

# CAN ONE MAN CH



**A**s a professor of economics at Chittagong University in his native Bangladesh, Mohammed Yunus thought he knew all about the subject he was teaching to crowded classrooms of students. But once he walked outside the walls of the university, he saw firsthand the devastation caused by the famine that was sweeping his country and leaving people quietly starving on the doorsteps of the more affluent.

In response to this plight, Yunus made a courageous decision in 1974 that changed the course of his life as well as the lives of countless other people around the world.

“How could I go on telling my students make-believe stories in the name of economics?” he wrote in his 1999 book titled, *Banker to the Poor*. “I needed to run away from these theories and from my textbooks and discover the real-life economics of a poor person’s existence.”

So the professor decided to become the student and he selected the people of Jobra, a nearby poverty-stricken village, to become his teachers.

“I hoped that if I studied poverty at a close range, I would understand it more keenly,” Yunus wrote in his book. He took this keen understanding to the bank.

When he established the Grameen Bank in rural Bangladesh to serve the



# CHANGE THE WORLD?

When a Bangladesh economics professor realized the theories he was teaching weren't entirely based on real life, he stepped outside the classroom and explored a poverty-stricken existence firsthand. In the process, he developed an entirely new system of economics called "microlending" that could break the cycle of poverty worldwide.

By Melinda Kaitcer

needs of the extreme poor, Yunus developed an entirely new system of economics called "microlending" that provides a starting point for borrowers to use skills they already have to produce income. He never dreamed that this program would become the basis of a new lending methodology. His idea, and the Grameen Bank, were soon at the forefront of a worldwide movement to eradicate poverty through microlending.

"I was only trying to relieve my own guilt and satisfy my desire to be useful to a few starving human beings," Yunus says. Today, Grameen Banks serve five districts with 13.4 million in loans, and they micro-credit operations based on Yunus's theories in nearly 100 countries.

When Tom Spinks, publisher and founder of \$1,000,000aire Blueprints interviewed Yunus at the United Nations Plaza recently, he wanted to learn more about how Yunus acted upon his observations, and how he utilized available resources, to fill a need for humanitarian causes. He delved into the subject of the successful system of economics that Yunus created — called microlending — which has saved countless lives and built a brighter future for generations of people throughout the world. This includes an estimated 2.5 million families in Yunus's native Bangladesh.

In this article, Spinks and Yunus explore the blueprint for making a real difference in our world.

**Once you decided you were going to try to address this problem, where did you begin?**

I began visiting the poorest households in Jobra. After talking with many villagers, I realized that the economic system in place at the time condemned these hard-working people to a life of hand-to-mouth survival because they could never save or invest any of their meager earnings to expand their economic base.

**You said in your book that it was while observing a woman named Sufiya that you came to this realization. What sparked the beginning of the Grameen Bank?**

Sufiya was a 21-year-old woman with three children who made beautiful bamboo stools. She borrowed money from the traders to buy the bamboo to make the stools. At the end of each day, she sold the stools back to them for the equivalent of a two-cent profit. Her only other option was to borrow from a moneylender to afford enough raw materials to make more stools. But the moneylender charged a higher rate of interest, which left her owing at the end of each day.

**Is that a normal practice?**

The traders were keeping these people in a form of bonded labor or slavery. They had to continue borrowing from, and selling back to the traders to make just enough profit to survive. Excessive interest rates were so standardized and socially acceptable in Third World countries, that these borrowers rarely even realized the oppression of these contracts.

**How could she break free of this cycle?**

Sufiya's status as a bonded slave would only change if she could obtain credit to buy enough raw materials to make and sell her products in a free market. She could then charge full retail to the end consumer. To be able to do that, she only needed 22 cents. I had never heard of anyone suffering as she did for the lack of 22 cents.

**So if your mission was to help these poor, why didn't you just give her 22 cents?**

That was a struggle for me, initially. It would have been so simple. But I resisted the urge to give Sufiya the money she needed. She was not asking for charity. That would have made her a beggar. And giving one person 22 cents would not have addressed the underlying economic problem on any permanent basis.

