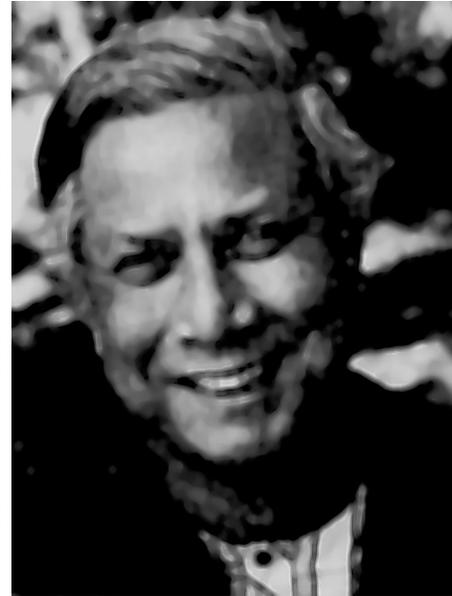


Muhammad Yunus

Bangladesh (1940 -)

In 1974, famine visited Bangladesh. People as thin as skeletons appeared in the railroad and bus stations. They came into the cities. These people didn't demand food, but just lay down in front of people's houses to die. The government opened places to give away food, but they soon ran out. There were so many dead that it became impossible to bury them all.

This was the beginning of Muhammad Yunus's journey to becoming "banker for the poor". At that time, he was a young economics professor at Chittagong University. Seeing the dying people in the streets made him dissatisfied with his lessons about economics. He asked himself: "What are these ideas I am teaching worth if they result in a world where so many people can't even feed themselves?"



Muhammad Yunus
In Yunus, 1999

Yunus Becomes Interested in the Poorest of the Poor

Muhammad Yunus decided he had to know more about why people were unable to feed themselves, and he started visiting Jobra, a town near the University. He decided to let the people of Jobra teach him about what life is like for a very poor person. Then maybe he could learn how to help people escape from poverty.

Soon he and his students were doing some things to help the people of Jobra. For example, they helped them improve the irrigation system. They also worked with farmers to raise production in various ways, for example by using new types of rice.

Gradually they came to see that "poor" is a word with many meanings. Certainly the farmers they worked with were poor compared with many other people in Bangladesh. But many farmers had land, a house, or machinery. Usually they could feed and clothe their family.

Yunus became interested in the poorest of the poor. In Bangladesh, these people made up 20% of the population. These are people who work hard but only earn just enough for basic things. Most important, they have no way to get out of this situation because they are already working as hard as they can and still can hardly keep themselves fed.

How is it possible for a person to work hard and still have nothing? Here is an example. Let's say we have a person who makes stools and sells them. She needs certain

materials to make a stool, but she has no money. In order to make a stool, she borrows money from a local money-lender or gets materials on loan from someone. The problem comes in when the lender charges so much that the maker of an item has almost nothing left after paying back what she owes. For example, a stool might sell for 24 cents US, and the materials might cost 22 cents. The maker would earn two cents on this stool. (This is a real example out of Yunus's book, *Banker to the Poor*).

In this situation, the maker will never be able to save a penny. The person lending the money or materials keeps the price just high enough so the worker takes home only just enough money to survive. If the maker has no one else to go to for money or materials, she or he becomes totally dependent on the relationship. Women, who in many cultures are not able or allowed to travel anywhere alone, often find themselves in this situation.

The Power of Microcredit

Yunus was shocked to find that it was possible for a person to be kept in extreme poverty just because she didn't have 22 cents to buy materials. He found out that many people in Jobra had a similar problem. In fact, he and his students found that 42 people in Jobra were in this situation. They had borrowed a total of 456 taka - less than \$27 US. In *Banker to the Poor*, he writes, "I felt ashamed that I was part of a society that could not provide twenty-seven dollars to forty-two skilled persons to make a living for themselves..." (p. 51). What was needed, he decided, was a bank that would lend to those who had nothing.



A typical micro credit client
In: UNICEF, 1997

This led to his idea of *microcredit*, that is, lending small amounts of money to very poor people who have a plan for a small business. Here are only a few types of small businesses that poor people have started with the help of microcredit: husking rice, making ice-cream sticks, repairing radios, making mustard oil, cultivating jackfruit, weaving, opening a small store, raising a few animals such as cows, chickens, or pigs, sewing or mending clothes for people, and brewing beer.

Perhaps the greatest thing about microcredit is that it allows people to immediately use skills that they already have. This is a far more effective way of helping poor people than handing them money. Usually most of the money spent in programs to help the poor is used up paying the high salaries of the people who plan and carry out these programs. They may do some good, but if the same money is used for micro credit loans, it can do far more good. Since the money is paid back it can be used over and over.

After being around them, Yunus saw that most poor people are not lazy, stupid, or lacking in skills. They in fact have skills and know how to make money. They do not need training. They know better than anyone from the outside what opportunities there are for making money in their neighborhood or city. What they need in order to help

themselves is the same ability to borrow money that people from other parts of society have.

Why Grameen Loans Are Paid 98% Of the Time

The first Grameen (grameen: "of the village") bank branch was set up in Jobra in 1977. By the end of 2006 Grameen had around 7 million clients all over Bangladesh. Each year, an estimated 250,000 families were lifting themselves out of extreme poverty (defined as earning less than \$1 US per day).

