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Microfinance and its Discontents: Women in Debt in Bangladesh by L. Karim A Review Article

Taj Hashmi

A report by the Government of Bengal in the 1930s revealed that a poor peasant from Mymensingh district in eastern Bengal (Bangladesh since 1971) had told a land revenue official in 1929: "My father, Sir, was born in debt, grew in debt and died in debt. I have inherited my father's debt and my son will inherit mine." Following the introduction of microcredit, glorified as microfinance by its local and international promoters the question whether the situation of the rural masses in Bangladesh, particularly the economic condition of poor women, has improved or not, remains important. Professor Lamia Karim in her *Microfinance and its Discontents: Women in Debt in Bangladesh* (University of Minnesota Press, Minneapolis and London, 2011) has explored this question with absolute honesty and objectivity.

I have personally come across historical and contemporary data buttressing the hypothesis that although things have improved with regard to the state of perpetual indebtedness and disempowerment of rural masses in Bangladesh in the past seventy years, microcredit has not been a miracle – let alone the only factor – in improving the lot of the rural poor in the country. Microcredit, together with many NGOs that lack accountability has, for the most part, been detrimental to the best interests of Bangladesh both at micro and macro levels. The preponderance of NGOs in the development and governance sectors and their unaccountability to governments and people in countries like Bangladesh have weakened governments, bred corruption and disempowered people. In view of this, I find the author's hypotheses, findings and conclusions consistent with those of scholars having strong reservations about the operation of NGOs and microcredit-business establishments and practices in the Third World.

In the context of a brief history of microcredit and moneylending business in Bangladesh, it is instructive to point out that several legislative measures during the 1930s and 1940s proved to be somewhat effective in curtailing the power and privileges of the traditional moneylenders in Bangladesh rural society who are usually referred to as the *mahajans* (literally, the big men, in local parlance). Since most *mahajans* in the subregion belonged to various Bengali Hindu trading castes,

(such as Saha, Banikya and Tele), Hindu landlords, traders and even lawyers, and Jaina (*Marwari* or *Mero*) traders from Rajasthan, the communal partition of India in 1947 further curtailed the considerable power enjoyed by these classes. Various historical documents corroborate the state of rural indebtedness of Bengali lower classes under the British rule. The rate of interest on small loans or microcredit during the early 20th century sometimes exceeded 100 or even 150 per cent.

The formal abolition of the "*mahajani* system" in the 1940s and the subsequent government measures did not totally eliminate the predatory loan-sharks in Bangladesh. It is easy to see that the lack of creditworthiness of the poor has been a big obstacle towards economic empowerment of the poor. Dr Muhammad Yunus is said to be the pioneer of the "unique" collateral-free microcredit system through the Grameen [rural] Bank in Bangladesh to turn the poor creditworthy in accordance with his theory that the right to credit is synonymous with human rights. Later mega NGOs like BRAC, Proshika, ASA and their smaller counterparts throughout Bangladesh adopted microcredit as a means to "empowering the rural poor". Eventually the Grameen model became quite popular in various countries, thanks to the untiring promotion of the concept by the World Bank, IMF, the Clintons and other important personalities in the West. In 2006, Dr Yunus and his bank further came to the limelight after the award of the coveted Nobel Prize for Peace.

So far so good! However, contrary to Dr Yunus's assertions, neither collateral-free microcredit is a novelty in South Asia nor can he be considered to be the pioneer of the concept. Collateral free microcredit is neither new nor novel. Extortionist moneylenders in Bengal have been advancing collateral-free loans to their impoverished as well as well-to-do borrowers. Interestingly, another Bengali Nobel-Laureate, poet Rabindra Nath Tagore had come up with the concept years before Dr Yunus was born. Tagore's Patishar Bank was the pioneer of collateral-free small loans to poor peasants in parts of northwestern Bengal. He introduced the concept of lending to small groups of five, which scholars believe, Dr Yunus replicated without acknowledging his debt to Tagore. Most importantly, while Tagore's

loans were totally interest-free, the Grameen Bank and its counterparts charge around thirty per cent (and even more) interest from their borrowers [Wali Mondal, *Microcredit and Microentrepreneurship – Collateral Free Loan at Work in Bangladesh*, Academic Press, Dhaka 2002]. Recent scholarship may indicate some ambiguity in estimating the interest rates charged by NGOs, particularly in terms of the discrepancy between nominal and effective rates of interest, but it remains high by any standard, and certainly exceeds more than 20 percent in most cases.