### ***So what did you do instead?***

I called Maimuna Begum, a university student who collected data for me, the next day. I asked her to help me make a list of people in Jobra, like Sufiya, who were dependent on traders. Within one week, we had a list of 42 people who borrowed a total of 856 taka, which is less than \$27. It was hard to believe that all these families were living in misery for the lack of \$27. We were sickened by this reality.

### ***What did you do then to change this reality for these 42 people?***

I kept going around and around the problem, thinking how best to solve it. People like Sufiya were not poor because they were stupid or lazy. They were poor because there were no financial institutions available that would help them broaden their economic base. No formal financial structure existed to meet the credit needs of the poor.

### ***So once you found where the gap was, how did you set out to create a new structure to fill it?***

I knew if I could just lend the Jobra villagers the \$27, they could then get the highest possible return for their labor, and they would no longer be limited by the practices of the traders and moneylenders. So I gave \$27 to Maimuna and instructed her to lend it to the villagers on our list. She told them to repay the traders what they owed them and proceed to sell their products at a good price. They were to repay me whenever they could, and there was no interest. I was not in the money business.

### ***How did the concept grow from there?***

It struck me that what I had done was vastly insufficient. I questioned

where others in the same plight would go to borrow the money they needed. I realized that I needed to find an answer these people could rely upon. I had to create an institution that would lend to people who had next to nothing.

### ***Where did you go first?***

First I went to the local branch of the Janet Bank. They listened to me with the respect garnered by my position as a professor. Then they dismissed my idea with incredulous laughter. They said these people were illiterate and were therefore unable to even fill out forms to process loans. They said the people had no collateral.

### ***What was your argument?***

My argument was that there had to be a simple way to handle the literacy problem. I pointed out that these people did indeed have the ultimate collateral — their very lives. If they didn't pay the loans back, they couldn't borrow more in order to live and work another day. I told the Janet Bank that I couldn't imagine a better security than that.

### ***What did they say?***

It was evident that this first bank manager hadn't had such an entertaining afternoon in a long time. He said I should speak to the head office. Before I left, he assured me that this idea of mine would never take off.

### ***So did you go to the head office?***

Yes. I arranged a meeting with Mr. R.A. Howladar, who was the regional manager of the Janata Bank, a couple of days later. Although our conversation went pretty much the same way, he did bring up the idea of getting a guarantor,

or a well-to-do person in the village, who would be willing to act on behalf of the borrower.

### ***Who did you get as a guarantor?***

For lack of other ideas, and knowing that the wrong person in this position could make matters even worse, I served as guarantor for all the

### ***How much are we talking about?***

We're talking about 10,000 taka, or \$300 in U.S. currency.

### ***What was your agreement concerning repayment?***

As we shook hands, I said, "If one of the borrowers doesn't repay, I will not step in to honor the defaulted loan." He was shocked. "But we would force you to pay," he said, "and we would start legal proceedings against you." I told him I'd like that.

### ***So how did you finally get this first loan approved?***

I knew it would take much higher authority than Howladar had to approve it. He thought I was crazy, and that is just what I wanted. I was angry, and I wanted to cause some panic and change in this unjust, archaic system. I knew they would never sue a university department head who had personally guaranteed the loan of a beggar. The bad publicity that would bring upon them would offset any money they would recover. And the legal costs to recover this loan would exceed the loan itself. After six more months of writing back and forth, the loan was formalized.



“NINETY-EIGHT PERCENT OF THE LOANS BORROWED BY THESE PEOPLE WITH NO COLLATERAL WERE REPAYED. THIS CREDIT WAS THEIR ONLY CHANCE TO BREAK OUT OF POVERTY. THEY WERE NOT GOING TO LOSE THEIR CHANCE.”



I knew I had finally made it clear that this was a very serious business. And I knew they were just trying to make sure they would get their money back. I just kept telling them that they could put me in jail if I didn't pay them back.

***How long did you serve as guarantor to these loans?***

I had no intention of becoming a moneylender. I questioned that most basic premise of collateral and found myself walking blindly along and learning as I went. It became a struggle to show that financial untouchables were actually touchable, and even huggable. Ninety-eight percent of the loans borrowed by these people with no collateral were repaid. This credit was their only chance to break out of poverty. They were not going to lose their chance.

