Thus, it has been stated that,

> [t]he project is also an important element of IDA's overall strategy for the financial sector. The overarching objective for the sector is to establish an efficient and sound financial system in order to achieve the economic growth goals. IDA has a three pronged strategy for the sector. The *first* is to reform the banking system which is repressed, facing enormous portfolio problem (..) The key elements of the strategy involve privatization of NCBs, (…) The *second* is to deepen the financial system through supporting non-bank financial institutions and the capital market, which are insignificant at present. Finally, the *third* is to establish a financially sustainable market-based mechanism for

provision of financial services to the poor. This would be achieved through assisting the credit programs of the MFIs become financially sustainable and fostering the development of linkages between the formal and informal systems. Achieving these objectives, would of necessity, take a long time on account of: (....) (b) balancing the difficult trade-off between enhancing consumption/asset build up of the poor and removing concessionality in funding, the latter being necessary to establish a market based microfinance system. The above withstanding, IDA's underlying strategy is to establish an integrated and seamless financial services market over the long run.[96]

In order, to bring about these financial sector policy changes, the GOB is also obliged to provide US $5 million of the funds it borrows from the IDA, 'on a *grant basis* to the PKSF and the Bangladesh Bank to implement the various components for institution building and broadening the microfinance market.'[97] This *Poverty Alleviation Microfinance Project* constitutes the poverty reduction aspect of the World Bank's overall CAS for Bangladesh. In keeping in line with the overall liberalization objective, IDA support for this project is anticipated among other issues, to '*bring about a fundamental shift from a grant based system to a loan based system*' with reference to development efforts.[98] This objective has clearly influenced the rationale for the project, as it is stated explicitly that 'as a result of this Project, the GOB has decided that all future budgetary funding will be in the form of loans, not grants.' As a consequence of this policy change, 'two large MFIs (Proshika and BRAC) would be using loans for the first time.'[99] The potential knock on effect this has on the lending implications to end borrowers is clear. The Project goes on to further justify this policy transition in terms of an emerging donor consensus,

> IDA staff liased closely with official bilateral donors and international NGOs who have generously supported these programs. Their views and experience have been reflected in Project design. With grants shrinking and donors emphasizing financial sustainability and greater accountability, they see *the Project as a path breaker in shifting microcredit away from a grant based system and in sharpening the emphasis on financial sustainability.* [100] *(emphasis added)*

The primacy of the financial sustainability objective of the *Poverty Alleviation Project* is clearly obvious in that establishing 'an efficient mechanism to transfer subsidized funds without penalizing the banking system' has been an important aspect of IDA rationale for the Project.[101] The *subsidized* element of the project funds here refers of course, to the IDA concessional lending to the GOB, the GOB subsidized lending to the PKSF and the PKSF's own subsidized lending to its PO's (NGOs and MFIs) but does *not* however refer to the interest rate charge set a the level of the poor borrowers, which as observed earlier, is extremely high (between 25-35%). Effectively, the implications of this poverty alleviation project is tantamount to the off-loading of the social implications of adjustment onto the poor. This off-loading of the risks of adjustment to the poor is achieved while institutionalizing a channel for financial 'trickle-up' (returns on microcredit investment), facilitating the 'reform' process (linking microcredit operations to the enabling environment at the macro level) and ensuring its sustainability (countering social implications through structural design of credit intervention, that is exploiting its disciplinary aspect). At the same time, therefore, what is obvious here is that far from poverty being reduced in effect, poverty is actually being increased, reproduced, and sustained.

It is clear that microcredit applied on an extensive scale in Bangladesh, has been employed strategically for the realization of the broader agenda of liberalization and privatization. This strategic objective has been concealed in terms of *poverty reduction* and *empowerment discourses.* What in real terms is a recognized political safety net and tool of the broader global neoliberal agenda, has been implemented and extended under the umbrella of a development and poverty reduction strategy. Therefore, the full *impact* of the application and delivery of credit in rural Bangladesh must be seen in the context of broader social and political relations.[102] It is clear that the microcredit strategy utilizes existing social networks and acts both as an agent to formalize credit relations in the informal sector, and as a disciplinary mechanism which reworks at the grassroots hierarchical social and political relations.

Both, the potential of this approach for steered social and political change, as well as the will to use it and confound it as a prime objective, is illustrated in the World Bank's recent report *Pursuing Common Goals, Strengthening Relations Between Government and Development NGOs.*[103] In an astute critique of this same report, Sarah White argues that the World Bank's vigorous interest in strengthening the role of NGOs in the implementation of development policy amounts to a blatant disregard for the politically precarious role many NGOs in Bangladesh play with regards to their claims of representing the poor.[104] She argues that the World Bank's agenda appears to be motivated more by the attention it pays to donors, than by the needs of the poor, and she points out that the credit approach is currently a particularly brilliant way of pushing 'the buttons on the donor's cash register'.[105] Thus, in de-politicizing and prescribing the institutions, methods and course of development in Bangladesh, the World Bank – as indeed others - can be seen to direct thinking on development at the expense of 'excluding alternative directions'.[106]

Politics of Development in Bangladesh

After almost three decades of development, which has included extensive targeted poverty reduction oriented microcredit programs, Bangladesh still has one of the worst levels of poverty globally, both, in terms of quality of living and the proportion of the poor in relation to its total population. Of a population of 120 million, over 80 per cent live rural areas.[107] In 1991/92, '53 % of the rural and 34% of the urban people lived below the poverty line'.[108] Of the 'growing rural labor force which is expected to reach 100 million by the year 2000,' it is envisaged that a large percentage will have to turn to the rural non-farm sector (RNF) for employment opportunities.[109] The key tool to enhance the RNF has been identified as microcredit minimalism.[110] These opportunities are to be sought in the already crowded informal sector. It is stated that 'roughly 90 percent of Bangladesh's labor are working in the informal sector' already. [111]

A recent study by the World Bank has identified Bangladesh as falling within the category of slow economic growers.[112] While the study states explicitly that 'growth does not eliminate poverty and deprivation', it does draw a causal link between per capita incomes and social indicators.[113] The study asserts that 'slow-growing countries have seen some improvements in poverty and social indicators, but not nearly as much as the fast growers'.[114] This observation thus offers normative legitimization for the continued focus on economic growth as a corollary to poverty reduction.[115] It may be argued here however, that slow growth has resulted in Bangladesh despite a vast array of sectoral policy 'reforms', in other words, despite structurally adjusting its economy along the lines of the Washington Consensus. In a comparison of per capita income of Bangladesh and the US, the study reveals that the real per capita income of Bangladesh relative to the US had actually declined in 1990 from the relative levels of 1966.[116] Thus, one may argue that even with reference to the World Bank's own terms of assessment, development to date in Bangladesh has not delivered on expectations, either in terms of economic growth or in reduction in the levels of livelihood insecurities. Indeed, some studies have drawn a causal link between the pervasive conditions of underdevelopment and insecurities of many, to the actual development policy process itself. With reference to the adoption of the Ohio School banking prescriptions in Bangladesh, it has been argued convincingly, that 'the fault with development banking in rural Bangladesh is not that it is inherently unprofitable and that the poor and marginal customers are unbankable, but that *development lending schemes have failed because they have been organized to fail'.*[117] Efficiency arguments as that of the Ohio School, as Alistaire McGregor has argued, 'places development in a very poor second place'.[118]

Democracy as capitalism and capitalism as development

Perhaps, development and poverty reduction efforts have failed in Bangladesh because they have not been pursued as ends in themselves, but rather as a means to steer the society in a given ideological direction. That is, the design and implementation of certain poverty reduction efforts at the grassroots, seem to reflect more a concern with extending a particular *idea* of *democracy* to the grassroots, than to substantially engage with poverty reduction *per se.* The limited ideal of democracy pursued in this context squares easily with an entrepreneurial vision, based on a particularly limited version of representation and accountability *and* capitalism (cf. the case of Bolivia, chapter 3). It has therefore been associated mainly with a notion of 'competitive elitism and technocratic vision' along a Schumpetarian notion of democracy.[119] Muhammad Yunus himself is said to have been 'schooled in the tradition of renowned growth economist Joseph Schumpeter.'[120] While studies have attempted to draw parallels between the Ohio School model and Schumpeter's theory of finance and development,[121] little attention has been paid to Schumpeter's analysis of the role of the entrepreneur in sustaining capitalism. Schumpeter develops his theory of the progression of capitalism to socialism partly on the decline of the role of the individual entrepreneur. In keeping with this logic, and the seemingly ideological motives of the Grameen approach, the targeted use of microcredit at the grassroots may be a political tool in engineering an entrepreneurial culture at the grassroots. This ideological, as well as practical directing is envisaged to soften the resistance to domestic policy making at the national level along the broader trends of disciplinary neoliberalism at the global level.

The US, the most influential external power, together with local sympathizes has been complicit in securing this political trend in Bangladesh. In 1988, a 'U.S. Congress hearing on "The Prospects for Democracy in Bangladesh", made a linkage between economic development and democracy in Bangladesh', which resulted in an amendment to the 'foreign aid bill H.R.3100 noting that, "the primary purpose of United States economic assistance to Bangladesh is to foster economic development and political pluralism.'[122] (cf. the case of Bolivia, chapter 3). In assessing development policy in the context of these political implications, Kirsten Westergaard has observed that

> (..) part of the Western countries' interest in Bangladesh is based on the same rationale as the one underlying United States' policy towards the Pakistan regime in the 1950s and 1960s. (..) The United States was interested in seeking cold-war allies and in supporting strong governments which could prevent revolutionary upheavals. *In a more subtle form, the same policies continue*

> *today, and it is suggested that this is the rationale behind the "Basic Needs Strategy" now adopted as official policy by major donor countries.*[123]

Westergaard's observations made in 1985 still hold true today, even though a World Bank study asserts that

> Developments in the 1990s have sharply altered the climate for foreign aid. The end of the Cold War opened up new possibilities: with aid no longer constrained by those strategic objectives, it should be possible to make aid more effective at meeting its primary objective of long-term growth and poverty reduction.[124]

Today, as before, resistance by those targeted and *included* into the system, but *systematically excluded* from its alleged benefits, is documented, not least in Bangladesh, where the social revolution continues to date, albeit as many forms of *silent revolutions.*[125] As these political struggles continue, it is clear that aid policy as well as poverty reduction approaches are still embedded in the framework of the old strategic objectives. Indeed, today the essence of the "Basic Needs" approach has been recast in the normative load of the day: intrinsically associated with targeting the poor, and protecting the vulnerable– all embedded comprehensively in discourses of participatory development at the grassroots. As Geoff Wood has critically observed, struggle, is 'the micro-agenda, these days - made anodyne in the notion of participation.'[126]

Bangladesh: the Test-Case for Development

For several reasons, Bangladesh was chosen here as an exemplary case illustrating the appropriation of microcredit as a poverty reduction strategy for ideological and strategic motives. Not only is it the 'home' of the Grameen Bank, but it is considered to be the patron-state of development credit.[127] Its (under)development partly reflects a colonial legacy with far reaching social equity implications to date. In its attempt to consolidate its internal dynamics and external linkages upon independence (in the context of the cold war) it offers an interesting example of the dilemmas of weak states in international politics.[128] An analysis of its domestic policy making demonstrates the extent of external influence in this process, particularly the US through aid conditionalities. Finally, it is an example of contemporary development policy in practice – where the process is steered through discourses of *empowerment, gender emancipation and participation,* and in practice is delivered primarily through NGOs. Being as it is a 'franchise-state',[129] Bangladesh is a good example of the politics of global development in practice.

In fact, as early as the 1970s Bangladesh was referred to as the 'test case of development', a statement which has to be understood with its full political implications. Just Faaland and J R Parkinson, who were both professionally involved in the writing of development policy for Bangladesh, noted that if the 'problems of income distribution and access to work are to be solved, communal cultivation systems will have to be introduced.'[130] An associated set of policy recommendations are interpreted by themselves as being tantamount to '*straight socialism*'.[131] They go on to qualify this assessment however by noting that such 'analysis stems not from any doctrinaire view but from the difficulty of seeing how, given the acute scarcity of land, incomes can be assured for those without it'.[132] As for straight socialism, they opine that Bangladesh may not be socially and politically ready for it.[133] Nevertheless, they noted that without a sustained influx of aid to counter conditions of misery on a massive scale that 'it is possible that out of such a situation some form of new social order, perhaps communism may emerge, although the outcome is unpredictable'[134] In this context they noted that,

> Bangladesh is not a country of strategic importance to any but her immediate neighbors. Perhaps its only importance politically, lies in its availability as a possible test-bench of two opposing systems of development, collective and compulsive methods on the one hand, and a less fettered working of the private enterprise system on the other. It might be considered worthwhile by some countries to give aid to demonstrate the power of one over the other system … (..) It is in this sense that Bangladesh is to be regarded as the test-case.[135]

Faaland and Parkinson, conclude that if 'development can be made to succeed in

Bangladesh, there can be little doubt that it can be made to succeed anywhere else. It is in this sense that Bangladesh is a test case for development'.[136] Thirty years on, not only has development failed in Bangladesh, but there appears to be a continuity in the testing of the political sustainability of development *as* crisis management at the cost of exacerbating human misery. Thirty years on the attempts to bring about a new social order continue, while defensive strategies are employed to counter these forces in order to sustain the capitalist system. The *1996, Poverty Alleviation Microfinance Project* for Bangladesh noted that conditions of poverty and landlessness have steadily increased since 1985.[137] As the predicted growth rates will not be able to absorb labor capacity, it concludes that those excluded

> would have no choice but to turn to the rural non-farm (RFN) sector for employment opportunities and involve themselves in marginal activities; this would swell the ranks of the very poor, unless action is taken to diversify the rural economy and expand targeted efforts to help the landless. However, the ability of the landless to engage in productive non-farm employment is severely limited by their illiteracy, lack of skills and inadequate financial resources.[138]

While this quotation contextualises the lack of financial resources explicitly with much wider social and political issues, the concentration, in practice, on approaches based on microfinance minimalism and commercial viability belie the purported concern with addressing the broader causes of poverty. Given the minimalist response to what is a crisis of poverty and inequality, it seems that the advice of Muhammad Yunus, to "look at a social problem and see if you can find a commercially oriented approach to solve it",[139] has been well received by his global counterparts.

