

# The danger of Grameenism

By: *Patrick Bond with Khorshed Alam*  
Himal magazine, October 2010

*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.*

Sworup Nhasiju

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 Southasia 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 USD 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 USD 160 per borrower (about USD 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 Monsanto to promote biotech and agrochemical products in 1998, which, *New Internationalist* reported, 'was cancelled due to public pressure.' As Sarah Blackstock reported in the same magazine the following year: 'Away from their homes, husbands and the NGOs that disburse credit to them, the women feel safe to say the unmentionable in Bangladesh – microcredit isn't all it's cracked up to be ... What has really sold microcredit is Yunus's seductive oratorical skill.' But that skill, Blackstock explains, allows Yunus and leading imitators to ascribe poverty to a lack of inspiration and depoliticise it by refusing to look at its causes. Microcredit propagators are always the first to advocate that poor people need to be able to help themselves. The kind of microcredit they promote isn't really about gaining control, but ensuring the key beneficiaries of global capitalism aren't forced to take any responsibility for poverty.

### **The big lie**

Microfinance gimmickry has done huge damage in countries across the globe. In South Africa in 1998, for instance, when the emerging-markets crisis raised interest rates across the developing world, an increase of seven percent, imposed over two weeks as the local currency crashed, drove many South African borrowers and their microlenders into bankruptcy. Ugandan political economist Dani Nabudere has also rebutted 'the argument which holds that the rural poor need credit which will enable them to improve their productivity and modernise production.' For Nabudere, this 'has to be repudiated for what it is – a big lie.'

Inside even the most neoliberal financing agency (and Grameen sponsor), the World Bank, these lessons were by obvious by the early 1990s. Sababathy Thillairajah, an economist, had reviewed the Bank's African peasant credit programmes in 1993, and advised colleagues: 'Leave the people alone. When someone comes and asks you for money, the best favour you can give them is to say 'no'... We are all learning at the Bank. Earlier we thought that by bringing in money, financial infrastructure and institutions would be built up – which did not occur quickly.'

But not long afterwards, Yunus stepped in to help the World Bank with ideological support. When I met Yunus in Johannesburg, not long before South Africa's April 1994 liberation, he vowed he wouldn't take Bank funds. Yet in August 1995, Yunus endorsed the Bank's USD 200 million

global line of credit aimed at microfinance for poor women. However, according to ODI's Bateman, the World Bank 'insisted on a few changes: the mantra of 'full cost recovery', the hard-line belief that the poor must pay the *full* costs of any program ostensibly designed to help them, and the key methodology is to impose high interest rates and to reward employees as Wall Street-style motivation.'

Bateman also remarks on the damage caused to Bangladesh itself by subscribing to the microcredit gospel: 'Bangladesh was left behind by neighbouring Asian countries, who all choose to deploy a radically different 'development-driven' local financial model: Taiwan, South Korea, Thailand, China, Vietnam.' And the countries that were more reliant on neoliberal microfinance soon hit, Bateman insists, 'saturation, with the result of over-indebtedness, 'microcredit bubbles', and small business collapse.' Just as dangerous, Yunus's model actually 'destroys social capital and solidarity,' says Bateman. It is used up 'when repayment is prioritised over development. No technical support is provided, threats are used, assets are seized. And governments use microfinance to cut public spending on the poor and women, who are left to access expensive services from the private sector.' The Yunus phenomenon is, in short, a more pernicious contribution to capitalism than ordinary loan-sharking, because it has been bestowed with such legitimacy.

Bateman records extremely high microfinance interest rates 'everywhere'. In Bangladesh, for instance, these are around 30 to 40 percent; in Mexico, they go up as high as 80 percent. No wonder that in the most recent formal academic review of microfinance, by economist Dean Karlan of Yale University, 'There might be little pockets here and there of people who are made better off, but the average effect is weak, if not nonexistent.'

As the *Wall Street Journal* put it in 2001, 'To many, Grameen proves that capitalism can work for the poor as well as the rich.' And yet the record should prove otherwise, just as the subprime financial meltdown has shown the mirage of finance during periods of capitalist crisis.

## Reputation and reality

The latest figures suggest that nearly 70 million people (out of 150 million total) in Bangladesh are still living below the poverty line; of those, about 30 million are considered to live in chronic poverty. Grameen Bank now has around seven million borrowers in Bangladesh, 97 percent of whom are women. Yet after decades of poverty-alleviation programmes what effect has Grameen had in its home country? The microcredit initiatives inspired by Mohammad Yunus's vision and implemented by Grameen Bank and other NGOs have not gone nearly as well in Bangladesh as has been publicised worldwide.

To start with, the terms of microcredit in Bangladesh are inflexible and generally far too restrictive – by way of weekly repayment and savings commitments – to allow the borrowers to utilise the newfound credit freely. After all, with a first repayment scheduled for a week after the credit is given, what are the options but petty trading? The effective interest rate stands at 30 to 40 percent, while some suggest it goes upwards of 60 percent in certain situations. Defaulters, therefore, are on the rise, with many being compelled to take out new loans from other sources at even higher interest rates.

Worryingly, in the families of some 82 percent of female borrowers, exchange of dowry has increased since their enrolment with Grameen Bank – it seems that micro-borrowing is seen as enabling the families to pay more dowry than otherwise.

Only five to 10 percent of Grameen borrowers have showed improvement of their quality of life with the help of microcredit, and those who have done will tend to have other sources of income as well. Fully half of the borrowers who could not improve were able to retain their positions by taking out loans from multiple sources; about 45 percent could not do so at all, and their position deteriorated. Many are thus forced to flee the

village and try to find work in an urban area or abroad. It has now become clear that most Grameen borrowers spend their newfound credit for their daily livelihood expenditure, rather than on income-generating initiatives.

The main difference between microcredit lenders and feudal moneylenders was that the latter needed collateral. It is true that microcredit has created money flows in rural areas, but also that it created a process through which small-scale landowners can quickly become landless – if one cannot pay back the money at high interest rates, many are forced to sell their land. In cases of failure of timely repayment, instances of seizure by Grameen of tin roofs, pots and pans, and other household goods do take place – amounting to implicit collateral.

This does not mean that credit is not useful to the poor and powerless. The problem lies in the approach taken. Poverty is conceptualised extremely narrowly, only in terms of cash income; when in fact it has to do with all aspects of life, involving both basic material needs such as food, clothing and housing; and basic human needs such as human dignity and rights, education, health and equity. It is true that the rural economy today has received some momentum from microcredit. But the questions remain: Why has this link failed to make any significant impact on poverty? Why, despite the purported ‘success’ of microcredit, do people in distress keep migrating to urban centres? Why does a famine-like situation persist in large parts of Bangladesh, particularly in the north? Moreover, why does the number of people under the poverty line keep rising – alongside the rising microcredit?

In fact, poverty has its roots and causes, and expanding the credit net without addressing these will never improve any poverty situation. Experience shows that if countries such as Bangladesh rely heavily on microcredit for alleviating poverty, poverty will remain – to keep the microcredit venture alive. Grameen Bank’s ‘wonderful story’ of prosperity, solidarity and empowerment has only one problem: it never happened.

~ Khorshed Alam

~ **Patrick Bond** is a senior professor at the University of KwaZulu-Natal School of Development Studies Centre for Civil Society in Durban, South Africa. **Khorshed Alam** is executive director of the Alternative Movement for Resources and Freedom Society, based in Dhaka.