***OK, so that addressed the needs of the villagers who had a trade. What did you do to help the beggars, or those individuals who had no marketable skills?***

The beggars in Bangladesh go house to house and ask for a fistful of rice. After they collect a certain amount of rice, that is their day's meal. The next day, they do it again. So I told them, "Since you go house to house anyway, would you care to take something with you to sell? You won't be doing anything extra. You're going house to house anyway. If you manage to sell some things, you can pay me back for the products I give you to sell. Don't worry about how long it takes, and don't pay me

you make money by selling, that can be used as repayment."

***What was the result?***

We started with 4,000 to 5,000 beggars. By the end of the year, we had 40,000 and they had all stopped begging because their businesses were doing well. The typical loan is \$9, and some are as low as \$3. They pay their loans back once a week. Others are required to make a daily payment.

***Why such frequent repayment?***

Conventional banks and credit cooperatives usually demand repayment in lump sums. This is psychologically harder for borrowers than smaller, more frequent repayments. So I decided to structure our loans exactly the opposite of traditional banks. I started with a daily repayment program so that the amount was so small the borrower hardly missed it. To simplify accounting, I made the entire amount due in one year. For example, a loan of 365 taka was repaid at the rate of one taka a day over the course of a year.

***In your book, you tell about the creation of your "group borrowing" concept. How did that come about?***

We changed our procedures as the program grew. Along the way, we discovered that support groups were crucial to the success of our operation. I was thinking of some kind of social formation that would allow people to work together and help each other out. If people

are like-minded and from similar economic and social backgrounds, they will stay close to each other and hold each other accountable. The leader they elect among themselves will protect them.

***And why were there five people in these groups?***

When I began asking them to form these groups, I said we'd have a minimum of five people and a maximum of 10. But then we found that nobody wanted to go to 10. So we based everything on groups of five. The main reason to keep it small is to balance the power. They have to have a leader. Along with leadership, comes a feeling of power. The larger the group, the more likely the leader is to abuse this power over the others. So by keeping the groups small, the leader cannot exert too much authority.

***How does the whole loan/group thing work?***

The loans are still made to each individual, but the entire group must approve each individual's loan. Everyone is part of everyone else's loan within the framework of those five people. And that gives the group a collective borrowing power that is greater than any individual can have on his own. So, in holding each other accountable and monitoring each person's borrowing, the group ensures its own growth and viability. The group can expel an individual if they want to. For example, say I'm in a group and I tell them I want to borrow 50 taka for a cow. The group can look at this request

and say, “No. This is too much. This is our first loan. If you get into trouble, then we all get into trouble. Let’s start with a smaller amount. You can raise chickens first. If we pay off this loan, then we can borrow more next time and eventually you can work up to buying your cow.”

**Once you got this program up and running, how did you make it known to the villagers?**

The villages of Bangladesh are very small, and everyone knows everyone. Walking in to one of them is like walking into someone’s living room. Everyone knows you’re there. So we would go and stand in the center of the village and people would start to come up to us. After we told one or two people what we were doing, soon everyone would know.

**Can anyone get a loan?**

Yes. Many of the people we loan to have never touched money in their lives. This is another way we turn conventional lending upside down. Our interest rates slide the opposite direction, too. For beggars and students who have no assets, the loans are interest-free. The less money a person has, the easier it is to get a loan with us. That is contrary to what we are used to in traditional lending.

**Who is your ideal borrower?**

If a person has nothing, he is the most attractive borrower to us. To borrow from conventional banks, he must have some collateral.

“MANY OF THE PEOPLE WE LOAN TO HAVE NEVER TOUCHED MONEY IN THEIR LIVES.”

proposal and make himself look extra smart. Whatever a conventional bank does, we try to do the exact opposite. For example, say a person comes to us and says, “I’m sorry, I don’t know anything about money because I’ve never done any business and I’ve never handled money in my life.” Then we say, “OK. You are perfect.” Just because someone has never started, doesn’t mean they have stopped. We want to be the first to help them.

**Did you say that you try to do the exact opposite of what a conventional bank does?**

That is correct. We’ve looked at every rule and regulation of a conventional bank, and we did just the opposite. Our loan repayment percentage is more than 98 percent, which is much higher than a conventional bank. So what does that tell you?