However, resistance to disciplinary neoliberalism is evident not only at the grassroots but also at the national level. A 1994 World Bank study noted that there was no '"Mr or Mrs Privatization", in Bangladesh,'[140] even at the level of the government officials. 'Privatization' it notes 'is something that they have come to reluctantly'.[141] The study, among its conclusions on the climate for privatization advises the government of Bangladesh to redress anti-business attitudes from within the government.[142] Two years later, the World Bank report (cited earlier) which stated that *aid* in the post- cold war era has no longer to be ideologically constrained, identified four themes which have, from the World Bank's experience, aided adjustment processes. Among those identified and recommended, one is to '*find a champion*' who will support the process. The report states that 'if aid can find and support these *reformers,* it can have a big impact'.[143] The Grameen story illustrates the success of such a strategy pursued by the agents of global development.

Therefore, although the experiences of Bangladesh are in many ways unique, the overall political dynamics elucidated here may be applicable to other developing countries. The replication of Grameen on a global scale is the pursuit of similar strategies to realize similar political objectives. The replication of strategies pursed is also clear, as seen in the institutional development of up-linking from the local to the global through microfinance minimalism *for* poverty reduction.[144]

[1] Muhammad Yunus, 'Grameen Bank – The First Decade: 1976-86' in David S. Gibbons (ed.), 2nd edn, *The Grameen Reader* (Dhaka: Grameen Bank, 1995) p. 28

[2] Muhammad Yunus (with Alan Jolis), *Banker to the Poor – The autobiography of Muhammad Yunus founder of the Grameen Bank*, (London: Aurum Press Ltd., 1999) p. 194

[3] For example many NGOs pursed educational programs developed along the lines of Paulo Freire's emphasis on conscientization as outlined in his famous *Pedagogy of the Oppressed.* Something of the characteristically hierarchical relationships of patrons and clients also shines through in Freire's use of the banking metaphor to refer to teaching strategies which serve to reproduce and sustain oppressive relations between teachers and students: The language of empowerment used in the context of microcredit minimalism appears from this perspective as covering up precisely this 'banking' conception of social relations. See Freire, *Pedagogy of the Oppressed*, (New York: Herder and Herder, 1972) See p. 58

[4] See Alister J. McGregor, *A Study of Credit, Development and Change in Rural Bangladesh*, (Ph.D. Thesis, University of Bath, 1991), p. 161

[5] See, for example, J. Alister McGregor, '*A Study of Credit, Development and Change*', pp. 170-173, 420 . The financial sector has been particularly targeted as among other reasons, it was closely tied to the 'Green Revolution' which in Bangladesh was constituted largely in the form of USAID's project to commercialize the agricultural sector. The credit input was thus the necessary supplement to the privatization of fertilizer for example. As Mcgregor notes , (p.65) ' credit was placed in the frontline of the Green Revolution and was seen as a key input in the Green Revolution package'. For details of the USAID's agricultural project see, Clare E.Humphrey, *Privatization in Bangladesh – Economic Transition in a Poor Country* (Oxford: Westview Press Inc. , 1990) pp. 84, 127-128

[6] See Sarah White, *Arguing with the Crocodile- Gender and Class in Bangladesh*, (Dhaka: The University Press Limited, 1992) p. 12 For example the Annual Development Plan for 1989-90 was budgeted to 'have 87 per cent aid funding. The real extent of aid financing may be even greater, since even domestic revenue budgets are reliant on aid.'

[7] See Humphrey, *Privatization in Bangladesh,* p. 19 ,

[8] Rehman Sobhan, 'Aid Conditionalities and the Implications for Democratic Governance in Bangladesh' in Abul Kalam (ed), *Bangladesh – Internal Dynamics and External Linkages* (Dhaka: The University Press Limited, 1996) p. 358

[9] Sobhan, 'Aid Conditionalities', p. 355-356

[10] Sobhan, 'Aid Conditionalities', p.356

[11] Sobhan, 'Aid Conditionalities', pp. 355-56

[12] Sobhan, 'Aid Conditionalities', p. 356

[13] James Scott, *Weapons of the Weak – Everyday Forms of Peasant Resistance*, (New Haven and London: Yale University Press, 1985) p. 331

[14] Bangladesh Rural Advancement Committee(BRAC) *Peasant Perceptions – Famine, Credit Needs, Sanitation, Vol.1,* 2nd *edn* (Dhaka: BRAC, 1992) p. B 24

[15] Kirsten Westergaard ,: *State and Rural Society in Bangladesh.* London : Curzon Press, (1985), p. 164

[16] See also McGregor, '*A Study of Credit, Development and Change*', esp. p.397 , 395-426

[17] For historical details see Westergaard , *State and Rural Society*, and also Geoffrey D Wood, *Bangladesh, Whose Ideas, Whose Interests ?* (Dhaka: University Press Limited, 1994)

[18] Besides the industrial sector, the banking and insurance fields were also completely nationalized. See, Humphrey, *Privatization in Bangladesh,* p. 30

[19] See Westergaard, *State and Rural Society,* p. 74. She notes that 'One faction within the leadership, headed by the Finance Minister, Tajuddin Ahmed, was in favor of a socialist economy. This group was pro-Indian and pro-Soviet and against accepting foreign aid from 'imperialist nations', especially the United States. Another major faction was led by Khondkar Mustaq Ahmad (Minister of Foreign Trade and Commerce) who was pro-American and in favor of a mixed economy as well as foreign aid.'

[20] Westergaard, *State and Rural Society,* p. 81, Within the first two years of its existence, Bangladesh had received 'food assistance worth 173 million dollars, multilateral aid worth 350 dollars, and bilateral aid worth 850 million dollars, with the US topping the list with 132 million dollars.

[21] For example, it has been observed that 'during the 1974 famine the US suspended its food aid to Bangladesh because the latter started exporting jute to Cuba.' See, Ehsanul Haque, ' Bangladesh and

the United States: Dimensions of an Evolving Relationship' in Kalam, *Bangladesh – Internal Dynamics and External Linkages,* p. 233. See also, Caroline Thomas, *In Search of Security – The Third World in International Relations,* (Sussex: Wheatsheaf Books Ltd, 1987) p. 97

[22] Westergaard, *State and Rural Society*, p. 83. These policy reviews by the government to 'pull back' on the socialist agenda, must be seen in the context of the acute economic circumstances of the country. See, Haque, 'Bangladesh and the United States: Dimensions of an Evolving Relationship' p. 232-233: 'Since Indo-Soviet aid to Bangladesh was not adequate to bail out the country, as an optimum policy Mujib sought American assistance'. For strategic reasons the US was keen to be a donor to Bangladesh. By 1973, the US had become Bangladesh's 'largest source of foreign economic assistance'. Thus it was possible in 1974 for the US (AID) to effectively tie the continuation of desperately needed resources to policy reform. For example upon the suspension of food aid under PL 480, 'with limited options in hand, Bangladesh cancelled all shipments to Cuba and refined policy'.

[23] Westergaard, *State and Rural Society*, p. 85

[24] Westergaard, *State and Rural Society*, p. 90, During this period, '[t]he United States continued to increase its economic assistance to Bangladesh, not least its food aid under P.L.480, and during 1976 the country obtained a record total of about US $ 1, 450 million worth of foreign aid, of which 40 per cent came from the United States.'

[25] Westergaard, *State and Rural Society*, p. 99

[26] Humphrey, *Privatization in Bangladesh,* p.19 , also p.58, 'In sum, privatization and private sector development were advanced significantly during the period of president Zia.' Humphrey has stated that her book evolved from a broader study 'done under contract with the Center for Privatization, a project of the U.S. Agency for International Development (USAID). It was designed to be USAID's first in-depth policy –oriented analysis of a country's privatization program'. p. ix

[27] Humphrey, *Privatization in Bangladesh,* p. 64

[28] Wood, *Bangladesh, Whose Ideas,* p. 484

[29] Wood, *Bangladesh, Whose Ideas,* p. 485

[30] Wood *Bangladesh, Whose Ideas,* p. 484

[31] Wood, *Bangladesh, Whose Ideas,* p. 18

[32] Wood, *Bangladesh, Whose Ideas,* p. 491

[33] Wood, *Bangladesh, Whose Ideas,* p. 508

[34] Wood, *Bangladesh, Whose Ideas,* p. 501

[35]Wood, *Bangladesh, Whose Ideas,* p. 501, Among other forms of retaliation Wood states that the GSS were also accused of being 'terrorists, engaged in underground armed struggle.'

[36] Most 'development' NGOs working for and with the poor in Bangladesh tended to have a balance between the 'conscientization' approach and credit/material intervention strategies. However, it has been argued that 'the emergence and the growth of the Grameen Bank Project at the end of the decade[70s] (..)can be regarded as being an important factor in the shifting of the balance between the two approaches' (that is, either the credit only, or broader holisitic approaches) See McGregor, *A Study of Credit, Development, and Change*, p. 161

[37] Yunus, *Banker to the Poor*, p. 148

[38] For example, Humphrey has stated that USAID's fertilizer project (1979) has been one of the most successful of the privatization programs, which has broadly focussed in the 'retail and wholesale distribution of agriculture' . (...) Besides privatizing distribution, (the) project has improved extension services to farmers through the new private dealer networks, and has had beneficial effects (..) on creating a more vibrant and efficient competitive market milieu', see Humphrey, *Privatisation in Bangladesh*, pp. 127-128. For a critique of this approach see Wood, *Bangladesh, Whose Ideas* , esp. pp. 233-255, 105, 3

[39] Westergaard, *State and Rural Society*, p.85

[40] Wood, *Bangladesh, Whose Ideas,* p. 16. In this context, Wood has stated how he has been 'always struck by the inconsistencies within expatriate arguments which advocate the small-business solution for illiterate, trade-saturated rural Bangladesh with severely constrained effective demand for new products'. The same expatriates he notes, 'would be skeptical of the validity of such an approach in their own, better resourced countries'.

[41] For the Ohio School standpoint see for example, J.D. Von Pischke, *Finance at the Frontier – Debt Capacity and the Role of Credit in the Private Economy,* (Washington DC: World Bank, 1991), See

also, J.D.Von Pischke, Dale Adams, Gordon Donald, *Rural Financial Markets in Developing Countries-Their Use and Abuse*, (Washington, DC: World Bank, 1983)

[42] See McGregor *A Study of Credit, Development and Change*, pp. 170-174 , 420, 65. For an astute critique of the Ohio School approach see pp. 70-94, 422. See also, J. Allister McGregor, 'Towards A Better Understanding of Credit In Rural Development. The Case of Bangladesh: The Patron State', *Journal of International Development*, Vol.1, No. 4 (1989) pp. 467-486

[43] Wood, *Bangladesh, Whose Ideas* p.17

[44] Yunus, *Banker to the Poor*, pp. 46-57

[45] Alex Counts, *Give Us Credit, How Muhammad Yunus's Micro-Lending Revolution Is Empowering Women from Bangladesh to Chicago*, (New York: Times Books, 1996) pp. 14-15

[46] Counts, *Give Us Credit*, p. 35

[47] Counts, *Give Us Credit*, p.36

[48] Westergaard, *State and Rural Society*, p. 95

[49]Westergaard, *State and Rural Society*, p. 97

[50] Counts, *Give Us Credit*, p. 57

[51] Counts, *Give Us Credit*, pp. 58-59 For details of the Banking communities rejection to permit conversion of the Grameen Bank to a fully fledged commercial bank see, Yunus , 'Grameen Bank' in Gibbons, *The Grameen Reader* p.25. According to Yunus, the first proposal 'was turned down promptly by the bankers, who protested in one voice against the absurdity of the idea'. The second proposal was turned down on the grounds that the bankers 'were already extending all possible support to this project. If necessary, they would give more, but there was no earthly reason for a separate bank'.

[52] Bornstein, *The Price of a Dream* pp. 48-49

[53] Counts, *Give Us Credit*, p. 50

[54] Yunus, *Banker to the Poor*, p. 139

[55] Counts, *Give Us Credit*, pp. 53-54

[56] Yunus, *Banker to the Poor*, p. 140

[57] Yunus, *Banker to the Poor*, p. 140

[58] Yunus, *Banker to the Poor*, p. 148

[59] Yunus, 'Grameen Bank – The First Decade', p. 28

[60] USAID itself was keen to promote 'micro-enterprises' as part of its strategy for privatization and private enterprise development. Humphrey, *Privatization in Bangladesh,* p. 149 , note 8.

[61] Bornstein, *The Price of a Dream,* p.341

[62] See for example, Yunus, 'Grameen Bank – The First Decade' , p.23. It must however be noted here that the Grameen Bank Ordinance of 1983 does not exclude loans for on–farm activities. See *The Grameen Bank Ordinance 1983* (As amended upto July 31, 1990), p.8

[63] David Bornstein, *The Price of a Dream – The story of the Grameen Bank and the Idea that is helping the poor to change their lives* (New York: Simon & Schuster, 1996) p. 120

[64]Shahidur R. Khandker, Baqui Khalily, Zahed Khan, *Grameen Bank –Performance and Sustainability* (Washington DC: World Bank, 1995) p. 22

[65] Khandker, Khalily, Khan, *Grameen Bank,* p.89 See table 3.1.