The way has not been easy. In fact, ordinary banks and governments have strongly resisted the idea of lending money to poor people who have nothing. Everyone around the world knows that you cannot borrow from a bank unless you have something valuable that they can take if you don't pay. The poor people Grameen banks serve have nothing valuable to take. So how do you explain the fact that 98% of them pay back the loans they get? (This is much higher than for ordinary bank loans.)

Grameen borrowers pay for many reasons. First, they know that this is their only chance for help to get out of poverty. A member's first loan often might be about \$25— a huge amount for a villager, more money than she has ever seen in her life. It is a huge responsibility, yet also a huge trust. She may have been looked down on all her life, pitied, told she is no good. Receiving a loan like this gives her pride and makes her determined to pay every penny back.

If a borrower pays back the first small loan, she becomes eligible for a larger loan. Her "loan ceiling" (the largest amount she can borrow) goes up every time she takes a loan and pays it back. Payment has to be made every week. This means the payments are small, which make it easier. However if a person is unable to keep paying because of some problem (such as sickness, family emergency, theft, or loss due to natural disaster), she can get her payment reduced and the loan time lengthened. This is not a thing to be disapproved of or criticized, but if it does happen, a member's loan ceiling goes down quite a bit.

"Grameen's experience demonstrates that, given the support of financial capital, however small, the poor are fully capable of improving their lives. Some need only \$20, others \$100 or \$500. Some want to make puffed rice. Some make earthenware pots and pans while others buy cows. But - and note this, development specialists around the world - not one single Grameen borrower requires any special training. They have either already received this training as part of their household chores or have acquired the necessary skills in their field of work. All they need is financial capital."

--Muhammad Yunus

--Banker to the Poor, p. 205

"When we want to help the poor, we usually offer them charity.....but charity is no solution to poverty. Charity only perpetuates poverty by taking the initiative away from the poor. Charity allows us to go ahead with our own lives without worrying about the lives of the poor. Charity appeases our consciences.

--**Muhammad Yunus**

--Banker to the Poor, p. 249

Perhaps the most important reasons Grameen borrowers are successful in paying are the member groups and the steps for getting and paying loans. Each borrower must belong to a group of five members. The groups find their own members. Once a group of five is formed, all members have to attend a training of at least 7 days where they study the rules for loans and how the bank is run. They have to pass an exam on what they learned. After that loans are arranged for two members of the group. If these two pay regularly for six weeks, then two more members can get loans.

Groups meet frequently with bank employees and the members get to know each other very well. Because of the pressure

provided by the group and the exam, only people who are serious will join. If any member becomes unwilling or unable to pay back her loan, no one in the group can get a larger loan until the payment problem comes under control. So the group is very interested in a member's plans for the money to be borrowed and how it will be paid back, and in how the member is doing with her business! The pressure and support of member groups helps borrowers in many ways.

Why Grameen Lends Mainly To Women

From the beginning, Grameen wanted to have half of their borrowers be women. This was partly because, in the 1970s in Bangladesh, Yunus observed that less than 1% of all borrowers were women. If a woman wanted to borrow, the bank would insist that they must discuss the loan with their husband. Husbands generally wanted to control the money. In Bangladesh, as in much of the world, women are often taught that only the husband can and should handle the money. Husbands and religious leaders often actively oppose having a Grameen bank in their village.

As the years went by, however, experience showed that loans to women help eliminate poverty faster than loans to men. A woman's focus is her family, and she uses the money she earns to benefit the household and to prepare her children to lead better lives. What men do with the money they earn often does not benefit the family. Women also pay more attention and make their loan payments more regularly.

Microcredit Spreads Internationally

In 2006, Yunus received the Nobel Peace Prize for his work. By this time, Grameen type banks had been started in many countries, including Malaysia, the Philippines, Poland, India, Vietnam, China, Latin America, and the USA.

Since 1997, there have been a number of Microcredit Summits. At the 1997 Summit, a goal was set to reach the 100,000 poorest families with Microcredit. Based on the last figures available, this goal was probably reached in 2007.

References and Further Reading

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- UNICEF 1997 *Give Us Credit: How Access to Loans and Basic Social Services Can Enrich and Empower People* <http://www.unicef.org/credit/credit.pdf>
- Yunus, Mohammad 1999 *Banker to the Poor* Public Affairs (Perseus Book Group), New York, NY Most of the information and all the quotations in this article are from this book.

Discussion or Essay Questions

When you talk or write, please try to use some of the new words you have learned in this reading. Also, if you have noticed new grammatical structures, try to use them, too. It is a good idea to keep a notebook where you write down these things when you read.

1. What do you feel and do when you see a poor person? Explain.
2. Look on one of the web sites listed above. On that web site, or one you find through that web site, read the stories of some microcredit borrowers. Choose one and tell about her or him in your own words.
3. Is there a microcredit program in your country? Has it been successful? Try searching on the internet. Report to your class, or write about what you find. If you can't find and report on one in your country, try to find one in a nearby country or a country that interests you.

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