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Bangladesh

A run on Grameen Bank's integrity, as founder's career ends in disgrace

- IV Online magazine - 2011 - IV437 - June 2011 -

Publication date: Sunday 12 June 2011

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Bangladesh's once-legendary banking environment is now fatally polluted. The rot is spreading so fast and far that the entire global microfinance industry is threatened. Controversy ranges far beyond poisonous local politics, the factor most often cited by those despondent about Grameen Bank's worsening crisis.

True, at first glance we see an oppressive state's persecution of a courageous academic-turned-entrepreneur and 2006 Nobel Peace Prize laureate, a man passionate about uplifting poor women's socio-economic status through unsecured credit and group borrowing: Muhammad Yunus. On April 5, the Bangladeshi Supreme Court confirmed that notwithstanding huge aid inflows he catalysed for one of Asia's poorest countries – based on Bangladesh's world-leading 25% microfinance market penetration rate – Yunus must be ousted from Grameen Bank's leadership.

At second glance, observe that the notorious corporation Burson-Marsteller (B-M) is spin-doctoring for Yunus, and as MSNBC television social critic Rachel Maddow has observed, "When Evil needs public relations, Evil has Burson-Marsteller on speed-dial." B-M did PR for Three Mile Island's nuclear operator after its meltdown, the US tobacco industry (to organize the "National Smoker's Alliance"), the Argentine military dictatorship which killed 35,000, the Indonesian regime which committed massacres in East Timor, Nigeria's military, Union Carbide against residents of Bhopal, the late Romanian president Nicolae Ceausescu and the Saudi royal family.

In February, Mary Robinson, Ireland's first woman president and the main public face of Friends of Grameen, began helping B-M defend Yunus. It didn't work: in early March, Yunus was fired by the government of Sheikh Hasina Wazed, whose Awami League party won the 2008 election by a landslide.

The current power struggle between state and bank began, according to Hasina's son, Sajeeb Wazed, when "massive financial improprieties at Grameen" were revealed by a documentary on Norwegian state television late last year. The film, *Caught in Micro Debt*, showed how fifteen years ago, \$100 million in aid was irregularly moved from the (non-profit) bank to one of dozens of lucrative private firms controlled by Yunus, Grameen Kalyan.

Norwegian aid bureaucrats were furious and demanded that \$30 million be returned. Yunus' own personal correspondence about the matter is embarrassing, even damning. "In several cases," Wazed charges, his behavior "was completely illegal and constitutes embezzlement."

Wazed also alleges usury: "Grameen Bank charges up to 30 percent in interest rate on loans and up to an additional 10 percent in "forced savings" to the poorest sections of society. Their collection methods are draconian and collection officers who fail to collect payment have the uncollected amounts deducted from their pay. There are many documented cases which constitute abuse and the criminal offence of "molestation" under Bangladesh law."

The country's central bank and courts have ruled that Yunus must immediately leave Grameen, on an absurdly ageist technicality: he is older than 60, hence disqualified to run a bank (a matter ignored the previous 11 years). More seriously, on April 25, the 90-page report of the state's formal committee of inquiry found that "in all the activities [researched]... there has been a tendency to violate laws and rules in Grameen Bank. In fact, the organisation did not follow rules and laws, rather grew completely dependent on one individual."

Years back at a World Bank conference, Hasina had firmly endorsed Grameen's work, but in the meantime, Yunus attacked the existing political class in a short-lived 2007 attempt to start his own party. Last December, Hasina

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labeled Yunus a "bloodsucker of the poor."

The roles of Robinson, her Friends of Grameen co-chair James Wolfensohn (World Bank president during its most protest-ridden decade, from 1995-2005), B-M, the US State Department, and the Bangladeshi government are emblematic of the messiness of state, capital and civil society working at cross-purposes.

To illustrate, Wolfensohn visited Hasina in March. After his demands were apparently rejected, suddenly the Bank and International Monetary Fund cut \$500 million in loans Hasina was expecting. Another factor in that decision was the \$756 million Hasina was charging Grameenphone for a 15-year license, similar to other cellphone providers pro-rated by marketshare. As New Age newspaper reported, the World Bank considered this fee "far too high" – yet another case of that institution's pro-corporate, fiscal-shrinkage bias?

Hasina was also prime minister from 1996-2001, when Transparency International considered Bangladesh the world's most corrupt country. In 1975, the army had assassinated her father, considered the local equivalent of Nelson Mandela, and her mother and three brothers. Hasina and senior Awami League leaders have since been attacked – and several killed – on other occasions.

Another woman's political icon, Hillary Clinton, has entered the fray, demanding that Hasina halt the attack, even though her Bangladeshi "Hillary Village" is considered a prime case of microfinance failure. Last month, US Assistant Secretary of State Robert Blake threatened that US-Bangladeshi bilateral relations would be "impacted" if Yunus was fired.

WikiLeaks recently disclosed that under George W. Bush, the State Department had an overtly political agenda four years earlier, as Yunus "could offer a possible out from the present Hasina-Zia zero-sum game that cripples Bangladesh's democratic process." The same leaked cable revealed Yunus' desire to have Grameen finance a Bangladeshi "megaport" to promote regional trade, including with Burma. Yet like Robinson, Yunus is joined on Mandela's "Elders" group of notables by Burmese democracy activist (and fellow Nobel laureate) Aung San Suu Kyi, who has been a strong advocate of sanctions.

To assess genuine feminist perspectives on Yunus' financing legacy, beyond the maneuvers of politicians Robinson, Hasina and Clinton, consider an important new scholarly work on Grameen by University of Oregon anthropologist Lamia Karim: *Microfinance and Its Discontents: Women in Debt in Bangladesh*.

