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Restoring Order in Grameen

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Abstract

The removal of Nobel Prize-winning economist Muhammad Yunus from the Grameen Bank in Bangladesh has created a deadlock in the Bank. The stalemate that is widely believed to have deep-rooted political interest is denting clients' confidence, leading to hasty withdrawal of deposits. This can also prompt some borrowers to refuse to repay their loans, eventually defaulting on their debts owing to a 'moral hazard' problem repeating the recent experience in Andhra Pradesh in India. Given the Grameen's local as well as global role in poverty alleviation through microcredit, an apolitical management with or without Muhammad Yunus needs to be restored as soon as possible, allowing the higher court to act independently. If not handled properly, the 'Grameen contagion' can travel well beyond Bangladesh's boundaries.

Following the removal of its founder Muhammad Yunus from the Grameen Bank, growing concerns about the future of the Bank are prompting some depositors to withdraw their savings. Indeed, many analysts and industry experts caution that a sudden exit of Yunus from Grameen and a legal battle between its Board and the Government may dent borrowers' confidence, jeopardising the organisation's future.² This is a matter of concern for the financial system of Bangladesh as well as the global prospects of microcredit.

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² Fazle Hasan Abed, 'Statement from Bangladesh Rural Advancement Committee (BRAC) on the recent controversy about Grameen Bank', *BRAC* (7 March 2011), www.brac.net/node/861. Accessed on 10 March 2011.

Such loss in confidence may not necessarily lead to a systemic banking crisis, popularly known as a ‘bank run’. But it could be another shock for Bangladesh’s already nervous financial system that barely recovered from the recent crisis in the country’s equity market. This is the last thing a central bank wants to see. It is also important to note that microcredit serves over 20 million poor households in Bangladesh and has the highest penetration of borrowers per square mile in the world.³

Yunus, who was sacked by the Bangladesh Bank alleging that he was past retirement age and was improperly installed in his post, is fighting in the Supreme Court to reverse the decision after the Lower Court dismissed his appeal. But the deadlock in Grameen can take some time to settle given the deep political interest in the case.⁴ Consequently, the loss in depositor confidence is not entirely unexpected. Moreover, going by history, financial institutions are the most vulnerable to such shocks.

According to MIX (Microfinance Information eXchange) Market, a web-based microfinance information platform, Grameen Bank, which championed the idea of collateral-less credit, has over US\$1.2 billion deposits entrusted by eight million depositors, mostly small savers.⁵

There is another concern as far as Grameen Bank’s lending programmes are concerned. Like depositors, if the debtors assume that the stalemate will not end soon, it may prompt some borrowers to refuse to repay the loans, eventually defaulting on their debts. Such a ‘moral hazard’ problem is highly prevalent across the world. The prevailing situation with regard to microfinance in Andhra Pradesh of India – where a punitive ordinance⁶ against microfinance business *de facto* barred microfinance institutions (MFIs) from operating in the state⁷ – reinforces the doubt. In the name of protecting borrowers’ interests, the politicisation of microcredit in India’s fourth largest province led to widespread defaults and a major crisis in the country’s microfinance industry.

The Grameen Bank’s eight million borrowers have a debt portfolio of over US\$ 1.1 billion with a cumulative disbursement amounting to US\$8.7 billion as of 2009.⁸ Similarly, there are several ‘for-profit’ and ‘not-for-profit’ non-government organisations (NGOs) and MFIs in

³ *MIX Market*, www.mixmarket.org. Accessed on 8 March 2011.

⁴ See, ‘You’re fired. No, I’m not’, *The Economist* (3 March 2011); Also see, ‘Is this the way to treat our Nobel laureate?’, *The Daily Star* (4 March 2011); ‘Yunus Departs as the Empire Strikes Back’, www.bdnews24.com (3 March 2011), <http://opinion.bdnews24.com/2011/03/03/yunus-departs-as-the-empire-strikes-back>. Accessed on 5 March 2011.

⁵ *Ibid.*

⁶ Andhra Pradesh Microfinance Institutions (regulation of money lending) Ordinance, 2010, <http://indiamicrofinance.com/wp-content/uploads/2010/10/Andhra-MFI-Ordinance.pdf>. Accessed on 15 March 2011.

⁷ ‘Microcredit is Not the Enemy’, *The Financial Times* (13 December 2010).

⁸ See *Grameen Bank*, www.grameen-info.org. Accessed on 10 March 2011.

Bangladesh that are in micro-lending operations disbursing at least another US\$1.5 billion and reaching out to over 15 million poor households, excluding Grameen.⁹

But there is a silver lining in the dark cloud created over Yunus' ouster: Yunus and Grameen were awarded the Nobel Peace Prize in 2006 for their efforts to create economic and social development from below. This has been the biggest hedge for the bank in the wake of mounting adversities.

