Micro-credit and the return of debt bondage for world’s poor

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4 January 2014

The economist Muhammad Yunus, the son of poor Bangladeshi peasants, is considered a “pioneer” in the field of micro-finance. In 2013, his Grameen Bank celebrated its 30th anniversary, for which the economist was awarded the 2006 Nobel Peace Prize.

Even then, there was criticism of the micro-credit system. An article by scientist Philip Mader in the *Max Planck Research* magazine, published by the same institution, shows that micro-finance is growing rapidly, bringing investors fantastic returns, and death and destruction to the poor of the world.

Under the headline “Failure by instalments”, Mader writes: “Micro-credit makes the activities that poor people in the global South do to survive available to financial markets and financial market players and ... profitable,”

With the founding of the Grameen Bank in 1983, Yunus took up a concept derived from cooperative banks in Germany, using micro-loans to turn the population into micro-entrepreneurs. The two-centuries-old credo of “helping people to help themselves” enables a group to come together using loans of up to a few hundred Euros at interest rates lower than those of established banks. The group is meant to control the timely repayment of the loan, put pressure on defaulters, etc. Ideally, this should lead to increased chances of success. That is the theory.

Yunus claims that “the structure of capitalism” must “be completed” by the introduction of social enterprises. The purpose of these companies is not to maximise profits but to solve social and environmental problems. “If one takes off the profit-maximising spectacles and picks up social spectacles, one sees the world in a different perspective,” he said.

But profit maximization is part of the basic structure of capitalism. It is in its socio-economic DNA. Therefore, it was just a matter of time before the international banks discovered Yunus’ model for themselves.

Many lending institutions have copied the professor worldwide. Since then, micro-finance has increased in size. Whereas it had a volume of $3 billion worldwide in 2001, this rose in 2010 to $90 billion spread over 200 million borrowers. The proceeds amounted to $19.6 billion in the same year, representing a profit rate of nearly 22 percent—a sum almost equal to the entire gross domestic product of Afghanistan, or three times the profit of Volkswagen in the same year.

Competitors of the Grameen Bank charged an average of 27 percent interest with the industry leader, the Mexican bank Compartamos (“Let-us-share bank”), even charging up to 195 percent. Since it went on the stock exchange in 2007 and earned a profit of half a billion dollars, large banks like Deutsche Bank, the Dutch ABN-AMRO Bank, Credit Suisse and Citibank are also profiting handsomely from poverty. “Philanthropists” like Bill Gates and George Soros, both multi-billionaires, have been active for some time as investors.

A number of funds have been established that promise donors juicy yields, and operate from tax havens; public development banks and “charitable” organisations are also getting involved. Some banks achieve repayment rates of more than 90 percent, which is hardly ever the case with commercial and private banks.

This is not surprising in view of the conditions imposed on the borrowers. Repayments must be made every week after signing the contract. Debt collectors work on a contract basis and are paid according to the amount of the debts repaid, “so that they continue to collect these even after natural disasters or disease outbreaks". In cases of failure to pay, they take whole families into custody.

The defaulters—three out of four borrowers are women—must then borrow money from friends to ransom themselves and their families. This can cost up to 40 other families their daily wages. In this way, the lenders take away the most important things they still possess: family ties, their "social capital". This impossible situation leads many to flee or even drives them to suicide.

Previous studies have proved that micro-loans do not save small farmers, traders and restaurant owners from misery and backwardness. Quite the contrary: "Rather, it is the continuation and expansion of that bazaar economy", writes Mader, "which already represents, at best, a temporary solution for people who otherwise have no work." The majority of the loans are not expended for entrepreneurial activities, but for the purchase of food and medicines to ensure daily survival, or "to cope with exceptional situations such as illness".

These micro-credits thus lead to a vicious cycle of debt bondage, increasing exploitation and violence. Mader describes the example of the Indian state of Andhra Pradesh. Since the 1990s, the majority of households in this poor Southern India region have taken out more than four credits from different micro-finance institutions, using one to pay off the others. "Many of the NGOs founded at the turn of the millennium with financial assistance were privatised within a few years as profit-oriented institutions, and hunt for investment capital with which they finance annual growth rates of sometimes more than 100 percent."

This led to over-indebtedness and in 2010 to an open crisis not dissimilar to the international mortgage credit bubble of 2008. Hundreds of impoverished debtors commit suicide. Some of them are even driven to this by the caseworkers, as some banks have their borrowers take out a life insurance policy when they sign the contract as a precondition for the loan. Upon death, the entire payoff goes to the bank.

Social tensions have risen enormously. After the outbreak of the micro-credit crisis of 2010, the state government of Andhra Pradesh banned all non-governmental micro-finance in order to prevent an uprising. According to Mader, similar crises like the one in India occurred in Bolivia in 2000, and in Nicaragua, Bosnia-Herzegovina (an EU candidate), Pakistan and Morocco in 2008.

Mader summarises: "It can be seen that financial markets and financial market actors play an increasingly important role in the fulfilment and control of societal needs, from securing old age care and living accommodation—keyword: US mortgage bubble—up to climate change (emissions trading) and the provision of public goods." What the author describes here, scientifically and diplomatically, is the brutal exploitation of the poorest of the world's population by a ruthless criminal and financial oligarchy. Every aspect of human life is in their stranglehold, with all the human tragedies that arise from this.

While the poor are pushed further into poverty, financial market actors accumulate large sums in their bank accounts. The wealth of the top 2,000 billionaires has doubled in the past three years, to $6.5 trillion.

Yunus and his bank have also gone far with the micro-credit model: With a turnover of $120 million and a profit of $10 million alone at the Grameen Bank in 2010, the economics professor has set up and expanded a conglomerate of subsidiaries. These are active in the telephone, energy, textile and construction industries. These "social" enterprises have to rely on big donors and corporations. The Grameen Phone company, for example, depends on the partly government-owned Norwegian Telenor Group, the largest mobile phone company in the world. It holds the majority stake in the Bangladeshi company and uses it to secure market access in this populous country.

With his investment company "Yunus Social Business—Global Initiatives" (YSB), Yunus promotes social enterprises in Haiti, Albania, Uganda, Tunisia, Colombia and Brazil. This does not bode well for the population there. Rather than eliminating poverty, micro-credit opens up previously untapped areas to rapacious international corporations and banks.