It is perhaps increasingly obvious that myths built on lies and propagandas, ignorance and blind faith are sometimes more durable, and acquire greater credibility, than truths. The myths and lies about microcredit and NGO operations in Bangladesh may be cited in this regard. Till the recent past, the lies, half-truths and mythical success stories about microcredit and unaccountable mega NGOs in Bangladesh had been too overpowering to allow any criticism of the institutions. I personally know of Bangladeshi critics of Grameen Bank and its founder who encountered problems in getting jobs in the academia and development agencies within and beyond Bangladesh. The powerful Grameen-NGO lobby in Bangladesh and its more powerful promoters in the West – multinationals, mega financial institutions, and donor agencies, including the World Bank and the IMF – do not entertain any adverse publicity of microcredit and NGO operation anywhere in the Third World. The way in which Hillary Clinton interfered into the internal affairs of Bangladesh over the removal of Dr Yunus as the Managing Director of the Grameen Bank in early 2011 may be an eye-opener in this regard.

Then again, we cannot condone the rashness of Prime Minister Hasina in removing Dr Yunus from his position at the Bank by stigmatizing him as a “*shudkhore* (loan-shark) having contributed nothing towards alleviation of poverty in Bangladesh”. Surprisingly, during her first term as the Prime Minister, she had glorified Yunus and Grameen Bank at the Microcredit Summit in 1997. This, however, is not inconsistent with the political culture of Bangladesh. Bangladeshis often ridicule their heroes as villains and traitors. They even did not spare Sheikh Mujibur Rahman, the founding father of the nation, who died unlamented as a villain. Some of his ardent followers and beneficiaries of previous years had no qualms about likening him to the Pharaohs after his death. In sum, the Yunus and Mujib episodes

perhaps reflect the fact that the ruthless, impulsive and unpredictable traits of Bengali character may be inherent in the predominant peasant culture of the land. Here individuals, groups and institutions are either benign and angelic, or sinister and devilish. Therefore, from the people’s viewpoint, microcredit and NGO operations are either beneficial or totally detrimental to them.

In this depressing backdrop, we have reasons to be happy with Lamia Karim’s book, which is refreshingly objective and reflective of her knowledge, courage and integrity. This is simply an outstanding specimen of scholarship, hard work, and above all, the author’s solidarity with the poor and disempowered women of Bangladesh. This is also an iconoclastic attempt to shatter the myths about microcredit’s so-called contributions towards poverty alleviation and empowerment of poor rural women in Bangladesh. It is a blow to those who are pretentious about “sending poverty to the museum by 2030” through microcredit and NGO operations in Bangladesh.

While Dr Yunus has been the main proponent of the “museum theory”, there are promoters and buyers of this absurd theory at home and abroad. With his sharing the 2006 Nobel Peace Prize with Grameen Bank, Dr Yunus and microcredit became even holier than before, albeit for a short while. The surfacing of scores of critical writings on the deceptive propaganda of the microcredit lobby following the award is heartening. Lamia Karim’s work is another welcome addition to the current and critical discourse relating to development economics, cultural anthropology, women and gender studies, and most importantly, the “development of underdevelopment” by neo-imperialism and its collaborators in the Third World.

As I pointed out at the very outset, myths and lies at times overshadow the truth; the motivated lies and deceptions by the mighty NGO-microcredit lobby is simply too overwhelming to ignore, especially in the wake of Dr. Yunus receiving the Nobel Prize and BRAC founder Fazle Abed receiving the coveted knighthood from the Queen. Consequently we need to discern the truth from the lie, the reality from deception. Thanks to the global promotion of microcredit by the World Bank, IMF, the Clintons, Queen Sophia of Spain, leading financial institutions of America for the obvious reason, and last but not least, by the Nobel Committee, the average people do not know that microcredit institutions are as bad as loan-sharks having as little compassion for their poor

debtors as the cruel and selfish Shylock for those who borrowed from him. People hardly know that generally the actual interest rate that microcredit institutions in Bangladesh charge from their borrowers may be as high as thirty-two per cent on their loans (though some rates may be somewhat lower), which the borrowers have to repay in fifty-two installments; and that defaulters may have to part with their household goods, livestock, tin-roofs, utensils and jewelries.