**If someone who has never touched money before...**

The ideal employee for the Grameen Bank is just a common guy looking for a job. The amazing thing is how the job transforms him. In the process of just doing the job, it hooks him. It is an intoxicating experience. He feels he has done something important to help make this happen.

**Who owns the Grameen Bank?**

I designed it so that the borrowers own the bank. I am just an employee. I would not want to own any of it. I wanted the borrowers to own it.

**How do other countries set up something similar?**

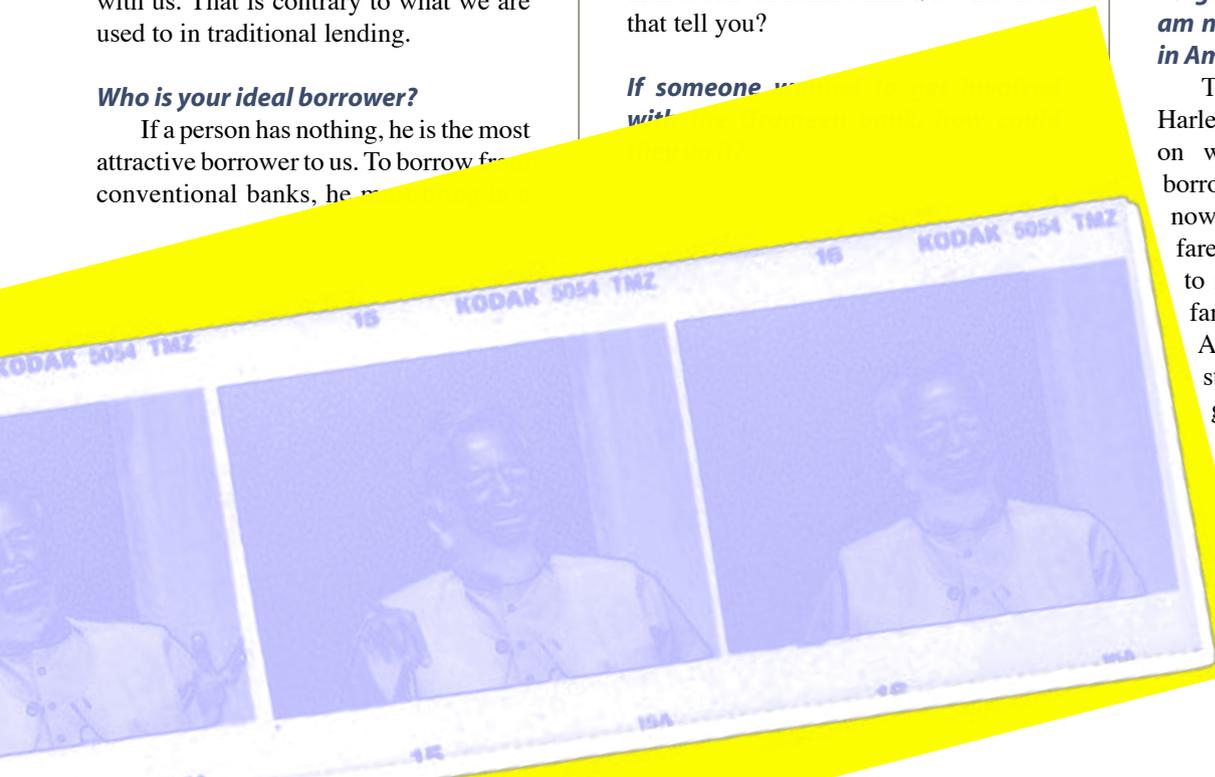
If someone wants to do this in other countries, we’ll show them how, but they start their own separate bank.

**Forgive me for being skeptical, but I am not sure this concept would work in America.**

There is a beautiful program in Harlem, New York, right now. If you’re on welfare in America, you cannot borrow money. The way it is set up now makes people slaves to the welfare system. We tried to get waivers to introduce amendments to the welfare law. Introducing this concept in America has been more of a legal struggle. But there are now programs in Harlem, Dallas and cities in Northern California and several other areas.