[66] Yunus, *Banker to the Poor,* p. 155

[67] Yunus, quoted in_Counts, *Give Us Credit,* pp. 264-265

[68] Bornstein, *The Price of a Dream* p. 25

[69] Yunus, *Banker to the Poor,* p. 155

[70] This has been the general global trend, and has been particularly visible on the Bangladeshi context. For an overview of the NGO trajectory in Bangladesh see, Nazmul Ahsan Kalimullah, 'NGO-Government Relations in Bangladesh: Prospect and Retrospect', paper presented at the Development Studies Association Conference, Norwich, U K, 11-13 September 1997. The NGO-Government tension has been long-standing in Bangladesh: As recent as 1992 the Khaleda Zia government attempted to clamp down on NGOs, however, Kallimullah states that 'in the face of ambassadorial intervention, the government had to withdraw the cancellation order within a few hours of it's announcement'. p. 8. The extensive number of NGOs operating in Bangladesh has promoted Geoff Wood to refer to Bangladesh as the 'franchise state'. See Wood, *Bangladesh, Whose Ideas,* pp. 541-55, 484-489. For a global overview of NGOs and their relations with international development finance institutions, particularly the World Bank, see, Paul J Nelson, 'Internationalising Economic and Environmental Policy:

Transnational NGO Networks and the World Bank's Expanding Influence', *Millennium-Journal of International Studies,* Vol. 25, No.3 (1996) pp. 605-633

[71] Grameen it has been argued, due to its 'success' has had 'a profound influence upon the debates over approaches to rural development in the country' One aspect of this is that over the years, credit has come to be regarded as an ever more important dimension of the NGO programmes, while the profile of conscientization has declined' See Mcgregor, *A Study of Credit, Development and Change* p. 162

[72] One explicit example of this has been cited with reference to Grameen needing a capital injection: Grameen (through IFAD) was quick to respond to information that 'Norwegians and Swedes were looking for "grassroots" development projects that targeted women' See Bornstein, *The Price of a Dream* p.178

[73] Bornstein, *The Price of a Dream*, p. 253

[74] World Bank, *Bangladesh, Rural Finance,* (Washington DC: World Bank, 1996) p.33 For an overall discussion of these recommendations see pp. 32-47

[75] World Bank, *Bangladesh, Privatization and Adjustment,* (Washington DC: World Bank, 1994) Introductory page. This report, (p. 8) refers to an April 1993 Aid Group Meeting and states that 'the understanding for FY94 is that the GOB would accelerate privatization of SOEs'. This is of similar 'tone' to the 1990 Aid Meeting refereed to by Rehman Sobhan above. This report also states categorically that 'the GOB needs to issue a Privatization Policy statement which clarifies its privatization objectives and expresses its clear commitment to the program. (..)The announcement must be accompanied by a public education program on the benefits of privatization'. See p.25 It also states that 'a public relations program is required to build a broad-based support for the program.' See p. 26

[76] World Bank, *Bangladesh, Privatization and Adjustment,* p. 44

[77] World Bank, *Bangladesh, Privatization and Adjustment,* p. 46 The study states that a 'noteworthy characteristic is the politicization of the trade union movement as major political parties have formed their respective national-level labor front organizations. (..) The study has also observed that causes of industrial disputes/unrest have increasingly been politically motivated. In 1977 those politically motivated were 31.82 per cent , while in 1990 they were 100 per cent. See p. 47, table 3.1

[78] World Bank, *Bangladesh, Privatization and Adjustment,* p. 45 (emphasis added)

[79] World Bank, *Bangladesh, Privatization and Adjustment,* p. 49

[80] World Bank, *Bangladesh, Privatization and Adjustment,* p.51

[81] World Bank, *Bangladesh, Privatization and Adjustment,* p. 82

[82] World Bank, *Bangladesh, Privatization and Adjustment,* p. 83

[83] World Bank, *Bangladesh, Poverty Alleviation Microfinance Project* (Washington DC: The World Bank, p.1996)

[84] Anthony G. Bigio, *Social Funds and Reaching the Poor – Experiences and Future Directions,* (Washington, DC: World Bank, 1998) p. 63

[85] World Bank, *Bangladesh, Poverty Alleviation Microfinance Project,* p. 16

[86] World Bank, *Bangladesh, Poverty Alleviation Microfinance Project,* p. 63

[87] World Bank, *Bangladesh, Poverty Alleviation Microfinance Project,* p.51

[88] World Bank, *Bangladesh, Poverty Alleviation Microfinance Project,* Project summary p.i

[89] World Bank, *Bangladesh, Poverty Alleviation Microfinance Project,* p.4

[90] World Bank, *Bangladesh, Poverty Alleviation Microfinance Project,* p. 4 This is also currently the case (April 2000).

[91] World Bank, *Bangladesh, Poverty Alleviation Microfinance Project,* p. 4

[92] World Bank, *Bangladesh, Poverty Alleviation Microfinance Project,* p. 6

[93] World Bank, *Bangladesh, Poverty Alleviation Microfinance Project,* p. 7, section 3.2

[94] World Bank, *Bangladesh, Poverty Alleviation Microfinance Project,* p. 8

[95] World Bank, *Bangladesh, Poverty Alleviation Microfinance Project,* p. 15

[96] World Bank, *Bangladesh, Poverty Alleviation Microfinance Project,* p.15 For this overall policy objective see also, World Bank, *Bangladesh, Rural Finance,* See esp. pp. 43-47 (emphasis added)

[97] World Bank, *Bangladesh, Poverty Alleviation Microfinance Project,* p, 16

[98] World Bank, *Bangladesh, Poverty Alleviation Microfinance Project,* p. 15 (original emphasis)

[99] World Bank, *Bangladesh, Poverty Alleviation Microfinance Project,* p. 15

[100] World Bank, *Bangladesh, Poverty Alleviation Microfinance Project,* p. 16

[101] World Bank, *Bangladesh, Poverty Alleviation Microfinance Project,* p. 15

[102] McGregor for instance provides a good critique of the 'narrow' notions of credit impact, and reinforces the need to get away from what he terms as "'mickey-mouse'" studies of "impact"'. See McGregor , *A Study of Credit, Development and Change* esp. pp.3, 23, 43

[103] World Bank, *Bangladesh, Pursuing Common Goals – Strengthening Relations Between Government and Development NGOs'* (Dhaka: University Press, published for the World Bank, 1996) See especially chapter 5 on 'NGO Finance and Fiscal Policies – Emerging Issues', pp. 41-55

[104] Sarah White, 'NGOs, Civil Society, and the State in Bangladesh: The Politics of Representing the Poor', *Development and Change,* Vol. 30, (1999) pp. 307-326

[105] Sarah White. 'NGOs, Civil Society', p. 317

[106] Sarah White. 'NGOs, Civil Society', p. 317

[107] World Bank, *Bangladesh, The Non-Farm Sector in a Diversifying Rural Economy,* (Washington DC: World Bank, 1997) p. 1

[108] World Bank, *Bangladesh, Poverty Alleviation Microfinance Project, p.* 36

[109] World Bank, *Bangladesh, The Non-Farm Sector,* p. 37

[110] World Bank, *Bangladesh, The Non-Farm Sector,* See full report for details as microcredit runs through as central tenets. Specifically, see the section on 'poverty alleviation and micro-credit for rural non-farm activities', pp. 34-41 In this context see also policy outline and recommendations of World Bank, *Bangladesh, Rural Finance*

[111] World Bank, *Bangladesh, From Stabilization to Growth,* (Washington DC: World Bank, 1994) p. 148

[112] World Bank, *Assessing Aid : What works, what doesn't and why,* (Oxford: Oxford University Press, 1998) p.31

[113] World Bank, *Assessing Aid,* p. 29 It also, does not exclude the possibility of a deterioration of social indicators together with 'growth'.

[114] World Bank, *Assessing Aid,* p. 31

[115] World Bank, *Assessing Aid,* p. 29 It states that 'growth matters not for its own sake, but because it raises living standards'.

[116] World Bank, *Assessing Aid,* p. 31

[117] McGregor, *A Study of Credit, Development and Change*, p. 179 (emphasis added)

[118] McGregor, *A Study of Credit, Development and Change*, p. 179

[119] David Held, *Models of Democracy, 2nd edn* (Cambridge: Polity Press, 1997) pp. 157-197

[120] Bornstein, *The Price of a Dream*, p. 23

[121] These attempts are however unsustainable given that from the Schumpeterian perspective 'the level and form of analysis is quite markedly different'. See McGregor, *A Study of Credit, Development and Change*, p.72

[122] Abu N.M.Wahid and Charles E. Weis (eds), *The Economy of Bangladesh- Problems and Prospects*, (Westport: Praeger Publishers, 1996), p. 33

[123] Westergaard, *State and Rural Society*, p.164 (emphasis added)

[124] World Bank, *Assessing Aid*, p. 9

[125] For some examples, see, Bosse Kramsjo and Geoffrey D.Wood, *Breaking the Chains- Collective action for social justice among the rural poor of Bangladesh*, (London: Intermediate Technology Publications, 1992)

[126] Wood, *Bangladesh, Whose Ideas*, p.18

[127] McGregor, 'Towards A Better Understanding of Credit In Rural Development. The Case of Bangladesh: The Patron State'

[128] Muhammad Shamsul Huq, *Bangladesh in International Politics, The Dilemmas of the Weak States* (New Delhi: Sterling Publishers Private Limited, 1993)

[129] See Wood, 'Good Governance and the Franchise State' in Wood, *Bangladesh, Whose Ideas*, pp. 519-556

[130] Just Faaland and J. R. Parkinson, *Bangladesh: the Test Case for Development* (London : C. Hurst & Co, 1976) p. 87

[131] Faaland and Parkinson, *Bangladesh: the Test Case*, p. 88

[132] Faaland and Parkinson, *Bangladesh: the Test Case* p. 88

[133] Faaland and Parkinson, *Bangladesh: the Test Case*, p.88

[134] Faaland and Parkinson, *Bangladesh: the Test Case*, p.197

[135] Faaland and Parkinson, *Bangladesh: the Test Case* p. 5

[136] Faaland and Parkinson, *Bangladesh: the Test Case* p. 197

[137] World Bank, *Bangladesh, Poverty Alleviation Microfinance Project,* p.36

[138] World Bank, *Bangladesh, Poverty Alleviation Microfinance Project,* p. 1

[139] Bornstein, *The Price of a Dream*, p. 343

[140] World Bank, *Bangladesh, Privatization and Adjustment,* p. 40

[141] World Bank, *Bangladesh, Privatization and Adjustment,* p. 40

[142] World Bank, *Bangladesh, Privatization and Adjustment,* p. 43

[143]World Bank, *Assessing Aid,* p. 104

[144] The PKSF (the apex financial institution providing credit to NGOs , or MFIs, to on lend at the grassroots) is for example, considered to be the 'second -tier' model of the microcredit strategy for global replication. See, Dewan A.H.Alamgir, *The Role of an Apex Financial Institution to Finance Micro Credit Programs: The Palli Karma-Sahayak Foundation (PKSF) in Bangladesh*, (Dhaka: Credit and Development Forum (CDF), 1997) p. 56

CHAPTER 7.

CONCLUSION

> Money is no longer a reified medium of communication with socially destructive autonomizing tendencies *vis-a vis* those actors who use it to enter into communication (..) but rather a societal relationship between creditors and debtors. This 'autonomization' (*Verselbstandigung)* of money transforms the global society into a *society of monetary wealth owners*. But with monetary wealth come obligations (debts) which have created a global *debt-society*. One social relationship therefore means two societies, which already indicates how much money works as a bacterium, now, on a global scale.
>
> Elmar Alvater and Birgit Mahnkopf,[1]

The objective of this thesis has been to elucidate the GPE of microcredit and poverty reduction. The approach pursued was to demonstrate how and why microcredit serves as a dual purpose for policy makers in the GPE. This has been achieved through substantive analysis of the political motivations of the microcredit agenda and their realization by key architects of global development (chapters 3,4, and 6). This thesis has argued, that the *prima facie* association of microcredit with the language of poverty reduction and development conceals the far more tangible appropriation of microcredit in the context of managing the crisis of capitalist development, as it has come to prominence in the capacity crisis of the 1970s (chapter 2). The dual purpose of microcredit has been crucial to advancing globalization in its neoliberal political form. The public transcripts of microcredit have thus significantly aided the concealment of the strategic motives underpinning it's appropriation as a panacea for poverty reduction.

In the light of these arguments, this chapter concludes by drawing together key aspects of the thesis in eight sections. Section one re-captures and sums up the core of the case *for* microfinance in poverty reduction in terms of its public transcripts. This is contrasted in section two with the objectives identified in its hidden transcripts, which have been at the center of the argument of this study.

Section three contextualises these findings with the enhanced HIPC initiative and the GPE of debt-restructuring. With the critical findings of this study in mind, the scope and problems of the HIPC are evaluated. Opened up from the perspective of the microcredit approach, the arguments of this thesis provide an angle on this initiative which radically exposes core contradictions in the framework of capitalist conceptions of development. Section four investigates the successes of the microfinance agenda in intensifying financial sector reform in target countries, and managing social and political risks. These arguments are furthered in section five, through a discussion of the role of microfinance in absorbing surplus labor while circulating capital. Section six summarizes the contradictions of capitalist development as global crisis management in a South-North context. Section seven concludes the thesis with a critical commentary on the GPE of capitalist development and its limits.

An outlook that may be useful for future research is provided at the end.

Public Transcripts of Microfinance Minimalism and Poverty Reduction

The political representatives of the G7 recommend microfinance minimalism as a tool for poverty reduction and development. Microfinance has been represented as a gender sensitive development strategy, and a self-help oriented grassroots approach that results in self-reliance (chapter 1). The IMF-World Bank joint development efforts are clear on the crucial role of microfinance in their overall policy framework. They have recast their operational directives on financial sector operations in order to better co-ordinate and harmonize poverty reduction policy with policy on financial sector objectives. Microfinance is at the basis of their new policy framework which links financial sector policy with targeted poverty reduction efforts at the grassroots (Chapters 3 & 4). The IMF and the World Bank also reinforce through their own efforts the G7's statement that it is microfinance best practice (that is, its application on a commercial basis) that must be globalized for poverty reduction (Chapter 4). This free-market driven approach to poverty reduction is also evident in the Report on Poverty Reduction by the MDBs and IMF, presented to the G8 meeting in Okinawa, in July 2000.[2] In sum, we are told that 'fighting poverty' is central to economic growth and that 'microfinance will continue to play an important role in meeting the challenges of eliminating poverty'.[3]

Hidden Transcripts of Microfinance Minimalism and Poverty Reduction

These public transcripts on microcredit and microfinance are, however, at odds with the *actual* poverty impact of microcredit and microfinance, a conclusion that is supported even by the findings of the World Bank's own impact studies (chapters 1, 4, and 5). The strategic embedding of microfinance, motivated by its dual purpose, may be the key factor in accounting for the discrepancy between its purported virtuous outcome and its *actual* impact on the ground.