In a recent interview with my colleague Khadija Sharife, Karim pointed out, "Bangladeshi women give the loans to their husbands. Women are the conduits for the circulation of capital in rural society. This has resulted in increased domination and violence for individual women both at the household and community levels." As a result, she argues, women have become "custodians of honor and shame in rural society. By instrumentalizing these codes, NGOs shame rural women to recover their defaulted sums of money."

The crisis is of world importance because it reflects the limits of microfinance, and comes on the heels of suicidally-high interest rates (literally) charged by lenders elsewhere in South Asia. As London's Guardian reported last month, 30 million Indian households had borrowed more than \$3 billion in microcredit since the mid-1990s. "In recent months, the industry has been thrown into crisis as it has become clear that a significant number of borrowers – between a tenth and a third, depending on the estimate – cannot afford to repay their loans."

This predatory lending parallels the 2007-09 "sub-prime mortgage" crisis in the US. According to the Guardian: "The past five years have seen the aggressive selling of loans to often illiterate villagers, followed by equally aggressive debt collection." As a result, the past decade witnessed more than 200,000 farm suicides in India.

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Reports India's leading rural journalist, The Hindu's P. Sainath: "Those who have taken their lives were deep in debt."

Another major Bangladeshi NGO operator, BRAC, engaged in "loan pushing," its microfinance programme head Shameran Abed concedes. This was due to "excess liquidity" and "lack of communication between lenders," and as a result, "In the mid 2000s, the microfinancing industry grew too fast."

As Karim describes even the main Bangladeshi microcredit NGOs, "Many of these organizations operate like loan sharks! The idea that the poor are bankable and they pay back their loans at 98% is like music to the ears of donors and large corporations. Grameen Bank exemplifies neoliberal ideas of development: individual entrepreneurship and competition."

Karim concludes, "Let's replace the word credit with debt. Debt as a human right? How does that sound? Debt is a relationship of power and inequality between the loan institution and the borrower."

Milford Bateman of the Overseas Development Institute criticizes Yunus and Hernando de Soto, the Peruvian economist who authored *The Mystery of Capital*: "The microfinance industry makes a fatal mistake in believing that sustainable poverty reduction and 'bottom-up' development actually lie within the gift of the informal microenterprise sector."

The filmmaker behind the Norwegian documentary, Tom Heinemann, makes similar arguments against microcredit evangelism. Heinemann was named the leading Danish investigative journalist in 2007 and 2009, and his earlier work won prizes at the Prix Italia, Aljazeera Documentary Film Festival, GZ Docs in China, and Envirofilm festivals.

He is preparing a follow-up, because rebuttals from Friends of Grameen have focused on the film's misnaming of Grameen's first borrower (done originally by Yunus), comparative interest rates, and the Norwegian government's continued support to Yunus. Yet this latter defense says a great deal more about Norway's internationally-ambitious Minister of Environment and International Development, Erik Solheim, who broke his party's 2006 "Soria Moria" pledge to defund the World Bank, than it does about the merits of Grameen's case.

For Solheim, Clinton, Wolfensohn and Robinson, it may seem appropriate, even urgent, to defend Grameen. But looking more closely, it would be better to move on, towards post-microfinance strategies that genuinely reduce poverty and empower women. These strategies typically are strongest when grounded in collective action usually associated with social movements and organized labour.

In the last decade, one of the best examples is access to AIDS medicines, won in Brazil, Thailand, India and especially South Africa, against the US State Department's self-described "full court press", under Bill Clinton, to prevent Mandela's government from providing generic medicines using US-copyrighted drugs. The secret to the victory was not entrepreneurialism but instead popular mass activism, democratic organization and a vigorous critique of the post-Mandela South African government's AIDS denialism, intellectual property rights and medical monopolies, the World Trade Organisation's Trade Related Intellectual Property Rights system, Washington's WTO representative Robert Zoellick (now World Bank president) and Big Pharmaceutical corporate profiteering.

The impressive results: Mandela's successor Thabo Mbeki was fired by his own party, TRIPS now has an exemption to allow local production of medicines (and the US government is helping fund these), and for those who need the AIDS treatment, whereas once it cost above \$10,000/year, today the medicine is free. In contrast, South Africa has a notoriously bankrupt microfinance sector.

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Given the usury accusations and suicide wave, the industry's reputation is so tainted that in a recent New Age interview, Yunus publicly backtracked: "Unfortunately, not everyone who uses the word 'microcredit' is dedicated to serving the needs of the poor. This is not the microcredit I had in mind."

As Cambridge University economist Ha-Joon Chang confirmed to Heinemann, "They will never get out of poverty because when you have to pay between 30-40-50, sometimes 100% interest rate. What business makes that kind of profit?"

But Washington-based Grameen Foundation chief executive Alex Counts defends his Nigerian affiliate, LAPO, for its 100% rate: "Well – as it happens – many Nigerian banks that operate in the rural areas charge twice as much as LAPO... What microfinance is trying to do, with very little subsidy from the philanthropic sector is trying to provide a service – on a commercial basis on a business basis to give them a better deal."

Yet profit-seeking through microfinance represents, even Yunus concedes, "a terrible wrong turn." Still, Yunus defended his own role to the last, saying of the Norwegian documentary's allegations, "These attacks have no basis in reality." Claiming that Grameen interest rates – over 30% including fees, according to Bangladeshi economist Q.K. Ahmad – are reasonable, he continued to insist, "Access to affordable credit is a human right."

Still, it is difficult to ignore overwhelming evidence that not only for-profit lenders but also non-profit NGOs pushing microfinance as a silver-bullet fix to women's poverty often do more harm than good. In league with the State Department, the World Bank and Burson-Marsteller, even those like Mary Robinson who strive to raise women's standing, are actually stumbling straight into the path of both the collapsing Grameen founder and microcredit's fast-decaying reputation.

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