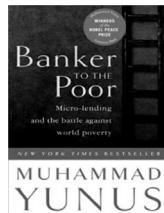


## Banker to the Poor: Micro-Lending and the Battle against World Poverty



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The book is written by Muhammad Yunus, winner of the Nobel peace prize for efforts through Grameen Bank in creating economic and social development for the poor. The book narrates the author's biography and success stories of Grameen Bank, an institution that provides micro-lending to the poor starting in Bangladesh. The book explains the reason for initiating, process, obstacles, and success for operating Grameen Bank. The book also mentioned the application of Grameen Bank in both developing and developed countries.

### Early Life

The first part of the book describes Yunus's life as child until his interest in starting a bank for the poor. Muhammad Yunus was born in 1940 in a middle class family in Chittagong, a commercial city in Bangladesh. Yunus and his nine siblings lived with his father and mother who ran a jewelry shop. His father is a devoted Muslim who insisted on providing his children with

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education. His mother is a disciplined woman who, later on, became mentally abnormal after the loss of her baby at birth. However, Yunus was influenced the most by her mother in terms of compassion for she always handed money to the relatives and neighbors that were in need. As a child, Yunus was eager to learn and have passion for hobbies including photography, drawing, painting and graphic design. His enthusiasm for reading put him in prestigious academic school. While attending school at Chittagong Collegiate School, he participated in the Boy Scouts program. He had the opportunity to travel to Canada, Japan, and Philippines. One of the trips led Yunus to travel across India by train to the first Pakistani National Boy Scouts in Jamboree with his headmaster, who he admired deeply as a leader. The Boy Scouts has led him to a continued passion for travelling and leadership skills.

Since Yunus is an enthusiastic learner, it was natural for him to attend prestigious academic institutions throughout his learning career. Yunus graduated from Dhaka University in 1961 and won a Fulbright scholarship to study in the United States. In 1965, he left Bangladesh and his teaching in economics to attend summer school at the University of Colorado at Boulder and further his Ph.D. in economics at Vanderbilt University.

In 1971, people in the East Pakistan decided to fight for independence and the Bangladesh Liberation War began. Yunus, while living in the United States, declared his allegiance to the new nation of Bangladesh. With other Bengalis in the United States, he

formed the Bangladesh Citizens' Committee, which began to support independence of Bangladesh. Yunus traveled to Washington D.C. where he held a demonstration on Capital Hill, spoke to press and ambassadors from various nations to recognize Bangladesh. He also formed a satellite government where he used his apartment in Nashville as an information center. Finally in December 1971, after more than three million deaths and after ten million people fled to India, Bangladesh won its independence. Yunus, at the age of 31, decided to leave the United States and to help build his country.

### **The starting point of Grameen Bank**

Back in Bangladesh, Yunus joined the government in the planning department. The role he received in the government office was unexpected for there was no meaningful responsibility. He decided to go back and teach in the Economics Department of Chittagong University. At that time Bangladesh was suffering from famine. During his daily travel to the work, Yunus noticed substantial area of uncultivated land in the starving population. In an attempt to merge the economic theories into practice, Yunus started the Chittagong University Rural Development Project, through which students earned academic credit for assisting local poor people. At first the project focused on helping the villagers grow higher rice yield. As the project continued, Yunus realized that the reason of poverty was the lack of endowment for

self-employment. The poor had no access to loan because moneylenders charged high interest rates for no collateral and the bank would not give loans due to their illiterate. The solution Yunus found was to loan the poor himself by acting as an intermediary with the bank.

This simple program later evolved into Grameen Bank. Even though Yunus had no background in managing a bank, he was able to learn from the experience and expanded Grameen Bank to other poor cities in Bangladesh. The key success factors for Grameen Bank are to operate differently from the traditional financial institutions. Grameen Bank requires the borrowers to start repayment in small amounts weekly. The borrower needs to be a member of a group. If one borrower defaulted, the group's members couldn't get loans. The members are almost exclusively to women since they are the majority of the poor. Moreover, women are likely to use the money to improve the welfare of both men and children. When a woman earned extra money, they likely used the money to improve the quality of life in the household. On the other hand, men tend to borrow funds and spent on themselves. The bank requires borrowers to accumulate savings, so that it can be used to help other group members. In terms of operations, all the transactions are conducted in the open so everyone could learn how the system works and for transparency.