Most scholars, analysts and donor agencies and others having vested interests in microcredit and “NGO-business” do not bother to know if microcredit is directly responsible for polygamy in some parts of the country, where men take multiple wives to get access to more credit through their wives to run their own lucrative, usurious moneylending business. We also do not hear from them a) how many debt-strapped Bangladeshi rural women commit suicide every year; and b) how Grameen Bank and other microcredit lenders may expropriate borrowers by taking away their livestock, jewelry and other assets to settle outstanding debts. Lamia Karim has documented how microcredit providing NGOs expropriate loan-defaulters; turn some of them into rapacious moneylenders; force some of them to flee to urban centers and even kill themselves. The fate of debt-ridden poor women in Nigeria, India and elsewhere has not been any better. It is eye-opening that recently a study by the DFID (A British overseas development agency, which is among the top promoters of microcredit and unaccountable “NGO-Business” in the Third World) has revealed the ineffectiveness of microcredit in alleviating poverty anywhere in the Third World:

Despite the apparent success and popularity of microfinance, no clear evidence yet exists that microfinance programmes have positive impacts....while anecdotes and other inspiring stories purported to show that microfinance can make a real difference in the lives of those served, rigorous quantitative evidence on the nature, magnitude and balance of microfinance impact is still scarce and inconclusive. Overall, it is widely acknowledged that no well-known study robustly shows any strong impacts of microfinance. Because of the growth of the microfinance industry and the attention the sector has received from policy makers, donors and private investors in recent years, existing microfinance impact evaluations need to be re-investigated; the robustness of claims that microfinance successfully alleviates poverty and empowers

women must be scrutinized more carefully. Hence, this review re-visits the evidence of microfinance evaluations focusing on the technical challenges of conducting rigorous microfinance impact evaluations....earlier studies [of microfinance] have turned out to have low validity with replicated analysis and critical assessment....Well-known studies which claim to have found positive impacts on females are based on weak research designs and problematic IV analyses which may not have survived replication or re-analysis using other methods, i.e. PSM....our report shows that almost all impact evaluations of microfinance suffer from weak methodologies and inadequate data, thus the reliability of impact estimates are adversely affected [Systematic Review, “What is the evidence of the impact of microfinance on the well-being of poor people?” by Maren Duvendack et al, August 2011, [http://www.dfid.gov.uk/r4d/PDF/Outposts/Systematic Reviews/Microfinance 2011Duvendackreport.pdf](http://www.dfid.gov.uk/r4d/PDF/Outposts/Systematic%20Reviews/Microfinance%2011Duvendackreport.pdf)].

Then again, contrary to Dr Yunus’s misleading assertions, microcredit borrowers do not represent the absolute poor but sections of the moderately poor middle peasants and artisans. Only in a very limited number of cases has the real empowerment of the poor taken place through microcredit. As common sense dictates, most people do not have entrepreneurial skills, let alone the almost totally unskilled illiterate poor village women in Bangladesh. And as various empirical studies suggest, including Aminur Rahman’s path breaking book, *Grameen Bank and Women’s Empowerment in Bangladesh*, and the volume under review, the so-called process of “empowering women” through microcredit has further indebted rural women in Bangladesh. Thus it appears that it is next to impossible for anyone to make a breakthrough towards freedom from poverty by merely borrowing money at interest rates that may be as high as 28 to 32 percent, payable in fifty-two installments. When this writer asked Dr Yunus at a Microcredit Workshop at the RMIT in Melbourne in 1997, “What miracle happens to a poor Bangladeshi woman who has only one piece of sari to wrap around and having no other source of income and nobody in the family to look after her that she gets freedom from poverty by borrowing from your bank at 28 per cent interest to buy a cow while the cow takes a year to give milk and she repays your loan in fifty-two installments immediately after borrowing the money?” he had no convincing answer at all.