Credited as the birthplace of modern microcredit, the current situation in Bangladesh is being closely watched across the world with marked concern. The stake in the Grameen crisis is particularly high for microcredit stakeholders around the world, including the global microcredit summit campaign that lately reported that a record 128 million of the world's poorest families received micro-loans in 2009. A recent survey by an international advocacy group reveals that 10 million of Yunus' fellow countrymen moved above the US\$1.25 a day earning threshold between 1990 and 2008.¹⁰ This trend cannot be afforded to be reversed.

Worse still, the deadlock in Grameen is highly disturbing for the burgeoning microfinance industry, which has been undergoing a fundamental shift as a number of microcredit institutions are evolving from 'not-for-profit' to 'for-profit' outfits by going public, *inter alia*. This tectonic shift casts some doubts on whether over-commercialisation will be a disaster for the industry or if this is the way forward for sustaining microcredit.¹¹

Yunus has been highly critical of the commercialisation of microcredit, alleging that such moves are terribly 'wrong turn' and worrying 'mission drift' in the motivation of those lending to the poor.¹² The proponents, notably Compartamos, a Mexican bank, and SKS Microfinance, the largest bank of its kind in India that allegedly charged very high interest rates¹³ and enjoyed astounding growth until the recent crisis in Andhra Pradesh, have justified their move in a manner similar to Deng Xioping's famous observation, 'The colour of the cat is not important as long as it catches mice.' Thus, Yunus and Grameen's roles are even more important in guiding the global microcredit industry at this critical juncture with their three-decade-long experience.

Grameen's contribution is not merely limited to microcredit. Its new vision – again concentrated in poverty – is to develop social business based on the principle that investors and owners can gradually recoup the money invested, but cannot take any dividend beyond

⁹ *MIX Market*, www.mixmarket.org. Accessed on 8 March 2011.

¹⁰ 'Microcredit's Mega Feat', *The Daily Star* (28 January 2011), www.thedailystar.net/newDesign/news-details.php?nid=171858. Accessed on 8 March 2011.

¹¹ See, 'Conflicts of Interest', *The Financial Times* (6 December 2008); 'The Battle for the Soul of Microfinance', *The Financial Times* (6 December 2008).

¹² Mohammad Yunus, 'Sacrificing Microcredit for Megaprofits', *The New York Times* (14 January 2011).

¹³ Banco Compartamos, 'Interest Rates, Profits, and an Initial Public Offering', *Consulting Group to Assist the Poor* (15 June 2007), <http://cgap.org/p/site/c/template.rc/1.26.4905>. Accessed on 11 March 2011.

that point.¹⁴ Grameen has already started a number of ventures involving companies like Intel Corporation of the United States (US) and Danone of France, among others. While global capitalism today is in search of an alternative route following the great recession of 2008-09, the idea of social business is considered one way to renew the existing structure by arresting excessive greed and making the system work for the poor.

The functioning of Grameen is imperative from another perspective. This is perhaps the most successful homegrown brand that has gone global along with BRAC, the world's largest NGO, which is a close second. So, protecting the interests of Grameen is critical for the branding of Bangladesh abroad. It is hardly surprising that the removal of Yunus has generated widespread outrage among the large community of expatriate Bangladeshis, who enjoy the intangible benefits of Grameen. International relations experts and economists alike foresee that diasporas are going to play a major role in shaping the new world order.¹⁵ Hence, perceptions of the diaspora cannot be overlooked.

Grameen's vision has produced a number of 'for-profit' and 'not-for-profit' entities aiming at poverty alleviation. All these ventures might not have been highly successful. But Grameen under Yunus' leadership has led a revolution in microcredit, leading economic and social development from below. Bangladesh's stride in social sector development, including women empowerment, is no accident given the rampant governance failure in the country.

While 26,000 Grameen employees and nine directors of the Board – all women – want to restore its founder's honour with strong support from literally all corners of the world, a peaceful solution is the only way forward.

The Central Bank of Bangladesh and the microcredit regulatory authority of the country should act prudently to restore the confidence of Grameen clients. A strong apolitical management in the Grameen Bank with or without Muhammad Yunus needs to be restored as soon as possible. This can only be done by allowing the court to decide the future of Yunus at Grameen with no political influence from the ruling government. This has to be done for the benefit of millions of poor households across the world. Otherwise, the 'Grameen contagion' could travel well beyond the Bangladesh borders.

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¹⁴ See *Yunus Center*, www.muhammadyunus.org/Social-Business. Accessed on 15 March 2011. Also see, 'Social Business: Is the Debate Going to Follow the Footsteps of Microcredit?', *The Financial Express* (12 March 2011).

¹⁵ 'Global Paradigms: The Postmodern Thinker', *The Business Times* (5 March 2011).