This thesis has uncovered what may be identified as the *hidden agenda* of the global microcredit and microfinance poverty reduction strategy. Microcredit has been shown to be strategically embedded in global political economy (chapter 2). It has been demonstrated that as a financially steered grassroots poverty reduction strategy, it's financial sector policy implications make it a crucial facilitator of financial liberalization, and that it is especially linked to the demands of *haute finance* (Chapter 2 and 4). This practical facilitation of neoliberal politics is also complemented by its ideological aspects: as a poverty reduction approach it is conceived from within a neoliberal value paradigm. Underpinning the microcredit agenda is a competitive and individualistic ethos. At the same time, given its social implications, the resistance politics resulting from the socially disembedding consequences of neoliberalism are contained as the poor and politically vocal are disciplined through social relations characterized by debt dependency and mutual control in peer-monitoring (chapters 4 and 5). The disciplinary potential lies in making *access* to microcredit - a desperately needed exchange mechanism which provides *entitlements* to resources in the contexts of the diminishing - or even lack of - income, dependent on political patronage (chapters 2 and 3, 6).

At its best, microcredit allows the vulnerable, who although extremely poor and insecure may not always be the *most* destitute, to meet their minimum needs *through* a debt-cycle. At it's worst, this thesis has argued that rather than resulting in the purported virtuous outcome, microcredit, actually *reinforces and reproduces poverty and inequality and overall insecurities*: it creates *dependency* rather than self-reliance.

The hidden agenda of the microcredit strategy have been well concealed by the public transcripts which have been crucial in legitimating microfinance and microcredit for poverty reduction. The policy implications have been important: microfinance and microcredit have been placed at the core of the global development regime's targeted poverty reduction efforts. Appropriated and advanced on the back of discourses of poverty reduction and development, it has squared the circle in terms of advancing the neoliberal political agenda. This is particularly evident in the enhanced HIPC debt-restructuring initiative and its incorporation of microcredit minimalism: through this initiative another avenue for managing the crisis of capacity of capitalist development has been created which enhances the scope for interventions at the grassroots in the logic of 'risk management' (chapter 2). The *transnationalization* of the risks associated with capitalist development is thus continuing through the new HIPC debt-restructuring initiative in the form of microfinance for poverty reduction. The hidden transcripts of debt-for-development swaps are discussed below in more detail to further elucidate the role of microfinance in the context of the enhanced HIPC initiative.

The HIPC Initiative: Microfinance and the Politics of Debt-Cancellation for Poverty Reduction

At the core of the HIPC initiative is the substitution of the IMF's ESAF with the PRGF[4], which aims to combine poverty reduction efforts with debt relief.[5] In an overview of the approach, four broad areas are identified, two of which have direct relevance for microcredit:

(1) Macroeconomic stability and sustainability, and reducing barriers to access by the poor to the benefits of growth.

(2) Reducing vulnerability to poverty.[6]

A detailed account of appropriate poverty reduction strategies are provided for each. For the first, 'financial sector liberalization' and 'spending on and targeting safety net programs' are recommended. For the second, 'access to risk management mechanisms, including micro-credit' and 'safety net programs to smooth income shocks' are recommended.[7] Thus, for the former, the enabling financial environment is prescribed, namely, financial liberalization, whereas for the latter, microcredit is envisaged in a safety-nets context. The involved cross-conditionality, that is, making poverty reduction policy (microcredit) contingent upon *liberalization* and especially of financial sector liberalization, is clearly evident here (chapters 2 and 3 and 4).

Given this specific appropriation of microcredit in the HIPC initiative, considerable legitimacy has been achieved for the expansion of microfinance to the grassroots through a debt-restructuring initiative *for* poverty reduction. This perception prevails, although in actual fact, at the policy level microfinance is situated at the level of a safety-net.

The public transcripts conceal that what the IMF and World Bank *actually* mean by poverty reduction is the enhancement of safety nets, which effectively function as *political* safety-nets in order to ensure that adjustment processes are facilitated while at the same time containing resistance to them.[8] The dual purpose of microcredit, which can be seen as being integral to the HIPC initiative is legitimated through public transcripts of poverty reduction discourses.

Poverty reduction figures in the HIPC in the context of what is termed as a "debt-for-development swap". In most, if not all cases, "debt-for-development swaps" are implicated in strategic politics both at the state-level and grassroots level. Poverty reduction *per se* is secondary. Since poverty reduction policy is now claimed to be central to debt-for-development-swaps and microfinance to poverty reduction, the next section briefly looks at the poverty impact of microfinance almost 16 years after it was first tested in Bolivia in similar context to what the HIPC initiative has now made formal. Therefore, Bolivia is chosen here simply because it was the first to include microfinance as a targeted poverty reduction tool in the context of debt-restructuring. The Bolivian ESF is also the model upon which social funds are based (see chapter 3).

Bolivian debt restructuring and microfinance- who benefited ?

To the question of whether the debt strategy of the IMF and US government was successful in the case of Bolivia (see chapter 3), for Jeffrey Sachs, 'The answer is a resounding yes, *for all of the parties concerned'*.[9] However, the impact of the Bolivian SAP, and particularly its microfinance component, suggests a far more problematic assessment.

A recent extensive report in the *Financial Times* told a very different story of the Bolivian 'success'. 'Anger in the Andes', it noted, 'could threaten the democratic progress made across South America since the 1980s'.[10] It referred to recent public uproar as 'evidence of Bolivia's biggest political protest in more than a decade'. The report drawing on similar political unrest in the other Andean countries stated that,

> Bolivia, until recently regarded as a success in the region, is in danger of following a pattern of political and economic instability set by the three northern Andean countries – Ecuador, Venezuela and Colombia. Together with Peru, which is also experiencing its worst social unrest in a decade, it may be extending to the southern Andes what some Washington policymakers call "the arc of crisis.[11]

The growing instability is merely evidence of the people – the oppressed and subordinate classes - making public their *inability* to humanely survive neoliberal fiscal dogmatism and its political authoritarianism. It is evidence of their *refusal* to be treated otherwise but as equals, that is of equal human worth with the right to live a life of dignity with both economic security and political freedom. The reasons for such anger in the Andes is well captured in the report by the words of a European diplomat in Bolivia.

> Until a couple of weeks ago, Bolivia was regarded as a success story. Now the international community has to recognize that the economic reforms have not really done anything to solve the growing problems of poverty.[12]

In reality, therefore, any success with reference to the NEP and its microfinance extension (through the ESF) in Bolivia may be registered only by the minority who gained from the 'new form of development', under which 'social, regional and income inequalities have been increasing rather than diminishing'.[13] These rising insecurities, in short an increase in poverty, have resulted in Bolivia despite the availability of 'human and financial resources like never before in the history of the country'.[14] In fact, poverty has risen inspite of the direct targeted responses to poverty in the form of the widespread implementation of microfinance minimalism. The findings of this thesis suggest not that increasing human insecurity in Bolivia has ensued *despite* international development efforts but rather because of them. Here, the widespread targeting of microfinance minimalism, while a success to the bankers, has failed its target group *miserably*.

The discussion above demonstrates the overall argument that while there obtains a poverty focus at the core of even the enhanced HIPC initiative, it is not motivated by concerns with poverty *per se.* Rather, it is an excellent legitimating strategy to advance neoliberal politics through the appropriation of microfinance in this context as a poverty reduction strategy. Through the microfinance and poverty reduction agenda the strategic objectives of GPE are in turn advanced. So what *is* new about the HIPC initiative ? There are two aspects that are new about the HIPC initiative.

(1) The HIPC makes permanent (at least in the foreseeable future) what was purportedly to be a temporary response to an emergency. According to World Bank evaluation,

> (..) social investment funds were established as temporary institutions under the assumption that structural adjustment programs would restore vigorous economic growth within three to four years, and that within that time the capacity of regular government agencies to provide needed social services could be restored. This proved unrealistic. Consequently, the funds have been transformed into semipermanent institutions. [15]

This *new* element of the enhanced HIPC initiative, is the presentation of the Social Funds agenda with its strategic political objectives as a new poverty reduction and development strategy. The purported concern *now* with poverty reduction, is motivated as before not with concerns to eradicate or even ameliorate poverty *per se*, but rather to counter its potential security threat to capitalist order and stability. The thesis traced this along the historical trajectory of the Worlds Bank's policy response to poverty (chapter 3). In this sense, as before concern and engagement with poverty reduction, have been and continue to be motivated by

> the search for conditions which enable the implementation of the liberal lines of adjustment to be strengthened and legitimized. A consideration of poverty or the social costs of the model stems from the dysfunctionality which these can have for the maintenance of adjustment. In addition, this concern stems from the conviction that social and economic inequalities and excessive poverty arising from adjustment could degenerate into violence and ungovernability, thereby de-legitimizing the model.[16]

(2) Through the HIPC, adopting policies for poverty reduction is effectively mandatory. Thus, through the HIPC the World Bank-IMF, poverty reduction strategy is given an added boost as well as the status of *quasi*-legal obligation. Given that microfinance and microcredit constitute a vital component of the poverty reduction policy of the architects of global development the potential opportunities to bank on the poor through the 'trade in' microfinance at the grassroots is enormous.

Microfinance - What has been Achieved to Date ?

It was noted in chapter 4 that a CGAP document concluded that through it's initiatives 'financial sector reforms have been expedited' in several countries.[17] Against this achievement however no corresponding poverty reductions have been identified. Rather, a study commissioned through the World Bank's, Sustainable Banking for the Poor' initiative stated that the microfinance sector does not dominantly service microenterprises, but rather provides credit for 'consumption smoothing'.[18] The study backtracks on the role of microcredit as a panacea for alleviating the dire economic conditions of the *poorest* , and cites it as purposeful virtually only in the limited sphere of small scale industry. NGOs and the practitioners and donors associated with the Microcredit Summit are severely criticized for their uncritical adoption of a strategy which is seen to lead directly to cross-borrowing and consumption smoothing instead of investment.[19]

The study by the SBP draws attention to the fact , that 'the seeds had been planted for a shift to microcredit aimed at very poor people whose activities were not so much businesses as "livelihood activities".[20] An explanation for this may be found in what the study does *not* address: within the framework of a Social Funds approach such a focus for microcredit schemes expresses their integral role in an actual strategy.[21] It is worthwhile recalling here how microfinance best-practice has been consolidated in the context of a social funds policy framework (see chapter 4).

There is a rapid and vigorous process underway to reach the Microcredit Summit target: the recent case of microfinance in the Philippines is a clear example. President Estrada doubled the outreach target of the Peoples' Credit and Finance Corporation (PCFC) from one million poor families to two million, to be reached by 2000. At December 1998, PCFC had reached a target of 100,000. The PCFC was set up in 1994 to deliver microfinancial services exclusively to the poor.[22]

In terms of the real human impact, the poor have been both disciplined and assigned conditional means to meet what has been referred to as 'minimal' consumption needs, whilst ensuring through proactive targeting that their potential economic value is not excluded. Indeed, the GFIs have been explicit on this,

> In designing social safety net programs in support of adjustment operations, it is necessary to balance the needs of the poor and vulnerable in a country, the level of transfer benefits required to ***meet "minimal" consumption needs***, the political sensitivity of income transfers, and the potential complementary with long-term social sector investment , ***against fiscal opportunity costs, capacity demands on public institutions, and the possible negative impact on market-oriented incentives.***[23]

In keeping with this logic the World Bank's O.P.8.30 on FIL is explicit that it will support safety-net programs only if, among other things they are

(e) economically justified , *or can be shown to be the least-cost way of achieving poverty reduction objectives.* Subsidies that do not meet these tests are phased out, or are substantially reduced , during the course of the FIL. (Emphasis added)[24]

For its proponents, especially the World Bank and other MDBs, microcredit is regarded as one of the most cost effective ways of achieving poverty reduction, while for the targeted individuals, forced to smooth consumption through debt, it is not, particularly, given that these individuals, the target groups sustain themselves through survival strategies in the informal sector. According to the International Labor Organization (ILO), 'many casual wage workers in small and micro-enterprises are part of the informal sector'.[25]

Microfinance and the Informal Sector: Absorbing *Surplus* Labor while 'Circulating Capital'

Many of the microcredit and microfinance target groups are the un-underemployed (subject to 'income insecurity' to use current terminology which describes poverty and human insecurity) who are excluded - or pushed out - from the formal sector into the informal sector. The expansion of the informal sectors in developing countries and economies in transitions, are in most cases, a direct consequence of SAPs and liberalization policies (hence the social funds as an 'add-on' to SAPs, chapter 3). The informal sector has been exploding with *surplus* labor in Africa, Latin America, the

Caribbean, Asia, Russia, former Eastern European countries, it is also a rising trend in advanced capitalist states. The ILO's, *World Labour Report 2000,* which focuses on income security stated that,

> [i]ncome security is threatened by the global trend towards the informalization of labour contracts and informal sector and temporary employment. In Latin America and the Caribbean, for example, 40 per cent of the labour force is in the informal sector, and employment in this sector has expanded significantly in the 1980s and 1990s.[26]

For Africa and Asia the report noted that,

> Rather than being "unemployed", vast numbers of people in these regions eke out an existence doing whatever work they can in the informal sector, in the absence of any kind of social protection against unemployment.[27]

These statistics are also true of urban informal sector employment.[28] Thus, the ILO states that '[p]overty is greatly affected by high employment and by informalization of the labour market'. This is so, particularly because, as the ILO itself recognizes, in 'developing countries social protection for workers and the informal sector is either rudimentary or non-existent'.[29] As a solution to social protection the ILO recommends 'micro-insurance' schemes for the informal sector. 'Micro-insurance' schemes for 'social protection' may be provided by various agents (e.g, NGOs) and for various purposes. For example, microfinance and microcredit are identified as options to 'cope with increasingly burdensome user charges for health care'.[30] Furthermore, for overall economic security, as a response to income insecurity the ILO also recommends microcredit and microfinance.