## **Growth of Grammen Banks and application to other countries**

Since the late 1970s, Grameen Bank expanded beyond Chittagong into other poor districts of Bangladesh. By the end of 1981, loans totaled \$13.4 million were accumulated and repaid. In 1982, with Ford Foundation money as well as loan from other international organization, Grameen Bank moved into five more districts in Bangladesh and distributed another \$10.5 million. As the bank continued to grow, Yunus restructured Grameen Bank as an independent institution from the government for flexibility in authorization. With independence, the bank grew even more quickly and created approximately 100 branches a year. In addition to loans, Grameen Bank also offered family planning, eliminate social problems, provided loans for emergencies. The Bank also set up annual workshops to identify any areas of concerns for the group members and look for solutions to social and economic challenges.

Grameen Bank was applied and expanded to other poor countries, including Malaysia, the Philippines, India, Nepal, Vietnam, and China. Grameen Bank was also initiated in the United States with President Bill Clinton's support. Yunus established Grameen Bank as an antipoverty program for both the poor in developing and developed countries.

The institution that began in the small village of Bangladesh with \$27 loan has become and effective antipoverty program for all over the world. Currently Grameen Bank has assisted more than

eight million borrowers, 97% of whom are women. With a total of 2,565 branches all over the world, the bank has loaned \$3.9 billion with a recovery rate of 98%. About 90% of its loans are financed from its own funds, using the savings of depositors. Since 1998, Grameen Bank has not used any donor funds in its loan programs.

### **Grameen bank and economic theories**

Grameen Bank is a successful example of microfinance. Microfinance is a general term describing financial services for individuals who cannot access banking services. Grameen Bank appears to offer benefits for both the poor and donors who funded microfinance. It has been known that lending to the poor can be risky and costly. Poverty alleviation through credit was the main strategies for development since the early 1950s, but the programs were mostly a failure. Grameen bank, however, was proven to be successful due to its innovation in financial operation. The new management structure, new contracts and new attitudes toward the poor were main success factors that were learnt through trial and error. The management of Grameen Bank are centered around to the community. The structure follows bottom-approach where the bank managers and the members administered the financial service with the lack of public interference. Moreover, the members of the bank are focused on the poorest poor who are women. The aim of the bank is for non-profit and to help the underserved. The rise of the microfinance pays attention to the

social capital within the community where financial capital is limited. The bank also uses dynamic incentives where regular repayment requirement and collateral substitutes help maintain the high repayment rates. Moreover, the bank indirectly motivates the borrowers to work in self-employment using market forces and through subsidies of low interest rate and minimum loans.

Group-lending contracts make the borrower's peers co-signed to the loans. This effectively avoids problems created by imperfect information asymmetries between lender and borrower. Moreover, members of the group would monitor each other in order to exclude risky borrowers from participation.

The group lending also promotes repayment without collateral obligation. The contracts have caught the attention of economic theories for the mechanism avoids the probability of facing risky borrowers and loan repayment. Group lending has advantages beginning with screening of borrowers through adverse selection. They key to success is that group-lending schemes provide incentives for similar types to group together. The sorting is the main instrument for increasing repayment rates, allowing for lower interest rates, and raising social welfare. Group lending is an example for avoiding moral hazard which discriminate high risk borrowers through social capital that formal banks cannot imitate.

Once the mechanism of Grameen Bank works reasonably well, standardization and replication became top priorities for the

innovation to continue and create success. Grameen Bank was duplicated throughout the world in both developed and developing countries. Despite all the success stories around Grameen Bank, there are critiques from the point of view of financial ideal. From donor perspective, the money is well-spent via a cost cutting mechanism. However, the banks are not yet celebrated for serving the poorest clients in the community. The number of population living under poverty has not reached the target even in countries with dense number of Grameen Bank. Finally, in terms of development, one cannot point at access to financial matter as the means to improvement in the poor quality of life. The bank is encouraged to support further into other aspects including social, education, and health welfare for the poor other than providing them with financial credits.

This book is suitable for all types of readers especially those who are interested in social research, development studies, and microfinance. The book is applicable as an external reader for undergraduate or graduate level courses in development economics for the focus is also on finance and management. Development economics classes usually cover theoretical model that proof the essential of financial capital in getting out of poverty. However, the models are mainly based on mathematical proofs which cannot provide the context of actual process and conditions for gaining the financial credits. Banker to the poor provides another insight on how to actually implement the

model into an action and provide the loans to the poor. Since the book is narrated by the founder of successful microfinance, the details in the book are truly meaningful especially in explaining the hardship of managing a bank for the underdeveloped countries. In addition, this book is also useful for graduate students who are taking research methodology course. The author realized that what he gained in the classroom cannot be applicable in getting the citizens in his country out of poverty. He therefore decided to conduct action research using exploratory techniques. The book illustrates how to conduct a high impact research which can change the community into a meaningful livelihoods. The book is therefore recommended as a supplement for any readers interested in social science, research, and development studies.