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OP-ED

Bhagwati is wrong about Grameen and Bangladesh

Grameen and Yunus are not beyond criticism, but a misleading analysis is the last thing that the entity's over eight million clients and the global microcredit industry can afford.

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Professor Jagdish Bhagwati, a noted economist of Columbia University, USA, has written a provocative piece about the ongoing spat between the Government of Bangladesh and Grameen Bank. The Project Syndicate and the Times of India carried the article.

Unfortunately, he has got many issues wrong as far as the role of Grameen Bank and micro-credit and Bangladesh's growth trajectory are concerned. Bhagwati's comments about Muhammad Yunus also undermine Bangladesh's lone Nobel Laureate's contribution to microcredit and social development.

The need for microcredit in Bangladesh and elsewhere in the world hardly needs any introduction. There is rampant market failure as well as government failure with regards to extreme poverty. Against this backdrop, the intervention made by Professor Yunus through microcredit has been widely recognised as a success story.

According to the Microcredit Summit Campaign, a record 128 million of the world's poorest families received micro-loans in 2009, inspired by Grameen. A recent survey by an international advocacy group reveals that 10 million of Yunus's fellow countrymen moved above the \$1.25 a day earning threshold between 1990 and 2008.

However, Professor Bhagwati believes that the true pioneer of microfinance is Ms. Ela Bhatt, a follower of Gandhi, who established Self-Employed Women's Association (SEWA) as a bank in April 1974, two years before Yunus founded his Grameen Bank Project in Bangladesh. I do not discredit Ela Bhatt for her noble work. However, there are scores of Ela Bhatt's who have made some contribution in the field of microcredit, but it is none other than Yunus who institutionalised the idea of collateral-less credit.

Terming Grameen as a losing concern Bhagwati writes: "Yunus is suspected of covering up losses at Grameen with huge sums of money from abroad." However, the reality is that Grameen stopped accepting foreign money of any kind in the 1990s. Its deposits (\$1.4 billion) exceed its loans to borrowers in excess of \$500 million. Moreover, Grameen's balance sheets, which are audited by professional accountancy firms regularly, show that it incurred losses for only three years since its inception. More importantly, Grameen has never faced a situation, as many state owned banks in Bangladesh have, that required a government bail-out.

Indeed, one of the basic philosophies of Yunus is that charity cannot alleviate poverty. His new vision -- again concentrated on 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.

Downplaying the role of microcredit, Bhagwati argues that India's massive economic reforms, which began in earnest in 1991, have had a far greater impact on poverty, and indeed on the incomes of several

disadvantaged groups, including women. However, citing the NSS data, Professor Pranab Bardhan of the University of California, Berkeley, debunked this conventional view. The statistics shows that the rate of decline in poverty had not improved significantly in 1993-2005, the period of intensive opening of the economy, compared to the '70s and the '80s.

Moreover, had the economic liberalisation in India helped the poor in such a big way, as Bhagwati thinks, India should have witnessed better performance of its social sector indicators. India remains home to the world's largest population of the poor, hungry and illiterate. Moreover, the demand for microcredit has not declined in the country.

Bhagwati discounts the country's steady economic growth. He has gone after key Bangladeshi economists, who were trained in economics in England, for their policy failure with regards to the recipes of economic growth. According to Bhagwati: "As Sheikh Hasina has seemed to appreciate since returning to office two years ago, Bangladesh has for decades been handicapped by doctrines that undermine growth. Unfortunately, Bangladesh's most influential economists, and hence the country's policies, remain mired in the growth-killing socialist economics that they learned at Cambridge and the London School of Economics a half-century ago."

There is no denying that the growth trajectory that India witnessed in the post-1992 reform era is nothing short of a miracle, and that Bangladesh's economic performance has been lower than its optimal level. However, here the key constraints to growth are not the lack of right economic policies, rather high degree of corruption, poor governance and undeveloped institutions, inter alia.

That said, since 1992 the growth rate of Bangladesh has been no less impressive. According to World Bank data, the average annual growth rates in India and Bangladesh were 6.7% and 5.4% respectively in the period of 1992-2009.

It is not clear how Sheikh Hasina's team of economists have done anything radical in the past two years. Indeed, the recent IMF assessment of the Bangladesh economy is worrisome. The equity markets in the country have wiped out the life-long savings of millions of small savers owing to the authorities' poor regulations. The economy faces near double-digit inflation. More worryingly, Bangladesh's hard-earned macroeconomic stability is now at stake.

Growth-obsessive economists often forget the issues of social justice and equity. With relatively lower GDP growth rates than India's, Bangladesh's social sector indicators are much better than most South Asian countries. It has outshone even India in many social indicators. How Bangladesh fares in this regard is perhaps best captured in a recent UN Human development report that says: "Bangladesh is one of the countries that has made the greatest progress in recent decades as measured by a new version of the HDI." The percentage of the population living under the poverty line came down to 30 in 2010 from 40 in 2005, according to the latest household expenditure survey by Bangladesh Bureau of Statistics.

This has also not gone unnoticed by one of India's top economists, Nobel laureate A.K. Sen, who incidentally studied at Cambridge and is an authority on social sector and poverty issues. He frequently cites the successes of Bangladesh's social sector and acknowledges the role of Grameen, among others, in empowerment of women and poverty alleviation.

Bhagwati's article, which is misleading in many instances -- both in terms of facts and arguments -- comes at a time when the people in Bangladesh are hoping that order will be restored in Grameen sooner rather than later. Further, 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. Thus, Yunus's 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 as an institution and Yunus as a person are not beyond criticism, but a misleading analysis is the last thing that the entity's over eight million clients and the global microcredit industry can afford.

Bangladesh, once widely seen as a "basket case," has emerged as a socially strong and economically viable state thanks to the role played by the government, the private sector and NGOs. The country needs more scholars and friends to globalise its many social virtues that are widely seen as "quasi- public goods." Disingenuous remarks about Bangladesh's growth dynamics without understanding the country's political economy will not help, if not hurt, the nation.

The Bhagwati article reveals the fact that there are abundant armchair economists in our times who only sit back and criticise those of their colleagues whose labours have actually contributed to the welfare of human kind. Jagdish Bhagwati, sadly, represents the former, and Yunus, happily, the latter.

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