> In the economic field more security can be achieved through self-help and micro-credit for the self-employed , resulting in the creation of productive assets and an enhancement of income.[31]

Through current poverty reduction efforts those *excluded* and pushed out of the formal sector, are *included* again into the circulation of capital through direct *targeting* efforts with microcredit and microfinance. Microfinance, as a solution to poverty (income insecurity) pushes the most vulnerable to smooth consumption through debt. These 'limited' income guarantees, as the ILO states with reference to public-works programs, don't have to be 'financed through government deficit spending', rather they may be 'achieved though a reorientation of existing and planned investments'.[32] Similarly, microfinance in poverty reduction, as has been demonstrated, can be seen as an investment industry, and therefore as falling within the requirements of 'reorientation' in the above sense (chapters 2, 3, 4).

As an extension of the *trade in services,* agenda, the 'trade' in microfinance at the grassroots to the poor is an excellent opportunity to facilitate and sustain the *global* financial services sector. Microfinance minimalism is not concerned with what capital produces, but rather is concerned with *reproducing capital.* The explanation is circular: the poor need capital to make economic progress, so 'capital' is *sold* to them, but herein lies the problem – by *purchasing* capital via credit, particularly for 'consumption smoothing', instead of 'breaking-free', the poor are rather locked into debt-dependency as their predicament sustains the circulation of capital. Martha Campbell's discussion of Marx's analysis of the money in the circulation capital applies here.

> The monopoly of the social hoard by the capitalist class dictates the path of money's circulation in capitalism. Since the social hoard belongs to the capitalist class, it must be the source of all money in circulation. On the other hand, its relation to the rest of society (…) ensures that all money returns to the capitalist class from circulation. The 'general law' of circulation, therefore, is 'the *return* of money to its starting point' (..) This is the condition for the annual repetition of production. It is completely different from the path money follows in simple circulation, 'its constant *removal* from its starting point'. [33]

Banking on the poor, in this sense, has become integral to managing the crisis of capitalist development. Hence the conclusion of this thesis that, the hidden transcripts of microcredit suggest that given its historical legacy and strategic embedding *microcredit* relies on, and therefore sustains exactly the condition it claims to transcend: poverty.

Capitalist Development, Global Crisis Management, and Microfinance: Summary and Reflections

This thesis has traced the historical legacy of microfinance to what emerged as a *trade in services* agenda in the 1970s , and specifically to its *financial services* component. A distinct *trade in services* agenda emerged in the context of a crisis of capacity in the advanced capitalist states since the 1970s (chapter 2). The thesis has demonstrated that both the IMF and the World Bank were key agents instrumental in the *transnationalization* of the systemic risk's from the advanced capitalist states to the developing states. It was in the context of this historical background, that the making of a distinct development regime was identified. It has been argued here that this development regime is essentially unified both horizontally and vertically with the norms and practices of the unification movement. Underlying the unification movement is, as Cutler has argued, the globalization (expansion or universalization) of a particular set of *commercial* norms, known as the 'law merchant (*lex mercatoria)* or private international trade law'.[34] Thus,

> contemporary developments in the law merchant are both mirroring and structuring developments in global capitalism and are freeing merchant laws and institutions from national controls. The law merchant is being reconfigured and reconstituted as a "handmaiden" of transnational capitalism,

> for it reaches both inside the state and outside to connect local and global political/legal orders.[35]

It was demonstrated that the development regime has been made an *adjunct* to the broader unification movement through the linking of poverty reduction efforts to the process of economic restructuring in the logic of the consolidation of capitalism (chapter 2). Microfinance minimalism for poverty reduction adds a new impetus for both, the making of the enabling environment for capital's core product (finance), as well as for determining the scope of value adding processes. While the 'law merchant' (with its commercial norms and practices) can be argued to be a crucial driving force behind the global structural changes, sustained and expanded through disciplinary neoliberalism and the new constitutionalism, for Cutler it is

> so foundational that it is both a constitutive element of global capitalism and an attribute of the capitalist order. (…) It establishes the fundamental rules governing private property and contractual rights and obligations operative across the full range of international commercial activity, including international trade, investment, finance, transportation, and insurance. It also functions distributionally in determining the allocation of risks of international commercial transactions, in regulating the terms of commercial competition and market access, and in enforcing bargains.[36]

Although, the capitalist norms of the law merchant are globally constituted, and essential to the historical constitution of *global* political economy, an *immanent* critique of capitalist development trajectories suggests the new development regime to be premised on *double-standards* even if viewed from *within* capitalist development practices. That is, in the allocation of systemic risk resulting from the contradictions of capitalism (e.g., *transnationalization* of systemic risk resulting from crisis of capacity in advanced capitalist states to the developing states) the crisis management strategies have taken on very much of a South-North dynamic. In structural terms, the development trajectories can be said to reflect the core-periphery logic.

Immanent critique of the capitalist development trajectory: a case of double-standards?

Two key issues reflect what can be seen as double standards of the new development regime from *within* a capitalist development paradigm: One, the role and status of finance in development, and two, the development role assigned the Bretton Woods institutions (IMF and World Bank).

Microfinance is facilitating the global financial liberalization agenda. It is however, the changing Northern imperatives which inform the actual transformative force of this: the rationale for the IMF's support of a liberal financial order has been stated as follows, '[t]he benefits for the world economy of an open and liberal system of capital movements were now widely recognized'.[37] The IMF and World Bank's initiatives to liberalize the movement of global finance, occur in the context of the global financial sector increasingly dominating as a sphere of investment in itself.

For example, by the mid-1980s finance capital was turning over US $300 billion on an average working day, many times the total reserves of the world's central banks and at least 25 times the value of world trade in merchandise and services. From 1980-85, global foreign exchange trading volume doubled to a level of US $ 150 billion per average working day, which was atleast 12 times the value of world trade in merchandise and services. By 1990, the average volume of foreign exchange trading reached US $ 600 billion per day, and during the European currency crisis in late 1992, US $ 1 trillion per day.[38] Financial derivatives, valued as at October 1998 were reckoned to be worth roughly US $ 100 trillion- 100, 000 – in nominal terms, four times the world's annual GDP. [39] The trade in financial services thus increasingly operates in abstraction of 'real economy' development, and thus is inappropriate for development processes, particularly for peoples at a different development stage.[40] This critical node is reflected in opposing theoretical conjectures held by the adherents of broadly two schools of thought.

> Some see a 'free' and open financial system as the ultimate guarantee of allocative efficiency throughout the economic system, as money will spontaneously flow into its most productive and profitable uses. Others see such an open financial economy as a potential drag on the productive economy, because money can be made easily from the trading of money; thus

> a free financial system may crowd out a significant amount of money out of less profitable but more productive uses (meeting real demands and needs in society) in into what is *rentier capital.* The frequent charges of 'short-termism' levelled against open financial markets, as well as the accusations of 'churning', where brokers keep buying and selling the same financial instruments and take a profit each time, are characteristic of the latter view. If financial capital is indeed parasitic in this way, the design capacity of the system must be highly interventionist in such a way as to channel money into more materially productive uses.[41]

It is clear that financial capital is indeed parasitic on real economy development (cf., above statistics of financial 'trading'). The G7, particularly through the IMF and World Bank, are intent on turning the first school of thought into an orthodoxy at the level of policy. It is noteworthy however, that during the early focus of post-war (re)development (with reference to the non-socialist Bloc which was largely confined to Europe), the IMF mandates reflected the imperatives of the time. The original Bretton Woods mandate set up a rather restrictive financial order in which capital controls were not only permitted but encouraged.[42] This

> (..) . reflected the shared belief among bankers and embedded liberals alike that a liberal financial order would not be compatible, at least in the short term, with a stable system of exchange rates and a more liberal trading order.[43]

The post-war years reflected Keynsian interventionist welfare policy, which gave priority to trade in goods because it was designed to support the real economy: it was thus guided by employment and general welfare policies. This is the embedded liberal compromise that the advanced capitalist states followed (chapter 2). *This option however is not available for other developing states.*

Secondly, the decision to reconstruct Europe through the European Recovery Program (also known as the Marshall Plan) was based on the rejection of an unacceptable alternative, the subjection of the concerned to the social and economic consequences of economic austerity. Thus as Charles Kindleberger has stated,

> In 1947 when the European Recovery Program was projected, the basic problem in the reconstruction of the European economy was to re-establish production. An attempt to restore equilibrium in the balance of payments by the redistribution of existing production in the favor of exports, or by cutting down consumption and investment through restriction imports would have involved the acceptance of a standard of living then and the future which politically unacceptable. In some cases, it would have been physically inadequate to sustain life and production.[44]

Again, *such an alternative option has not been available for other 'developing' states*. In his statement on a *Common Development Framework,* the World Bank's President James Wolfenson stated the need to balance systemic needs against the social or human needs, but the core objectives of the mandates of the IMF and the World Bank demand the prioritizing of the system (chapter 3). Thus, perhaps the best one may expect of these institutions when assigned a poverty reduction or development role, is *adjustment with a human mask.*[45]

This may be clearly demonstrated by briefly recalling here the World Bank's *Poverty Alleviation Microfinance Project* for Bangladesh, (implemented in the context of SAPs). One of the objectives of this project was to absorb the surplus labor given that the present production system would not be able to employ all new entrants to the labor force. (It already does not employ the *existing* labor force, let alone any new entrants). Those excluded from the formal labor force – 'the remainder'- according the World Bank, 'would have no choice' but to 'involve themselves in marginal activities'. However, this, they noted 'would swell the ranks of the very poor'. The solution applied was extensive targeting of the poor with microfinance (chapter 6). The 'old' poor then *remain* poor, except now they are also held in debt-bondage, while instead of reducing poverty – through IMF and World Bank policy, poverty is actually increased. Thus, irrespective of the normative rhetoric, *adjustment with a human mask* is what may be expected under the present prerogatives of the IMF and the World Bank.

The double-standards from *within* a capitalist development paradigm are thus clearly evident: What was appropriate for the advanced capitalist states, is not an option for the South. Current developmental trends reflect a preference for sustaining the global order in terms of its core-periphery logic, while the structural constitution of global political organization, namely the modern state system,[46] provides the backdrop for capital's self-sustaining strategies during its ongoing transformations (e.g., risk is managed easier).

In keeping with a South-North logic, microcredit can also be seen as a key component in the diversification in the international division of labor and production. For instance, it has found an avenue to reach temporary but permanent workers, that is, those engaged in seasonal employment. An example of this, is the case of women in the Chilean Agribusiness. Here NGOs offer support for '..small projects to provide out-of-season employment and incomes, often through the formation of *microempresas*'.[47] These women then serving as the *reserve army* are called upon when needed. They earn little, not enough to sustain themselves when not needed. Their survival needs in the intermediate stages are met through microfinance: debt.

The reasons for the double standards elucidated above may well have to do with the attempts to manage the systemic contradictions of capitalist development. The end result has been - rather than *development* - a further addition of *surplus labor* to the already exploding 'informal sector' in the developing states.[48] In short, it has been tantamount to the 'development of underdevelopment'.[49] This suggests that the international is grounded on a duality of norms that sustain South-North relations: Norms giving recognition to the idea of a society on the one hand, and a system of states on the other. In other words, it suggest ' (..) an image of Third World states as consisting not of self-standing structures with domestic foundations – like separate buildings – but of territorial jurisdictions supported from above by international law and material aid – a kind of international safety net'[50] for global capitalism.[51] Except, that it is *an image* with tremendous factual ramifications.

Microfinance Minimalism and Poverty: the Limits of Capitalist Development

This thesis in elucidating the GPE of microcredit and microfinance has uncovered in the words of Scott, a 'rich hidden transcript'. The equally rich public transcript associated with microcredit and poverty reduction, it is argued, has been employed instrumentally to dress-up the contradiction of capitalist development. Microfinance is a legacy of the crisis management strategy of the 1970s. Integral to attempts to consolidate neoliberal politics in the face of the contradictions and crises of capitalism is the conceptualization and implementation of development *as* crisis management. Through such an approach the exploitation of the weakest continues, *both* in the South as well as in the North.

The crisis management strategy that entailed the *transnationalization* of systemic risk – from the North to the South – (chapters 2 and 3), did *not* solve the crisis of capacity of the advanced capitalist states. Rather, we have growing concerns, particularly in the US, with the growing informal sector.[52] The problem of *surplus labor* integral to capitalist development has only been exacerbated, in both the South and the North. We have emerging a *transnational or transborder* social elite class with a *global* underclass.[53] The degree of risk-experience may not be comparable, between the poor of the South and the North. This, however, makes neither right nor just. It is thus timely, as Caroline Thomas has argued, to address *human* security rather than a reified concept of *state* security.[54] Human insecurity globally is the reflection of the neoliberal face of capitalism and its limits.

These limits of capitalist development are well captured by Samir Amin, he noted with reference to labor, that capitalist development

> (..)will never, as far into the future we can see, be able to absorb the reserve [surplus labour] from the rural and informal economies – both because global competitiveness now require techniques of production that make such absorption impossible, and because the safety-valve of mass emigration is not available.[55]

For *now*, capitalist development may be able to *manage* the 'crisis of global poverty' in the course of attempts to consolidate its contradictions through employing a disciplinary neoliberalism based poverty reduction strategy. But it is at least to some degree likely that the contradiction of capitalism cannot hold out for much longer. The excluded are increasingly making what they believe to be *legitimate* claims to the promises of a better life. They are increasingly making their hidden transcripts of resistance public-transcripts, while the dominant are pushed to respond with a thicker mask in the absence of the will for radical reform. The public transcripts of the dominant have, thus, become even more inclusive while their hidden-transcripts have become more covert and inhumane.

