
Lending to the poor has rich rewards

By Ambrose Evans-Pritchard in Lindau, Germany

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As banker to the world's most destitute people, Mohammad Yunus has been watching the moral collapse of western finance over the last year with a mixture of amazement and scientific curiosity.

"Our banking is sub-sub-sub-sub-prime: you can't get any lower than us. We have no collateral, no insurance, no taxpayer guarantees, and no lawyers in our system," he said. "Yet we have a loan repayment rate of over 98pc. Our model has never faltered over the years.

"The world's big banks had all the collateral, all the guarantees, all the lawyers, and what did they do? They sent us a \$1 trillion bill."

His Grameen Bank - 'Village Bank' in Bengali - makes a point of searching out those shunned as the greatest credit risk by orthodox banks. The more (seemingly) hopeless, the better.

"We send our people out on bicycles to check if they are poor enough. If a woman lives in a one-room house, she qualifies. If she has a leaky roof, she qualifies. We even give loans to beggars: this is risky," allowed Dr Yunus.

We met on the shores of Lake Constance, where he sat in Bengali dress gazing across shimmering waters at the Alpine peaks of Switzerland. The Muslim village boy from Chittagong, now 68, is at home anywhere these days.

The 2006 Nobel Peace Prize lifted him to global sainthood. He is the father of the micro-finance revolution, and the smiling face of an enlightened Feminist Islam.

"The banks gave the impression that they were almost perfect, and then we find there is a fundamental flaw in the structure of the system. The regulators allowed them to bundle the risk so that nobody could see what was inside, and then pass it around the world to people who had nothing to do with it.

"We don't seem to be accusing anybody over this whole debacle. It is as if nobody is responsible. We can all go off and play golf: the taxpayer will take care of the problem. When things go well the bankers take the profit, and when it goes wrong they are compensated. This is not symmetrical," he said.

What worries Professor Yunus - he has a doctorate in economics from Vanderbilt University in the US - is that the global banks have now twigged that there is real money to be made from the world's poor. They are muscling in on micro-loans.

JP Morgan estimates that the sector could be worth \$300bn. Barclays, Citigroup, Morgan Stanley, and BNP Paribas are launching ventures.

"The next thing we are going to see is a micro-finance bubble. The players are becoming bigger and bigger. We've now got hedge funds and mutual funds going around saying 'this is a wonderful idea: you can make so much money and help people at the same time'. It's intoxicating," he said.

Asked about the latest scheme in Mexico where Comportamos is launching the first micro-loan flotation on the stock exchange for \$470m, he exhibits a rare flash of irritation.

"We don't like them. This is an abuse of the whole philosophy of micro-finance," he said.

The Microfinance Information Exchange in Washington says the industry has already spread across the world with almost 80m borrowers and a loan portfolio of \$24bn.

The Chinese and Brazilian governments have launched their versions. The model is at times falling prey to top-down elites and profiteers. The inevitable backlash has begun. Critics say savings are the way out of poverty, not debt.

The Yunus venture began in 1976 with loans worth a total of \$27 to 42 women making bamboo furniture in the Bangladeshi village of Jobra.

It has grown into a giant network of 7.4m clients. Loans have totalled \$7bn. Some \$6.3bn has been repaid so far. There are no profits. All borrowers are owners of the bank. Revenue is ploughed back into the venture.

"This is about getting people out of poverty. It is a non-loss, non-dividend company with a social objective. It is totally de-linked from the profit system," he said.

Dr Yunus's insouciant style is misleading. His model is based on strict discipline. The villagers form 'Groups of Five', with their own elected chair. Each loan project has to win the backing of the others. They enforce payments by peer pressure.

The Grameen bank has 27,000 staff who trudge and cycle from door to door, collecting the weekly payments. The loans typically start at around \$30. This is how the 'telephone ladies' get going. They buy one cheap mobile phone. This then becomes the communications hub for the neighbourhood, rented out one call at a time.

Borrowers agree to the code of '16 Decisions': that they will send their children to school, abolish dowries, grow vegetable gardens, and so on.

More than 94pc of clients are women. They are better credit risks. "Women have a feature of self-sacrifice for the family that you see all over the world. Men like to spend," he said.

This role as a promoter of women's liberation has made him enemies. Hard-line Islamic groups warn women that they will go to Hell if they accept credit.

"The extreme Right religious groups accused us of destroying the social order. By giving loans to women, we were encouraging them to disobey their husbands. They were using religion for what was really a male issue," said Dr Yunus.

"There is nothing in the Koran against women being in business. The Prophet Mohammad married a businesswoman.

"The Left didn't like us either. They said this was an American conspiracy to spread capitalism at the grass-roots level. So we were squeezed from all sides. Let them all scream. The revolutionaries are all talk and do nothing."

Like the Virgin network of his friend Sir Richard Branson, the Grameen brand has spawned a plethora of companies from Grameen Software to Grameen Telecom.

A joint venture with France's Danone sells yogurt filled with extra micro-nutrients such as zinc and iodine to plug the most common deficiencies. "We sell in the cheapest possible way with no frills, hoping that enough of it will reach poor children," he said.

But it is the army of 100,000 beggars on his loan register that fill him with most pride. Each member of staff adopts four mendicants for mentoring. The beggars are encouraged to do a little selling on the side.

"So far, 11,000 have stopped begging completely, and the other 90,000 are now part-time beggars. They know when to sell, and which houses are a soft-touch for begging. This is good market segmentation. It takes

time to close down a core business," he said.

This line brought the house down when he spoke to 300 of the world's rising economic stars at the Riksbanks' annual conclave of Nobel Laureates here in Lindau. Judging by their rapturous ovation for this extraordinary man, the next generation of economists will be no friends of profit.

Dr Yunus is a paradox. The root of his philosophy is a variant of the pure market.

"I believe all people are entrepreneurs. Poverty is not inherent. It is artificially imposed by the denial of opportunities," he said.

"One day we will create poverty museums. We will take the next generation of children to show them what it used to be like, and they won't be able to believe it. There is no need for anybody to be poor."

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