The danger of Grameenism

Patrick Bond with Khorshed Alam

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*cc Savijana*Far from being a panacea for fighting rural poverty, microcredit can impose additional burdens on the rural poor, without markedly improving their socio-economic condition, write Patrick Bond and Khorshed Alam.

For years, the example of microcredit in Bangladesh has been touted as a model of how the rural poor can lift themselves out of poverty. This widely held perception was boosted in 2006, when Mohammad Yunus and Grameen Bank, the microfinance institution he set up, jointly received the Nobel Peace Prize. In South Asia in particular, and the world in general, microcredit has become a gospel of sorts, with Yunus as its prophet.

Consider this outlandish claim, made by Yunus as he got started in the late 1970s: 'Poverty will be eradicated in a generation. Our children will have to go to a "poverty museum" to see what all the fuss was about.' According to Milford Bateman, a senior research fellow at the Overseas Development Institute (ODI) in London who is one of the world's experts on Grameen and microcredit, the reason this rhetoric resonated with international donors during the era of neoliberal globalisation, was that 'they love the non-state, self-help, fiscally-responsible and individual entrepreneurship angles.'

Grameen's origins are sourced to a discussion Yunus had with Sufiya Begum, a young mother who, he recalled, 'was making a stool made of bamboo. She gets five taka from a business person to buy the bamboo and sells to him for five and a half taka, earning half a taka as her income for the day. She will never own five taka herself and her life will always be steeped into poverty. How about giving her a credit for five taka that she uses to buy the bamboo, sell her product in free market, earn a better profit and slowly pay back the loan?' Describing Begum and the first 42 borrowers in Jobra village in Bangladesh, Yunus waxed eloquent: 'Even those who seemingly have no conceptual thought, no ability to think of yesterday or tomorrow, are in fact quite intelligent and expert at the art of survival. Credit is the key that unlocks their humanity.'

But what is the current situation in Jobra? Says Bateman, 'It's still trapped in deep poverty, and now debt. And what is the response from Grameen Bank? All research in the village is now banned!' As for Begum, says Bateman, 'she actually died in abject poverty in 1998 after all her many tiny income-generating projects came to nothing.' The reason, Bateman argues, is simple: 'It turns out that as more and more 'poverty-push' micro-enterprises were crowded into the same local economic space, the returns on each micro-enterprise began to fall dramatically. Starting a new trading business or a basket-making operation or driving a rickshaw required few skills and only a tiny amount of capital, but such a project generated very little income indeed because everyone else was pretty much already doing exactly the same things in order to survive.'

Contrary to the carefully cultivated media image, Yunus is not contributing to peace or social justice. In fact, he is an extreme neoliberal ideologue. To quote his philosophy, as expressed in his

1998 autobiography, 'Banker to the Poor', 'I believe that "government", as we know it today, should pull out of most things except for law enforcement and justice, national defense and foreign policy, and let the private sector, a "Grameenized private sector", a social-consciousness-driven private sector, take over their other functions.' At the time as he wrote those words, governments across the world, especially in the United States, were pulling back from regulating financial markets. In 1999, for example, Larry Summers (then US Treasury secretary and now President Barack Obama's overall economics tsar) set the stage for the crash of financial-market instruments known as derivatives, by refusing to regulate them as he had been advised.

The resulting financial crisis, peaking in 2008, should have changed Yunus's tune. After all, the catalysing event in 2007 was the rising default rate on a rash of 'subprime mortgage' loans given to low-income US borrowers. These are the equivalent of Grameen's loans to very poor Bangladeshis, except that Yunus did not go so far as the US lenders in allowing them to be securitised with overvalued real estate.

Yunus has long argued that 'credit is a fundamental human right', not just a privilege for those with access to bank accounts and formal employment. But reflect on this matter and you quickly realise how inappropriate it is to compare bank debt – a liability that can be crushing to so many who do not survive the rigours of neoliberal markets – with crucial political and civil liberties, health care, water, nutrition, education, environment, housing and the other rights guaranteed in the constitutions of countries around the world.