His justification of preferring women to men as recipients of microcredit is again patriarchal, if not misogynic. He has publicly stated through his speeches and writings that a woman is preferred to man as she is more credit worthy because firstly, unlike a man, "she cannot run away"; and secondly, social norms in Bangladesh (based on shame and stigma) would force a would-be defaulter female borrower to repay her loan as soon as possible. He is right that not even male family members of an indebted Bangladeshi woman would come forward to repay her loan. Unfortunately, what we do not hear from Dr Yunus and NGO operators in Bangladesh and their local and Western admirers is that tens of thousands of poor rural women in Bangladesh are in a vicious cycle of debt, and that they take fresh loans from new sources to repay their previous debts from others.

In view of the above, one may legitimately raise the question that if microcredit is so bad and NGOs are so rapacious, then why is it that poor villagers do not resist them and the government, politicians, members of the civil society, academics and intellectuals have not been more proactive in regulating and even proscribing the agents of extortion and exploitation? Before answering the question, one may cite the parallel examples of the obtrusive and unimpeded existence of usurious moneylenders in various parts of the world, including Bangladesh. Dominant and well-connected people get away with crimes, especially in countries that lack good governance. Since Bangladesh is one of the most corrupt countries in the world where the government, military, bureaucracy, business and professional elites have very little accountability, it has to be a safe haven for absolutely corrupt people, including rapacious and unaccountable NGOs. Last but not least, the NGO-Donor nexus is the key factor behind the proliferation of unaccountable "NGO-business" and "microcredit-business" in countries like Bangladesh which are yet to be culturally decolonized..

Thanks to the bold leadership of nationalist Mahathir Mohamad and Lee Kwan Yew, what the World Bank and IMF could not do to Malaysia and Singapore for example, succeeded in Bangladesh due to compliant and corrupt governments, and political and professional elites. Hence the nonexistence of Western donor-driven, unaccountable NGOs or states within state in countries like Malaysia and Singapore and their preponderance in Bangladesh. Unless one understands neo-imperialism and its hidden and not-so-hidden agendas in the Third World, one cannot

grasp the mechanism, which perpetuates the state of dependency of the Third World to Western neo-imperialists and their Eastern collaborators. It is no wonder that the malevolent Monsanto, which tried to sell genetically modified seeds to Bangladesh (to destroy organic crops and to keep the country dependent on Monsanto seeds) through Dr Yunus, has been one of the main promoters of microcredit in the Third World.

Now let us turn to the question as to why many poor Bangladeshis consider NGOs as their last resort and as to why urban elites privately curse NGOs and publicly glorify them. As Lamia Karim has explained, without NGO support, poor villagers know, they would not get "access to NGO credit, healthcare, primary education, physical assistance during floods, and road construction". Consequently, as she elucidates: "It is this power over resources that has enabled the NGO to reign as a powerful, but partial 'sovereign' in the triadic relationship of sovereignty, discipline, and government in rural Bangladesh" [p. 131]. However, this did not happen without the direct interference of the Western governments and donor agencies. They simply love to establish their hegemony in as many dependent and underdeveloped countries as possible. What Henry Kissinger had started with in 1972 (soon after the emergence of Bangladesh with direct Indo-Soviet support in the heydays of the Cold War) by portraying Bangladesh as a "basket case", came to its desired finale after the ascendancy of successive pro-Western regimes in the country after the first military takeover (with US knowledge and support) in August 1975. Henceforth the West has not looked back.

Consequently not only pro-Western corrupt regimes have been running the country since 1975, but Western donor-driven NGOs have also been well entrenched everywhere. Since then, Western government- and donor-driven mega-NGOs and the Grameen Bank, and their hundreds of local employees, research-scholars, analysts and advisers are virtually running the country. They are definitely more powerful than the Bangladesh Government as Western donors prefer NGOs to the Government in dispersing development assistance and disaster relief to the country. This in the long run has disempowered / discredited the Government and has further strengthened the Western donor-driven unaccountable NGOs in the country.

