

SAVE GRAMEEN AS AN INSTITUTION

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By M Shahidul Islam

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 cautioned 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. This is a matter of concern for the financial system of Bangladesh as well as the global movement of microcredit- not to mention microcredit serves over 20 million poor households in Bangladesh and has the highest penetration of microcredit borrowers per square mile in the world.

The deadlock in Grameen could apparently take some time to settle given the deep political interest in the case. Consequently, the loss in depositors' confidence is not entirely unexpected. Moreover, financial institutions are the most vulnerable to such shocks, if history is any guide.

According to MIX 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.

There is another concern as far as Grameen Bank's lending programmes are concerned. Like depositors, if the debtors assume that the stalemate is not likely to 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 ordinance against microfinance business de facto barred microfinance institutions (MFI) from operating in the state - 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. Similarly, there are several for-profit and not-for-profit NGOs and MFIs in Bangladesh that are in micro-lending operations that disburse at least another US\$ 1.5 billion and reach out to over 15 million poor households, excluding Grameen.

But there is a silver lining in the dark cloud created over Yunus's 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 a microloan in 2009. A recent survey by an international advocacy group revealed that 10 million Bangladeshis moved above the US\$ 1.25 a day earning threshold between 1990 and 2008. This trend cannot afford 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.

Muhammad Yunus has been highly critical of the commercialisation of microcredit, alleging that such moves are a terribly "wrong turn" and a worrying "mission drift" in the motivation of those lending to the poor.

The proponents, notably Compartamos, a Mexican bank, and SKS Microfinance, the largest bank of its kind in India that allegedly charged very high interest rates and enjoyed astounding growth until the recent crisis in Andhra Pradesh, have justified their move in terms that sound akin to China's former leader Deng Xiaoping's famous observation: the colour of the cat is not important as long as it catches mice. Thus Yunus's and Grameen's roles are even more important to guide the global microcredit industry at this critical juncture with their three-decade long noble experience.

Grameen's contribution is not merely limited to microcredit. Its new vision - again concentrated in poverty alleviation - 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 that point. Grameen has already started a number of ventures involving companies like Intel Corporation of the United States 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 home-grown 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 relation experts and economists alike foresee that diasporas are going to play a major role in shaping the new world order. Hence perceptions of diaspora cannot be overlooked.

That said, Grameen's vision has produced a number of for-profit and not-for-profit entities aiming at poverty alleviation. All of these ventures might not have been highly successful. But Grameen under Yunus's 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 micro credit 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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