MICROCREDIT MANTRAS

By early 2009, as the financial crisis tightened its grip on the world, Yunus had apparently backed away from his long-held posture. At that time, he told India's MicroFinance Focus magazine the very opposite of what he had been saying: 'If somebody wants to do microcredit – fine. I wouldn't say this is something everybody should have' (emphasis added). Indeed, the predatory way that credit was introduced to vulnerable US communities in recent years means that Yunus must now distinguish his Grameen Bank's strategy of 'real' microcredit from microcredit 'which has a different motivation'. As Yunus told MicroFinance Focus, 'Whenever something gets popular, there are people who take advantage of that and misuse it.'

To be sure, Yunus also unveiled a more radical edge in that interview, interpreting the crisis in the following terms. 'The root causes are the wrong structure, the capitalism structure that we have,' he said. 'We have to redesign the structure we are operating in. Wrong, unsustainable lifestyle.' Fair enough. But in the next breath, Yunus was back to neoliberalism, arguing that state microfinance regulation 'should be promotional, a cheerleader.'

For Yunus, regulators are apparently anathema, especially if they clamp down on what are, quite frankly, high-risk banking practices, such as hiding bad debts. As the Wall Street Journal conceded in late 2001, a fifth of the Grameen Bank's loans were more than a year past their due date: 'Grameen would be showing steep losses if the bank followed the accounting practices recommended by institutions that help finance microlenders through low-interest loans and private investments.' A typical financial sleight-of-hand resorted to by Grameen is to reschedule short-term loans that are unpaid after as long as two years; thus, instead of writing them off, it lets borrowers accumulate interest through new loans simply to keep alive the fiction of repayments on the old loans. Not even extreme pressure techniques – such as removing tin roofs from delinquent women's houses, according to the Journal report – improved repayment rates in the most crucial areas, where Grameen had earlier won its global reputation among neoliberals who consider credit and entrepreneurship as central prerequisites for development.

By the early 2000s, even the huckster-rich microfinance industry had felt betrayed by Yunus' tricks. 'Grameen Bank had been at best lax, and more likely at worst, deceptive in reporting its financial performance,' wrote leading microfinance promoter J D Von Pischke of the World Bank in reaction to the Journal's revelations. 'Most of us in the trade probably had long suspected that something was fishy.' Agreed Ross Croulet of the African Development Bank, 'I myself have been suspicious for a long time about the true situation of Grameen so often disguised by Dr Yunus's global stellar status.' Several years earlier, Yunus was weaned off the bulk of his international donor support, reportedly US$5 million a year, which until then had reduced the interest rate he needed to charge borrowers and still make a profit. Grameen had allegedly become 'sustainable' and self-financing, with costs to be fully borne by borrowers.

To his credit, Yunus had also battled backward patriarchal and religious attitudes in Bangladesh, and his hard work extended credit to millions of people. Today there are around 20,000 Grameen staffers servicing 6.6 million borrowers in 45,000 Bangladeshi villages, lending an average of US$160 per borrower (about US$100 million/month in new credits), without collateral, an impressive accomplishment by any standards. The secret to such high turnover was that poor women were typically arranged in groups of five: Two got the first tranche of credit, leaving the other three as 'chasers' to pressure repayment, so that they could in turn get the next loans.

At a time of new competitors, adverse weather conditions (especially the 1998 floods) and a backlash by borrowers who used the collective power of non-payment, Grameen imposed dramatic increases in the price of repaying loans. That Grameen was gaining leverage over women – instead of giving them economic liberation – is a familiar accusation. In 1995, New Internationalist magazine probed Yunus about the 16 'resolutions' he required his borrowers to accept, including 'smaller families'. When New Internationalist suggested this 'smacked of population control', Yunus replied, 'No, it is very easy to convince people to have fewer children. Now that the women are earners, having more children means losing money.' The long history of forced sterilisation in the Third World is often justified in such narrow economic terms.

In the same spirit of commodifying everything, Yunus set up a relationship with the biotechnology giant