Ironically, however, the very promises that constitute the normative discourses although employed *instrumentally* by the dominant may play a role in *empowering* the poor in *their* fight against poverty and human insecurity. This dialectical implication, together with the inability of capitalist development to do more than merely *manage* the crisis of poverty, may open up an emancipatory space for *alternative* politics to emerge (e.g., hidden transcripts of resistance increasingly been played out as public transcripts), from Africa to Latin America.[56]

Yet, any emancipatory potentials must be welcomed cautiously so as not lose sight of what might be achieved. This is because, in many ways global social change has 'created a more fragmented and heterogeneous social structure that engenders particularist, decentralized, and disconnected forms of collective action'.[57] Furthermore, the hegemonic order serves to limit and set the parameters within which alternative discourses may take shape. In this sense, it is crucial that democratic channels be upheld and democratized further, as in the face of the strengthening of democratic norms and principles it will become progressively harder for capitalist development to *legitimate* global and local governance along the socially disembedding logic of the unification movement. By democracy is meant as much an egalitarian form of social organization, as the rejection of minimalist forms of 'Schumpeterian elite democracies'[58]: in short, a rejection of 'low intensity democracy'[59] that simply functionally sustains the enabling environment for the unification movement. This entails recognizing the fact that capitalism is *against* democracy,[60] and that economic equality matters for political equality.[61]

The thesis shed light on the hidden transcripts of global poverty reduction efforts. If hidden transcripts are the 'weapons of the weak', then capitalist development is increasingly on the defensive in its attempts to manage the contradiction discussed in the beginning of this study (chapter 2). As Karl Polanyi observed in *The Great Transformation,*

> Our thesis is that the idea of the self-adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society ; it would have physically destroyed man and transformed his surroundings into wilderness. Inevitably, society took measures to protect itself, but whatever measures it took impaired the self-regulation of the market, disorganized industrial life, and thus endangered society in yet another way. It was this dilemma which forced the development of the market system into a definite groove and finally disrupted the social organization based upon it. [62]

Thus, crisis management strategies will not do anymore because they do not address the fundamental contradictions of capitalism. As Hannes Lacher has argued with reference to the critical and valuable insights offered by Polanyi, although 'embedded' liberalism 'did indeed constitute a restructuring of the relationship between markets and political authority as Ruggie suggests' it never 'challenged the ultimate basis of the market as a disembedded institution itself'.[63] Therefore, embedded liberalism 'could not last; it was undermined by the pressures of the market'.[64] As Lacher has argued, 'embedded' liberalism in this sense did not work precisely because it differed fundamentally from the 're-embedding' of the economy in Polanyi's sense: re-embedding cannot mean simply the restriction of the free-market, 'but its complete subjugation to democratic control by society, including the extension of democracy to the economic sphere, and thus the transcendence of the *capitalist* market'.[65]

The microcredit agenda amply illustrates the tendency to perpetuate the contradictions of capitalism while purporting to respond to 'the now popular demand for an *embedded neoliberalism*'.[66] Thus, even an embedded form of neoliberalism systemically requires the continuation of development *as* crisis management. As Julian Saurin has argued,

> [t]he result has been the failure to ask foundational questions. The continuing crisis in development and the failure to fulfil the promises of development have simply led to the implementation of yet more and more measures and remedies which were at the root of failure in the first place. A central part of the official story entails the dismissal of the real lives of people as substantive evidence of development, or rather maldevelopment.[67]

The global microfinance and poverty reduction agenda is a clear case of not only the reproduction of poverty through crisis-management strategies. More worrying is the notion of the *profitability* of poverty and human insecurities as the manageability of the crisis proves more problematic.

In elucidating the hidden agenda of microfinance and poverty reduction, this thesis has challenged the normative discourses sustained by the public transcripts. It must be emphasized here that in elucidating the hidden transcripts *against* the normative claims of the public transcripts, the argument does not dismiss normative discourses *per se*. Rather, it critically engages with their instrumental use in global political economy, in this particular context.

Although in a sense obvious, it is stressed here that such a conclusion does not entail the rejection of development. The distinction between the systems-maintaining logic of development, and alternative conceptions and approaches[68] which draw on egalitarian values, is important in the light of recent attempts to discipline the critics of the politics of underdevelopment.[69] It is the direction in which the dominant development agenda is headed, which is the focus of critical dismissals.

Poverty and hunger are outcomes of social power relations and political decision making. Social power relations underlie the reproduction of poverty, a reproduction which the present global microcredit strategy engenders. Any substantive commitment to resolve the crisis of global poverty and inequality must shake off minimalist, idiosyncratic notions of the causes of poverty and inequality and engage with progressive explanations and solutions. A point of departure would be 'to make a distinction here between the reality of what capitalism produces, i.e., the expansion of capital, and the concept of development'.[70] 'Thus, development, properly understood', as Saurin has argued 'must be viewed as a global process of the historical transformation of capitalism and beyond'.[71] This entails the 'search for new possibilities of change, for a relational world of friendship, or for genuine processes of regeneration able to give birth to new forms of solidarity'. It will also mean that 'the binary, the mechanistic, the reductionist, the inhumane and ultimately the self-destructive approach to change will be over'.[72]

In rejecting aspects of the present processes of global social formation, it is implied that something ought to be different: better. The ought may become conflated with the distant *future*, 'because the categorizations of "is/now" and "ought/future" are constructed paradoxically, as ahistorical criteria. They apply to past, present and future texts, and this is a significant power of exclusion', particularly with reference to what could and should be done here and now.[73] This would be a mistake, as poverty reduction and development *as* crisis management, that is, as a fix to the contradictions of capitalism, does not work *now*.

Outlook

The thesis engaged with a topical issue in what is the complex field of the politics of global development in the context of a changing GPE. Inevitably, this has opened up many more questions, which could not be addressed within the confines of a thesis limited by time, length and in scope. Among the vast number of issues for which further more detailed work is imperative in the attempt to map more comprehensively the GPE and the limits of capitalist development, some seem particularly pertinent and urgent: these have been dissaggragated in terms of their specific implications for microcredit and microfinance and in terms of broader GPE implications for human security.

Microfinance and microcredit: some lines for further exploration

(1) More research that engages with detailed case studies on the social and political implications in the implementation of microcredit and microfinance across continents is needed.

(2) The role of microfinance in its relation to other sectoral changes, such as the implementation of user fees for health services as well as education needs to investigated.

(3) Any potential legal implications entailed in the misrepresentation of a crisis management strategy as a poverty reduction approach ought to be the focus of initial attention. The poverty impact of the HIPC initiative must be closely monitored against its GPE implications. The AMINA initiative of the African Development Bank may be a useful starting point.

(4) There is scope to research the implications of sovereign debt restructuring to the evolution of NGOS. This could be contrasted with transformation of their roles as they have become implicated in sovereign debt restructuring processes. This could be linked to their implications with the microfinance agenda.

Broader GPE issues: some lines for further exploration

(5) The issue and implications of a rising informal sector globally must be addressed. A closer investigation is needed to address this issue alongside the international development targets. The problems, constraints, and progressive opportunities such research may throw up must be evaluated in the context of GPE.

(6) The advancement of the study of the human security approach. The merits and weaknesses of employing this concept to capture global insecurities could be further advanced. Explore the implications of differentiating the human security approach from capitalist development. What kind of political community might

this approach envisage ? How might such an approach be realized? What may be the crucial channels vital for working towards this approach ?

(7) Engage the human security approach with democracy. Here, more needs to be done on the problems of human insecurity entailed in the conflating of democracy with capitalism. It is crucial that responses – that is, the types of responses – to the growing politics of resistance be monitored and critically evaluated. Is there a growing tendency to fall back on authoritarian practices as it becomes harder to manage the contradictions of capitalist development? How might these trends be addressed and redressed ?

(8) The implications and role of the state system in enabling the management of the contradictions of capitalism as well as its role in efforts to mitigate the crisis? How have regional trading blocs (e.g., NAFTA) and regional political unions (e.g.,EU) changed and impacted on the role of the state in global capitalism? Is the state system sufficient to address growing global human insecurities? What other alternative global public system of political organization may better address human security ?

[1] Elmar Alvater and Birgit Mahnkopf, 'The world market unbound' (Translated by Alan Scott) in *Review of International Political Economy*- Special Issue: The Direction of Contemporary Capitalism, Vol. 4, No. 3, (1997) pp. 448-471. For quotation see p. 462

[2] Group of 8 (G8), *Communiqué Okinawa 2000* (July 23 2000- www.g8kyushu-okinawa.go.jp/e/documents/commu.html – downloaded 25 July 2000) see p. 3

[3] Claire Short, in the 'Foreword' to Stuart Rutherford's *The Poor and their Money* (New Delhi: Oxford University Press, 2000)

[4] In this context, strategies to reduce poverty would be articulated for each country in a Poverty Reduction Strategy Paper (PRSP). Essentially, PRSPs are similar to the PFPs, and it is anticipated that if they meet all the PFP criteria, they will replace the PFP. See, 'Overview: Transforming the Enhanced Structural Adjustment Facility (ESAF) and the Debt Initiative for the Heavily Indebted Poor Countries(HIPCs), (Washington, DC: World Bank, September 24 1999) *See also*, 'Heavily Indebted Poor Countries (HIPC) Initiative - Strengthening the Link between Debt Relief and Poverty Reduction', - International Monetary Fund and International Development Association (Prepared by the Staffs of the IMF and the World Bank : Washington DC), August 26, 1999. p.29

[5] World Bank, ' HIPC Initiative - Strengthening the Link between Debt Relief and Poverty Reduction,'

[6]World Bank, 'Heavily Indebted Poor Country Initiative', p. 25

[7]World Bank, 'Heavily Indebted Poor Countries Initiative' . p.24

[8] For a discussion of the politics of safety-nets see, for example, Carol Graham, *Safety Nets, Politics and the Poor – Transitions to Market Economies,* (Washington, DC: The Brookings Institute, 1994), Jessica Vivian (ed), *Adjustment and Social Restructuring,* (London: Frank Cass, 1995), Joan M. Nelson, 'The Politics of Pro-Poor Adjustment', in Joan M. Nelson et al. , *Fragile Coalitions: The Politics of Economic Adjustment,* (Washington, DC: Overseas Development Council, 1989). For instance, an analysis of this strategy in the African context concluded that : 'Social action programs have targeted special measures on vulnerable and vocal though not necessarily particularly poor groups of the population', see , Poul Engberg-Pedersen, Peter Gibbon, Phil Raikes & Lars Udsholt, *Limits of Adjustment in Africa* (Oxford: James Curry, 1996) p.58. The strategy is also evident in its application in Economies of Transition, and its recent focus on implementing similar projects in China. As china

de-regulates unemployment has soared and in some regions pose a direct threat to the reform process. See the role of the CGAP in the implementation of microcredit in China: CGAP, 'A Review of the World Bank's Microfinance Portfolio', (Washington, DC: CGAP, World Bank, 1997), and CGAP, *The Status Report- Consultative Group to Assist the Poorest - June 1995-May 1998*, (Washington, DC: CGAP, World Bank) See also the Asian Development Bank's microcredit focus in China, in the ADB's *Microfinance Development Strategy*, (Asian Development Bank, 1999).

[9] Jeffrey D. Sachs (ed), *Developing Country Debt and Economic Performance, Vol II*, (London: University of Chicago Press, 1990), p. 255 (original emphasis)

[10] *Financial Times*, 'Anger in the Andes",, April 26 2000.

[11] *Financial Times*, 'Anger in the Andes"

[12] *Financial Times*, 'Anger in the Andes"

[13] Carlos F. Toranzo Roca, 'Dualism transformed or the reproduction of inequality', in Frits Wils (ed), *Non-Governmental Organizations and their Networks in Bolivia*. (The Hague: Gemeenschappelijk Overleg Medefinanciering, 1995), p. 46

[14] Frits Wils, 'NGOs and their networks in Bolivia: towards a synthesis', in Wils, *Non-Governmental Organizations and their Networks in Bolivia*, p. 202

[15]. See , Philip J. Glaessner, Kye Woo Lee, Anna Maria Sant'Anna, Jean-Jacques de St. Antoine: *'Poverty Alleviation and Social Investment Funds, The Latin American Experience'*, (Washington, DC: World Bank, 1994) p.xiv

[16] Roca, 'Dualism transformed or the reproduction of inequality', p. 47

[17] CGAP, *Status Report*, p. 24

[18] McDonald Benjamin & Joanna Ledgerwood, 'Case Studies in Microfinance, Non-Governmental organizations (NGOs) in Microfinance: Past, Present and Future - An Essay, May 1999.(http://www-esd.worldbank.org/sbp/end/ngo.htm) This study is based on research conducted by the World Bank under the Sustainable Banking with the Poor (SBP) project, other literature on microfinance and their(authors) own experience over the last 15 years. p..12. On the issue of loan use, this study also

confirms that cross-borrowing is a part of survival strategies of the poor, i.e., where money is borrowed from one NGO to pay off the other.

[19] Benjamin & Ledgerwood, 'Case Studies in Microfinance', p.33

[20] Benjamin & Ledgerwood, 'Case Studies in Microfinance', p.10

[21] The CGAP did not wish to discuss the role of microcredit in the context of social funds. Authors interview with a member of the CGAP, Washington D.C. February 1999.

[22] See the *Grameen Dialogue*, No. 38 (Dhaka: Grameen Trust, April 1999) p. 4

[23] Carl Jayarajah, William Branson, Binyak Sen, *Social Dimensions of Adjustment-World Bank Experience, 1980-93* (Washington, DC: World Bank, 1996) p.9.