Lamia Karim is absolutely right that there is a gulf of difference between the indigenous (Bangladeshi) and

foreign (Western) discourses of microcredit and NGO operations in Bangladesh. While several indigenous studies have revealed hundreds of cases of suicide by microcredit defaulters and their expropriation of movable properties, foreign or Western discourse on the subject is full of eulogies and acclamations for microcredit. There has been no discussion in Western writings that Dr Yunus is not the pioneer of microcredit in Bangladesh. As mentioned earlier, Grameen Bank and NGOs did not initiate collateral-free loan to the poor; traditionally for centuries, moneylenders throughout South Asia have been advancing collateral-free loans to their clients, sometimes even at lower rates of interest than what Grameen and NGOs charge from their borrowers.

Then again, only a handful of scholars have dispelled the fictitious story about Sufia Begum, the first female borrower from Jobra village in Chittagong (Bangladesh) who borrowed the equivalent of \$27 from Dr Yunus in 1974. Contrary to what we hear from Dr Yunus and his admirers, this poor female borrower never got rid of poverty and built a brick-built house (a symbol of prosperity in Bangladesh), but died a pauper. Her immediate family members had to raise money in the neighborhood for her burial (which is not expensive in rural Bangladesh). However, despite the over-abundance of facts that refute Dr Yunus's hyperbolic assertions about sending poverty to the museum through microcredit and NGO operation, soon after receiving the Nobel Prize he threw an open challenge to anyone who would be able to trace any poverty in Bangladesh beyond 2030. He promised a million dollar to the first person to do so.

Unfortunately, barring a few exceptions, most Bangladeshi academics and the ubiquitous "development practitioners" who either run their own NGO-businesses or work for mega NGOs and the Grameen Bank as researchers and consultants, publicly refrain from critiquing microcredit. This loyalty or intellectual dishonesty of Bangladeshi intellectuals is indeed a reflection of their intellectual bankruptcy as well as hyper allegiance of the clients to their powerful patrons-cum-benefactors in the NGO sector. We have reasons to be happy with Professor Karim, originally from Bangladesh, as she is free from such sycophancy and intellectual dishonesty.

There are other lies and myths about microcredit and NGO operations in Bangladesh. The track record of mega NGOs like BRAC, Proshika and ASA is also

abysmally poor, deceptive, and "full of sound and fury, signifying nothing". They all share lack of transparency and total unaccountability to the government and people of Bangladesh, and realize exorbitantly high interest (which, at times, may reach or even exceed thirty per cent) from their borrowers, mostly poor, illiterate rural women. The fact that BRAC and Grameen operate lucrative business in the name of empowering the poor is also quite well known in Bangladesh and abroad. Both the BRAC and Grameen Bank/Trust make exorbitant profits by tricking donors, clients and customers of their products and services. While BRAC engages female "slave laborers" in rural Bangladesh (they make less than a dollar-a-day) to manufacture handicrafts, especially to do decorative needlework on saris, quilts and wall-hangings, the Grameen has been running the most popular cell phone company (Grameen Phone) in the country. BRAC's deceptive moneymaking methods are at times quite imaginative. It not only runs a bank, a private university, rest houses, schools and department stores in Bangladesh, but for years it also sold Bangladeshi products in the Canadian market in the name of helping poor women in Bangladesh. By labeling their products "Manufactured by Poor Bangladeshi Women", BRAC used to enjoy duty-free access to Canadian market and sold Bangladeshi made garments (manufactured by women making around sixty cents a day and without any share of the considerable profits that were being made in their name) at its Vancouver outlet of AARONG, a BRAC-run department store.

Grameen Bank, on the other hand, also started its business ventures with generously donated grants by Western donors and from the profit of its usurious moneylending business in the name of empowering the poor with a view to "sending poverty to museum". Grameen Phone, the largest cell phone company in Bangladesh, is one of such ventures. It came into being in collaboration with Telenor, a Norwegian telecom company, which, thanks to Dr Yunus's endorsement, enjoyed tax holiday for more than a decade in the name of running a non-profit or "charity". Meanwhile, as discussed above, despite the glorification of microcredit, the debt-ridden poor women in Bangladesh have remained as powerless and indebted as before. This is the main thrust of this well-written book.

The book under review, based on intensive fieldwork in Bangladesh and painstakingly meticulous research, has six core chapters and a very useful twenty-page-

long Introduction. The core chapters entitled “The Structural Transformation of the NGO Sphere”; “The Research Terrain”; “The Everyday Mediations of Microfinance”; “The Social Life of Debt”; “NGOs, Clergy, and Contested ‘Democracy’ ”; and “Power/Knowledge in Microfinance” and the “Introduction” are reflective of the author’s ability to synthesize archival research with fieldwork; and interweaving cultural anthropology, sociology and politics with economics and psychology. Hence the significance of the work.

