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Microcredit – Addressing an Ongoing Debate

Short description

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with the collaboration of

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1. Cooperatively organized microcredit in poor regions of the world – an idea with transformational force

The chapter starts with a description of the situation in Bangladesh after the war in 1971, when Bangladesh belonged to the poorest countries in the world. The paper describes the social innovations by Muhammad Yunus and the power they developed. The chapter is complemented by 'boxes', written by different authors, that deal with the economic development in Bangladesh since that time, with the history of co-operations in Germany and the philosophy of the corporate Sparda-Bank in Munich, which is also one of the funding partners of the study.

2. Success factors of innovation of Muhammad Yunus

In this chapter, the authors describe how the innovations by Muhammad Yunus help people in difficult personal situations to improve their personal situation. Prof. Winfried Pinger, long-term member of the German Parliament, who has followed the development of the Grameen Bank for many decades, puts open unique features of its approach. In another box, Nancy Wimmer, who was active with Grameen in Bangladesh for a long time, goes into the topic of Grameen Bank and changes implemented over time.

3. Positioning of microcredit in the global development context

The authors describe how insufficient global governance is today, that regulation very often works against the poor, that it would not make sense to wait for others, e.g. the developed world, to solve the problems of the poor. Muhammad Yunus put emphasis on self-reliance, starting bottom-up. This is explained and was the right way to go forward.

4. Activation of value creation - eight levers for more prosperity

FAW/n in earlier scientific work had already identified and dealt with eight levers for more prosperity. These eight levers are:

1. A well-functioning governance system
2. Excellently trained, conveniently oriented and motivated people (i.e. education, health and aging as core questions of the social issue)
3. Good infrastructures on an international level
4. A strong capital stock
5. Access to required resources
6. Efficient research and internationally competitive innovation processes
7. A strong monetary and financial system
8. A close integration of enterprises and the private sector into worldwide value creation networks

The authors then looked into the Grameen type of microcredit, the Grameen family of businesses and social business in general and tried to identify to what extent they contribute to activate each of the eight levers. The authors were surprised to see how good the fit is. In this sense, this part of the study generated valuable new insight into the power of the innovations of Muhammad Yunus. Each lever is discussed in form of an FAW/n statement and a statement by Nancy Wimmer. The chapter closes with further references to the innovations by Grameen compiled by Nancy Wimmer from the literature.

5. A thematic interplay between the innovations of Muhammad Yunus and the Global Marshall Plan Initiative

This part describes the principles of the Global Marshall Plan Initiative for a reasonable global development. In the field of development cooperation between countries, there is a strong focus on bottom-up activities and a fight against corruption and rent-seeking elites. The match with the Grameen approaches is perfect. In an extra box, Peter Hesse, who for decades gave input into German development politics, describes his positive experiences with microgrants.

6. A difficult discussion: The microcredit narrative and the microcredit hype

This part of the study describes how part of the media exaggerated the power of microcredit and created the impression that all social problems in the world could be solved with microcredit. This was never the position of Muhammad Yunus, this does not make sense, but some people wanted this story and, in the end, it created a lot of resistance against this narrative.

7. Abuse of microcredit - an ugly chapter of profit-maximizing market radicalism

This chapter describes how certain people used microcredit to “steal” on the poor. It discusses how powerful people, using the financialization of poverty, made a fortune out of it, while adding to the misery of the poor. It reminds of similar processes in the financial sector in general, including the subprime crisis that led to the global financial disaster of 2007 with many negative consequences for social balance.

8. The contra narrative: Campaign against microcredit

This chapter describes how certain groups of people started a new narrative that put all blame for missing development on microcredit, not distinguishing between approaches of positive character like the Grameen type of microcredit, and others that went out for “stealing” on the poor.

9. Limitations concerning quantitative evidence of the success of microcredit

In this chapter, the authors report on a scientific debate that deals with certain limitations concerning our ability to derive from data the positive contributions of microcredit. Do countries with a huge microcredit sector economically perform better than otherwise similar states not relying so much on microcredit? The debate is difficult, because it is not clear when states are similar, also microcredit systems may differ completely and finally needed data is missing.

10. Narrative and contra narrative - Half right is also wrong

In this final chapter, the authors explicitly deal with the dissertation of Ph. Mader and the book publications of G. Klas that are extremely negative to microcredit and what they call the financialization of poverty and – indirectly – to the work by Muhammad Yunus. The authors make clear that - though part of their criticism is valid – the publications are insufficient and misleading. They are right concerning those microcredit systems, “stealing” on the poor. But unfortunately there is no differentiation. So they totally miss the point concerning Grameen and its different layers of innovation and of other microcredit institutions that follow similar principles as Grameen does. By being wrong at the point, they do a massive misfavour to one of the most powerful instruments available for attacking poverty in the world, as it is today.