[24] `O.P. 8.30, Financial Intermediary Lending', *World Bank Operational Manual*, Washington, DC: World Bank, (note on subsidies), p.2

[25] International Labour Organization (ILO), *World Labour Report 2000*, (Geneva: ILO, 2000) p. 194

[26] ILO, *World Labour Report 2000*, p. 21

[27] ILO, *World Labour Report 2000*, p. 47

[28] ILO, *World Labour Report 2000*, p. 47

[29] ILO, *World Labour Report 2000*, p. 47

[30] ILO, *World Labour Report 2000*, p. 47 , See also p. 87

[31] ILO, *World Labour Report 2000*, p. 203

[32] ILO, *World Labour Report 2000*, pp. 161-62

[33] Martha Campbell, 'Money in the Circulation of Capital' in Christopher J. Arthur and Geert Reuten, *The Circulation of Capital, Essays on Volume Two of Marx's Capital*, (London: Macmillan, 1998) p. 141, see also p. 136 (original emphasis).

[34] Claire Cutler, 'Locating "Authority" in the Global Political Economy', *International Studies Quarterly*, Vol. 43, No. 1, (1999) pp. 59-81. See p. 59

[35] Cutler, 'Locating "Authority" in the Global Political Economy', p. 61

[36] Cutler, 'Locating "Authority" in the Global Political Economy', p. 59

[37]. IMF Annual Report, (Washington D.C., IMF, 1998) pp.74-77

[38] Peter F. Drucker, 'The Changed World Economy' *Foreign Affairs,* Vol. 64, No. 4, p. 768, quoted in Roy. E. Allen, *Financial Crises and Recession in the Global Economy*, (Hants: Edward Elgar, 1994)

[39] *The Financial Times*, 'The $100 trillion time bomb- Bankers and investors are increasingly worried about the destabilizing effect of financial derivatives'. 4 October 1998.

[40] See, Nicola Bullard, Walden Bello & Kamal Mallhotra, 'Taming the tigers: the IMF and the Asian Crisis, *Third World Quarterly,* Vol,19, No.3, (1998). See also Allen, *Financial Crisis*.

[41] Philip G. Cerny, 'The political economy of international finance' in Cerny (ed) *Finance and World Politics – Markets, Regimes, and States in the Post-hegemonic Era,* (Hants: Edward Elgar, 1993) p. 7

[42] See Eric Helleiner, *States and the Reemergence of Global Finance* (Cornell: Cornell University Press, USA, 1992 p.25 See also, E. Helleiner, 'When Finance was the servant: international capital movements in the Bretton Woods order', in Cerny *Finance and World Politics,* p38.

[43] Helleiner, *States and the Reemergence of Global Finance,* p. 50

[44] C. Kindleberger, *Marshall Plan Days,* (Boston: Allen & Unwin, Inc. 1987) p.50.

[45] Only *Soft-Law,(or guidelines)* determine social aspects of IMF policy. The guidelines are subordinate to the Statutes and By Laws of the IMF-they are non-binding. See Denters, *Law and Policy of IMF Conditionality,* (The Hague: Kluwer Law, 1996) p. 119

[46] Justin Rosenberg, *The Empire of Civil Society- A Critique of the Realist Theory of International Relations* (Verso : London, 1994) , See also Caroline Thomas , *New States, Sovereignty and Intervention.*

[47] Venegas, S. *Programas de apoyo a temporeros y temporeras en Chile,* in S. Gomez and E. Klein, *Lospobres del Campo, El TrabajadorEventual,* (Santiago: Organizacion Internacional Trabajo). Quoted in , Haleh Afshar, (ed) *Women and Empowerment, Illustrations from the Third World,* (London, Macmillan, 1998)

[48] See for example the discussion above with reference to poverty and expanding informal sectors. See also, ILO, *World Labour Report 2000*; For instance, in 'Brazil the share of workers in the informal sector gradually increased from 51 per cent of the labour force in 1990 to 60.4 per cent in 1997, while in Mexico a steep increase of 2.5 percentage points between 1994 and 1995 brought the share of

informal workers up from 55.5 per cent in 1990 to 59.4 per cent in 1997 [ILO, 1998]. Similar variations are observed for the Philippines (..)'. See Rolph van der Hoeven and Lance Taylor, 'Introduction: Structural Adjustment, Labour Markets and Employment: Some Considerations for Sensible People' in *Development Studies*, Vol. 36, No. 4 (2000).

[49] On this see for example, Sing C. Chew and Robert A. Denemark (eds), *The Underdevelopment of Development- Essays in Honor of Andre Gunder Frank*, (London: Sage, 1996)

[50] Robert H. Jackson, *Quasi-States: Sovereignty, International Relations and the Third World.* (Cambridge: Cambridge University Press, 1996), p. 5

[51] See for example, Justin Rosenberg, 'The Secret Origins of the State: the structural basis of raison d'etat' in *Review of International Studies*, 18, 1992, p. 157, 'And if it makes sense to describe the modern international system as capitalist, this is not because all its members are assumed to have followed the same path; it is because its dominant institutions have been shaped by liberal states in a way that facilitates the international exercise of capitalist social power'.

[52] For a discussion on this see, Ethan B. Kapstein, 'Winners and Losers in the Global Economy' in *International Organization*, Vol. 54, Number 2, Spring 2000. pp. 359-84

[53] See for example, Kees van der Pijl, *Transnational Classes and International Relations*, (London: Routledge, 1998), and also Peter Townsend, *The International Analysis of Poverty*, (London: Harverster, Wheatsheaf, 1993)

[54] Caroline Thomas, *Global Governance, Development and Human Security*, (London: Pluto Press, 2000)

[55] Samir Amin, *Capitalism in the Age of Globalization – The Management of Contemporary Society*, (London: Zed Books, 1997) p. ix

[56] See for arguments in favor of such a position, Robert N Gwynne & Cristobal Kay, 'Views from the periphery: futures of neoliberalism in Latin America' in *Third World Quarterly*, Volume 21, Number 1, (February 2000) pp. 141-56, see also Fantu Cheru, 'Transforming our common future: the local dimensions of global reform' in *Review of International Political Economy*, Vol.7, No. 2, (Summer 2000)

[57] See William Robinson, 'Latin America in the Age of Inequality: Confronting the New "Utopia"', in *International Studies Review*, Volume 1, Issue 3, (Fall 1999) p. 63

[58] See Steve Smith, 'US Democracy Promotion: Theoretical Reflections', Paper presented at the annual conference of the BISA, Manchester, December 22-22 1999, p. 11. This paper appears in Mick Cox, John Ikenberry and Takashi Inoguchi (eds), *Us Democracy Promotion*, (Oxford: OUP, 2000)

[59] See for example, Barry Gills, Joel Rocamora and Richard Wilson, *Low Intensity Democracy – Political power in the new world order*, (London: Pluto, 1993)

[60] Ellen Meiksins Wood, *Capitalism Against Democracy*, (Cambridge: Cambridge University Press, 1995, Reprinted 1996), See also Ellen Meiksins Wood, 'Modernity, postmodernity or capitalism' in *Review of International Political Economy*, Special Issue: The Direction of Contemporary Capitalism, Vol.4, No.3, (1997) pp. 539-560

[61] For an interesting attempt to bridge this divide in normative theory, see Anne Phillips, *Which Equalities Matter* ?, (Cambridge: Polity Press in Association with Blackwell Publishers, 1999)

[62] Karl Polanyi, *The Great Transformation*, (New York: Octagon Books, 1944 [Reprinted 1975]) p.3

[63] Hannes Lacher, 'Embedded Liberalism, Disembedded Markets: Reconceptualising the Pax Americana' in *New Political Economy*, Vol.4, No. 3, (1999) p. 345; On the relevance of Polanyi's work with reference to the contradictions of capitalism see also Hannes Lacher, 'The Politics of the Market: Re-reading Karl Polanyi' in *Global Society*, Vol.13, No. 3, (1999), pp. 313-26

[64] Lacher, 'Embedded Liberalism, Disembedded Markets', p. 345

[65] Lacher, 'Embedded Liberalism, Disembedded Markets', p. 345 (original emphasis)

[66] Lacher, 'Embedded Liberalism, Disembedded Markets', p. 357

[67] Julian Saurin, 'The Promises of Modernity', *Millennium-Journal of international Studies* - Special Issue on Poverty Vol. 24, No. 3 , (1995) pp. 657-80, see pp. 675-76

[68] For instance, the microcredit agenda targets not only the economically poor who already operate within the economic system, but also other 'at risk' defined groups. (Included in this category would be indigenous groups). This process however, built on a market approach, does not account for other voices that reject a worldview which 'posits all living things found in the natural order- animal, plant,

and mineral-are valued by virtue of their potential rather than their actual manifestations of sacredness…(…)' but has a worldview that deems it not proper to take nature/ecology 'for commercial profit or material gain'. See Marie Anna Jaimes Guerrero, 'Civil Rights versus Sovereignty: Native American Women in Life and Land Struggles', in M.Jacqui Alezander and Chandra Talpady Mohanty (eds), *Feminist Genealogies, Colonial Legacies and Democratic Futures,* (London: Routledge, 1997) p. 120

[69] See for example, Jan Nederveen Pieterse, 'After post-development' in *Third World Quarterly,* Volume 21, No. 2, (April 2000), pp. 175-90.

[70] Amin, *Capitalism in the Age of Globalization,* p. 14

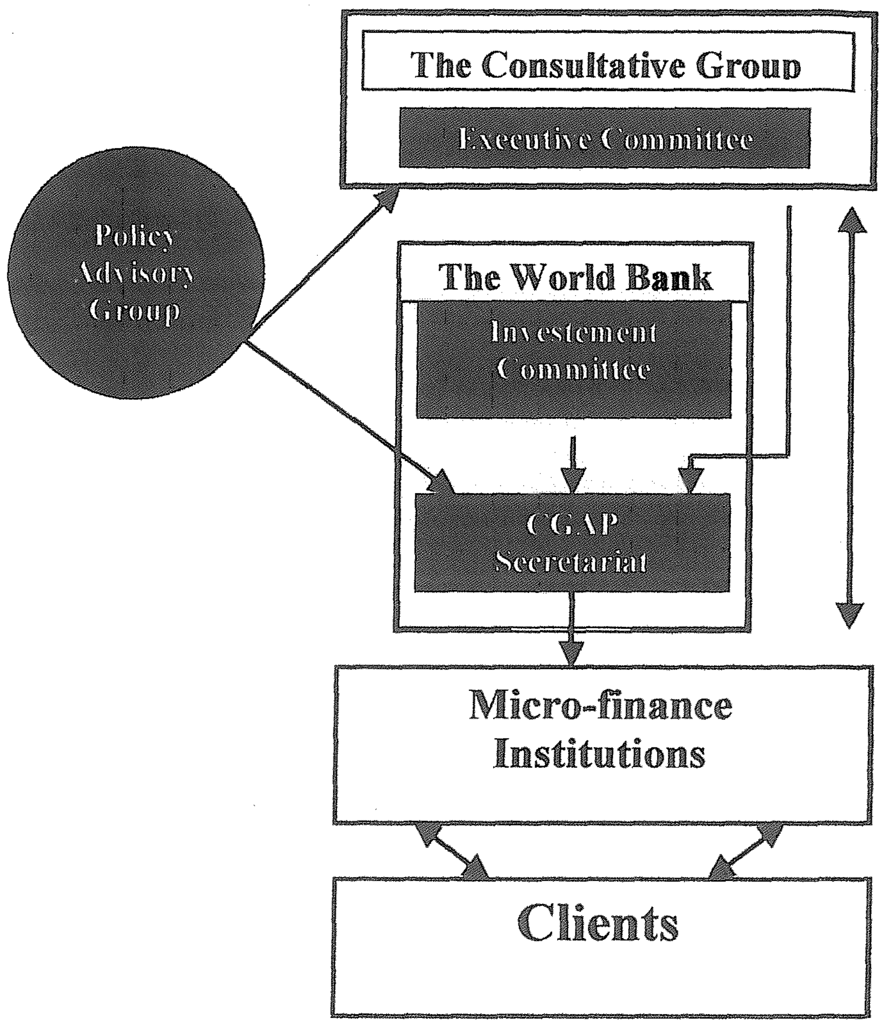
[71] Julian Saurin, 'The Promises of Modernity' p. 675

[72] Majid Rahnema, 'Towards Post-Development: Searching for Signposts, A New Language and New Paradigms', in Majid Rahnema with Victoria Bawtree (eds), *The Post-Development Reader,* (London: Zed Books, 1997) p. 391

[73] John MacLean, ' Philosophical Roots of Globalization and Philosophical Routes to Globalization', in Randall Germain (eds), *Globalization and its Critics – Perspectives from Political Economy,* (London: Macmillam Press, 2000) p. 39

Appendix

- **CGAP Organisational Chart**
- **CGAP Structure and Member Donors**
- **CGAP Structure: Committee and Advisory Group**
- **CGAP: Committments for Microfinance Institutions, fiscal 1995-2000, I**
- **CGAP: Committments for Microfinance Institutions, fiscal 1995-2000, II**
- **CGAP: Committments for Microfinance Industry, fiscal 1995-2000**
- **CGAP Policy and Best Practice Initiatives, I**
- **CGAP Policy and Best Practice Initiatives, I (continued)**
- **CGAP Investments by Region**


The Consultative Group
Executive Committee
Policy Advisory Group
The World Bank
Investement Committee
CGAP Secretariat
Micro-finance Institutions
Clients

CGAP STAFF (SECRETARIAT)

The CGAP Secretariat is a team of 14 professionals responsible for implementing the group's mandate. It is housed in the World Bank, with Elizabeth Littlefield as director. Biographies of CGAP staff appear in annex 2.

THE CONSULTATIVE GROUP

The Consultative Group—CGAP's board of directors—is responsible for setting CGAP's strategic direction, making policy decisions, approving its budget, and reviewing achievements. The Consultative Group has 27 members (box 1) and is chaired by Nemat Shafik (vice president, Private Sector Development and Infrastructure, World Bank).