It is heartening that the author has not imposed her thesis on the state of perpetual indebtedness of Grameen (overwhelmingly female) borrowers on the readers by merely analyzing data and statistics. Her empirical research is the main foundation of this excellent book. At the very outset she cites a Grameen official, a female assistant manager of the Bank, who candidly reveals to the author how Grameen disburses loans among its clients: “Before we give any loan, we make sure that we can recover our money. Why are you surprised to hear this? Grameen Bank is not a charity; it is a commercial enterprise.” This is fine. One does not expect a bank to be a charitable endowment. This, however, strengthens our hypothesis and corroborates the fact that the dirt poor (totally landless destitute women having only one piece of sari, for example) have never been entitled to Grameen loan. Then again, what is puzzling in this backdrop is Dr Yunus’s rhetoric about eliminating poverty by making the absolute poor credit-worthy, as he equates the “right to credit” with human rights.

The author’s theoretical construct is also very useful for understanding the political economy of indebtedness and the Grameen-NGO discourse that glorifies indebtedness as a step towards empowerment of the poor. She has succinctly used Michel Foucault, David Harvey and Arturo Escobar, their discourses on governance, neoliberalism and development as discourse, respectively. I fully concur with her that as Foucault has equated good governance with the management of populations, by replicating the government’s role NGOs in Bangladesh have started managing the populations. One may, in this regard, argue that mega NGOs (thanks to Western duplicities and intrusive policies in the Third World) to a large extent have replaced the government as the main agencies of development in Bangladesh. The process is phony, the outcomes questionable, and the structures remain largely unaccountable to the people of the country.

One cannot agree more with Lamia Karim that the mega NGOs in Bangladesh have implemented neoliberalism to its extreme by turning the state machinery into weak and irrelevant in the rural economy in the areas of credit, education and healthcare. While weak government may be desirable in the developed West (as American Republicans have been clamoring quite for some time), the author has rightly demonstrates in her work how in accordance with the Escobarian discourse of development, NGOs have projected themselves as the best alternatives to the Government, as “allies of the poorest of the poor”. As she argues, “... in Bangladesh the poverty discourse is conveyed by a plethora of studies, statistical surveys, conference, and brochures with pictures of happy rural women – all held together by the discursive power of research aligned with the development industry.”

In sum, one finds Dr Yunus’s hyperboles about eradicating poverty very problematic, and the fact that he has asserted that by 2030 poverty in countries like Bangladesh will be only found in museums to be empty dramatics. His unsubstantiated public assertions in self-glorification are also questionable. One cannot condone his ignoring the illegal transfer of millions of dollars from Bangladesh to Norway by Telenor – the Norwegian telephone company, a co-sponsor of the Grameen Phone – which did not pay any income tax to Bangladesh Government for more than ten years in the name of running a “Charity”. Any Economics 101 student would tell us that giving tax holiday to a profit-making company (Grameen Phone is not a Charity) is anything but corruption. What is noteworthy that Grameen Phone has been a subsidiary of the Grameen Bank, which has made millions of dollars mainly through its usurious moneylending business to the detriment of poor women in rural Bangladesh.

To conclude, Lamia Karim has done an excellent job by juxtaposing facts against myths, lies against truths and objective research against subjective hagiographies. She has simply performed an arduous task with scholarly integrity and very little concern about the academic and other consequences of making such bold assertions about an iconic figure like Dr Yunus and revered institutions of microcredit/microfinance, the holy cow and darling of the powerful and hegemonic Western governments, donors and influential personalities like Obama, the Clintons and those who perpetuate the “development of underdevelopment” in the Third World. I believe this book is an important addendum to the growing literature that demonstrates and

deconstructs the lies and myths about microcredit and NGO business in Bangladesh and elsewhere in the Third World. We should thank the author for presenting us this wonderful multi-disciplinary work,

which I believe academics, analysts, policymakers and students of development studies, women and gender studies, anthropology, sociology, politics and economics will find very useful.

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