During its first phase, CGAP drew 80 percent of its funding from the World Bank (table 1). CGAP's second phase has seen a significant increase in financial support from a larger number of Consultative Group members (table 2). With CGAP increasingly becoming a resource center for its member donors, financial support from these donors is crucial. Bilateral contributions increased to 33 percent of the total in fiscal 1999 and are expected to reach 42 percent in fiscal 2000.

EXECUTIVE COMMITTEE

The Consultative Group has formed a six-member subset of its member donors called the Executive Committee. Each member represents a constituency of the Consultative Group (box 2). The Executive Committee facilitates communication among the Consultative Group, the Policy Advisory Group (see below), and the CGAP team. Kathryn Imboden (chief, Macroeconomics and Financial Sector Division, Swiss Agency for Development and Cooperation) is chair of the Executive Committee.

Box 1 CGAP's member donors, June 2000

Bilateral	Multilateral
Australia*	African Development Bank
Belgium*	Asian Development Bank
Canada*	European Bank for Reconstruction and Development
Denmark*	European Commission
Finland*	Inter-American Development Bank
France*	International Fund for Agricultural Development
Germany*	International Labour Organization
Italy*	United Nations Capital Development Fund
Japan	United Nations Conference on Trade and Development
Luxembourg*	United Nations Development Programme
Netherlands*	World Bank*
Norway*	
Sweden*	
Switzerland*	
United Kingdom*	
United States*	

* Funding member.

(Source: CGAP, *Annual Report 2000*, p. 18)

POLICY ADVISORY GROUP

The Policy Advisory Group is composed of distinguished microfinance practitioners and experts. The group plays a strategic and decisive role in guiding and advising the Consultative Group and CGAP staff on CGAP's strategy and agenda. Pilar Ramirez (Centro de Fomento a Iniciativas Economicas, Bolivia) will take over as chair of the Policy Advisory Group in July 2000, replacing Kimanthi Mutua (K-REP Bank), who has served as the chair since July 1998. Current and former members of the Policy Advisory Group are listed in box 3.

INVESTMENT COMMITTEE

CGAP manages a small grant facility in support of its activities. These activities include providing technical assistance and strategic advice, developing and disseminating technical tools and services, delivering training, performing field research on innovations, and making strategic investments in microfinance institutions and networks. The Investment Committee is the custodian of the grant facility and ensures that the investments proposed by CGAP staff adhere to the strategy established by the Consultative Group. The Investment Committee is made up of senior World Bank Group staff (box 4). The committee is chaired by Jean-François Rischard (vice president for Europe, World Bank).

Box 2 CGAP's Executive Committee, July 2000

Constituency	Representative
Denmark, Finland, Norway, Sweden	Camilla Bengtsson (Sweden)
Belgium, European Commission, France, Luxembourg, Netherlands	Marie-France l'Heriteau (France)
Germany, Italy, Switzerland, United Kingdom	Kathryn Imboden, Chair (Switzerland)
International Fund for Agricultural Development, International Labour Organization, United Nations Capital Development Fund, United Nations Conference on Trade and Development, United Nations Development Programme	Hans D. Seibel (International Fund for Agricultural Development)
Australia, Canada, Japan, United States	Kate McKee (United States)
African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank	Mohamed Mah'moud (African Development Bank)

Box 3 CGAP's Policy Advisory Group

Current members

Kimanthi Mutua (Chair), K-REP Bank
Fazle Hassan Abed, Bangladesh Rural Advancement Committee
Rosalind Copisarow, Formerly of Fundusz Mikro
Vijayalakshmi Das, Friends of Women's World Banking
John de Wit, Small Enterprise Foundation
Nabil El Shami, Alexandria Business Association
Sukor Kasim, Center for Policy Research
Alpha Ouedraogo, Centre d'Innovations (CIF)
Pilar Ramirez (Chair-elect), Centro de Fomento a Iniciativas Economicas (FIE)
Alex Silva, Profund International
Kerfalla Yansane, Banque Centrale de la Republique de Guinee

Former members

Muhammad Yunus (former Chair), Grameen Bank
Kamardy Arief, formerly of Bank Rakyat Indonesia
Nancy Barry, Women's World Banking
Ela Bhatt, Self-Employed Women's Association
Renée Chao-Beroff, Centre International de Développement et de Recherche (CIDR)
Martin Connell, Calmeadow Foundation
Klaas Kuiper, Agency for Business Development
Maria Nowak, Association pour le Droit à l'Initiative Economique (ADIE)
Maria Otero, ACCION International
Sizwe Tati, Khula Finance Enterprise Limited
Lawrence Yanovitch, Foundation for International Community Assistance (FINCA)

Box 4 CGAP's Investment Committee

Jean-François Rischard
Vice President for Europe, World Bank
Carlos Cuevas
Principal Financial Specialist, Financial Sector Development Department, World Bank
Claudia Morgenstern
Director, Financial Markets Advisory Department, International Finance Corporation
Michael Walton
Director, Poverty Division, Poverty Reduction and Economic Management Network, World Bank
Douglas A. Webb
Legal Adviser, Private Sector Development and Legal Reform, World Bank

(Source: CGAP, *Annual Report 2000*, p. 20)

Table 4 **CGAP's commitments for microfinance institutions, fiscal 1995–2000**
(U.S. dollars)

Activity	Area	Amount
Technical advice and exchange		**115,450**
Appraisals and monitoring	Global	115,450
Training and capacity building		**7,528,750**
CAPAF	Francophone Africa	2,400,000
AFCAP	East, Central, and Southern Africa	1,375,000
Bank Rakyat Indonesia International Visitors Program	Indonesia	1,200,000
Pilot capacity-building initiative in Africa	Africa	847,000
Pilot capacity-building initiative in Asia	Asia	600,000
China capacity-building initiative	China	440,000
Microfinance Center, Poland	Eastern Europe	438,000
Capacity-building product manager	Global	200,000
Sri Lanka capacity building	Sri Lanka	28,750
Tools		**385,500**
Business Planning and Financial Modeling Handbook	Global	235,500
Management Information Systems Handbook	Global	150,000
Direct funding to retail microfinance institutions		**13,288,425**
ACODEP	Nicaragua	2,000,000
Compartamos	Mexico	2,000,000
SHARE	India	2,000,000
Project Dungganon	Philippines	1,600,000
CARD	Philippines	1,200,000
Government Savings Bank	Thailand	900,000
Kenya Rural Enterprise Programme and Kwa Cooperative Society	Kenya	900,000
ACEP	Senegal	500,000
Ahantaman and Nsoatreman Rural Banks	Ghana	450,000
Vietnam Bank for the Poor	Vietnam	450,000
Save the Children, Middle East	Jordan, Lebanon, West Bank and Gaza	250,000
Centenary Rural Development Bank	Uganda	220,000
CGAP Pro-Poor Innovation Challenge	Global	200,000
Aga Khan Rural Support Programme	Pakistan	154,925
Nirdhan	Nepal	100,000
FECECAM	Benin	96,000
Banco do Nordeste do Brazil	Brazil	50,000
Doveriye	Russia	50,000
Kafo Jiginew	Mali	50,000
Rural Finance Facility	South Africa	50,000
Zambuko Trust	Zimbabwe	50,000
Centre for Self-Help Development	Nepal	17,500
Wholesale funding to retail microfinance institutions		**7,635,000**
ACCION International Gateway Fund	Latin America	2,500,000
Women's World Banking Facility for Affiliate Capitalization	Global	2,500,000
Développement International Desjardins	Madagascar, Mali, Senegal	1,375,000
FINCA International	East Africa, Latin America	1,260,000

(Source: CGAP, *Annual Report 2000*, p. 30)

Table 4 **CGAP's commitments for microfinance institutions, fiscal 1995–2000** (continued)
(U.S. dollars)

Activity	Area	Amount
Funding to microfinance networks		**1,478,725**
MicroFinance Network (Phase I and II)	Global	400,000
SEEP Network	Global	326,125
CASHPOR, Inc.	Asia and Pacific	323,000
Katalysis	Latin America	98,600
PRIDE Africa	East Africa	56,000
Credit and Development Forum	Bangladesh	50,000
Foundation for Development Cooperation	Asia	50,000
Freedom from Hunger	West Africa	50,000
INDNET	India	50,000
PHILNET	Philippines	50,000
DevCap	Global	25,000
Total		**30,431,850**

(Source: CGAP, *Annual Report 2000*, p. 31)

Table 6 **CGAP's commitments for the microfinance industry, fiscal 1995–2000**
(U.S. dollars)

Activity	Area	Amount
Technical advice and exchange		**1,155,147**
China capacity-building policy forum	China	297,647
West Africa high-level policy forum	West Africa	250,000
Consultative Group Forum III	Global	119,000
Poverty workshop	Global	67,500
Microcredit Summit Meeting of Councils	Global	66,000
City of London seminar	Global	50,000
Grameen Bank securitization	Bangladesh	50,000
Media for International Development	Global	50,000
Mexico microcredit program	Mexico	50,000
Short book on *The Microfinance Revolution*	Global	50,000
Consultative Group Forum VI	Global	35,000
Peru policy workshop	Peru	20,000
Conference on regulation and supervision of microfinance institutions	Latin America	15,000
Village banking workshop and study tour	Tunisia	15,000
Conference on regulated financial institutions in microfinance	Latin America	15,000
INAISE conference	Global	5,000
Training, capacity building, and tools		**1,983,897**
The Microbanking Bulletin (Phase 1 and 2)	Global	957,000
External Audit Capacity-Building Program	Global	550,000
The Microfinance Gateway	Global	199,000
Production, translation, and dissemination of publications	Global	168,497
Pro-poor innovation case studies	Global	74,400
CGAP Website	Global	35,000
Funding		**1,840,000**
Experimental supervisory model in Guatemala	Latin America	1,775,000
Study on legal issues for microfinance institutions in transformation	West Africa	65,000
Total		**4,979,044**

(Source: CGAP, *Annual Report 2000*, p. 35)

CGAP Phase I

Policy and best practice initiatives

Initiative/objectives	Target audience	Cosponsors
Workshop and study tour on village banking • Disseminate best practice in village banking • Study tour of village banks in Latin America	Government	CGAP, World Bank, German Agency for Technical Cooperation, European Union, ODESYPANO, Economic Development Institute
ACCION workshop on prudential regulation and supervision • Disseminate best practice in regulation and supervision of micro-finance institutions that become formal financial intermediaries and serve micro-enterprises	Government	ACCION, U.S. Agency for International Development, Inter-American Development Bank, Andean Development Corporation, CGAP
Micro-finance policy workshop • Series of workshops to facilitate dialogue between government and micro-finance institutions about sectoral policy constraints	Government, practitioners	CGAP, World Bank, Ghana's Ministry of Finance
Micro-finance for the formal financial community • Meeting of financial institutions in London to raise awareness about micro-finance and opportunities for private investment in micro-finance institutions	Investors, banks, fund managers	CGAP, Overseas Development Administration, Prince of Wales Business Leaders' Forum
West Africa policy forum on micro-finance • Build awareness about helping the informal sector • Identify policy and regulatory constraints for micro-finance institutions • Define roles of government, practitioners, and donors involved in the process	Government, donors, practitioners	CGAP, World Bank, Economic Development Institution, United Nations Development Programme, Women's World Banking, Centre International de Dèveloppement et de Recherche, Canadian International Development Agency, Mali, France, United Nations Capital Development Fund
CGAP Savings Working Group's Africa conference • Raise awareness about the role of savings in micro-finance • Develop an overview of African strategies for savings mobilization • Present case studies on savings • Identify policy issues related to savings	Government, donors, practitioners, experts	CGAP, German Agency for Technical Cooperation, United Nations Development Programme, Cooperation Française

(Source: CGAP, *Status Report 1998*, p. 26)

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CGAP Phase I

Initiative/objectives	Target audience	Cosponsors
China micro-finance workshop • Develop coordinated micro-finance action plan for government, NGOs, and donors over next three to five years • Identify potential partner organizations for CGAP activities	Practitioners, government	CGAP, Ford Foundation, United Nations Development Programme, local NGOs
India central bank training workshop • Provide training on basic issues in micro-finance and its relevance to central bankers	Central bankers	U.S. Agency for International Development, CGAP, Harvard Institute for International Development
Vietnam micro-finance policy work Development • Study tour in response to government creation of a special bank for the poor	Senior government officials	World Bank, CGAP, United Nations Programme, Bank Rakyat Indonesia
Peru policy discussions • Policy discussions with President Alberto Fujimori and his advisers on establishing a bank for the poor	President of Peru and policy advisers	World Bank Resident Mission, Inter-American Development Bank, United Nations Development Programme
Banco do Nordeste do Brasil policy discussions • Policy discussions with the Banco do Nordeste do Brasil to start a micro-finance pilot operation	Banco do Nordeste do Brasil	CGAP, World Bank
Tanzania strategy for developing the micro-finance industry • Case study presentations and development of guidelines and proposals for investment to strengthen the micro-finance industry • Financial sector policy discussions with government leaders	13 CGAP donors, practitioners, government	Bank of Tanzania
Impact assessment methodologies virtual meeting • Internet-based forum initiated by CGAP's Impact Assessment Working Group	CGAP donors, practitioners, experts	U.S. Agency for International Development, CGAP Impact Assessment Working Group members

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(Source: CGAP, *Status Report 1998*, p. 27)

CGAP Phase I

CGAP investments by region
(U.S. dollars)

Type of investment	Africa	Asia	Latin America and the Caribbean	Middle East and North Africa	Eastern Europe and Central Asia	Global	Total
Funding for retail micro-finance institutions	4,705,000	5,522,625	9,050,000	250,000	50,000		19,577,625
Network and regional capacity building	2,228,000	1,151,000	98,600		378,000	751,125	4,606,725
Financial sector policy work and best practice dissemination	250,000	347,647	65,000	15,000		300,000	977,647
Product development						890,700	890,700
Total	7,183,000	7,021,272	9,213,600	265,000	428,000	1,941,825	26,052,697
Number of investments	14	16	10	2	2	13	57

(Source: CGAP, *Status Report 1998*, p. 24)

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