**And they are working the way they are supposed to work?**

Absolutely. In so many cases, people just need a chance. They cannot get that chance with a conventional bank. I’m talking about good,



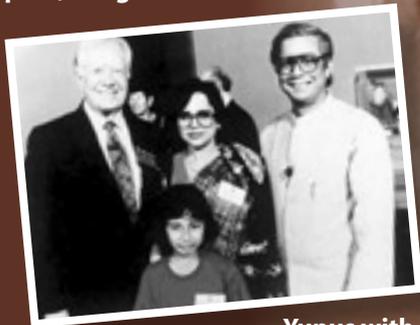


Hillary and Chelsea Clinton visited Grameen village in Rishipara, Bangladesh in 1995.



photo by Salahuddin Azizee

The Grameen housing loan program allows borrowers to buy or build a new home.



Yunus with his wife Afrozi and daughter Deena was awarded the World Food Prize by former President Jimmy Carter in 1994.



Photo by Salahuddin Azizee



A Grameen borrower with the cows that her loan allowed her to buy.

Yunus with Grameen borrowers as they prepare yarn for weaving.



hard-working people. Because they are poor, many people will prejudice them so they never get a break.

**Who do you loan more money to, men or women?**

The vast majority of loans go to women in the United States. We have found in almost every case that a woman will take this money and use it to take care of her home and her children, whereas a man generally won't. That is a sad fact, but it is a fact.

**If a reader wants to get involved with these microlending programs inspired and modeled after the Grameen Bank, how do they do this?**

Write to me at [myunus@grameen.com](mailto:myunus@grameen.com) with any questions or comments. We can take a look at whatever a reader has in mind. I also invite everyone to visit our Web site at [www.grameen.com](http://www.grameen.com). We have set up two ways to make donations. One is through a deposit. The other is where donors can assign their gifts to our scholarship fund.

*When Mohammed Yunus walked out of his classroom and into the streets of Bangladesh, he turned most of the well-developed economic theories he had been teaching upside down. In the process, his brilliant mind and compassionate heart forged a new way of thinking that became the standard, not only for eradicating poverty and improving the lives of countless people, but also for restoring human dignity. Yunus kindled the flames of the entrepreneurial spirit in every life he and his theories touched.*

*Yunus addressed an audience of 3,000 people who had assembled from 137 countries during The Microcredit Summit of 1997 in Washington, D.C. "This summit pronounces the end of*

*a long era of financial apartheid," he said. "This summit declares that credit is more than business. Like food, credit is a human right. This summit is about setting the stage to unleash human creativity and the potential of the poor. This summit is to guarantee every poor person the chance to undertake responsibility and to reclaim his or her own human dignity," Yunus said.*

*A long way from the university steps that began his journey, Yunus found a mission far more satisfying than teaching established theories. He looked around and used what he already knew to create a few new theories that addressed a worldwide need. Take a look around your world. Just imagine the difference you could make. MB*

**“WHATEVER A CONVENTIONAL BANK DOES, WE TRY TO DO THE EXACT OPPOSITE.”**

---

# FREQUENTLY ASKED QUESTIONS

## About Microfinance

---

### WHAT IS MICROFINANCE?

Sometimes called “banking for the poor,” microfinance is an amazingly simple approach that has been proven to help very poor people around the world pull themselves out of poverty. Relying on their traditional skills and entrepreneurial instincts, very poor people (mostly women) utilize small loans that are often less than \$200 in U.S. currency. They also use other financial services and gather support from local organizations — called microfinance institutions (MFIs) — to start, establish, sustain, or expand very small, self-supporting businesses.

### WHAT DO LOCAL MICROFINANCE INSTITUTIONS (MFIs) DO?

These front-line organizations reach out to the very poor and deliver microfinance services to local clients daily. They educate local communities about how to improve lives with microfinance, how to make microloans, how to provide other financial services such as savings accounts and insurance, how to collect weekly loan payments and how to assist clients in solving some of the life challenges they may face.

MFIs differ in size and reach. Some serve a few thousand clients in their immediate area, while others serve hundreds of thousands of very poor people through hundreds of branches covering large regions. Grameen Bank of Bangladesh, founded by Professor Muhammad Yunus, is the world’s largest and most successful MFI. It serves more than five million clients.

### WHERE DO MFIs GET THE MONEY FOR LOANS?

Funding comes from individuals, philanthropists, foundations, governments and international institutions such as the World Bank. MFIs also borrow funds from traditional banks to make loans to their clients. In addition, the interest paid by clients on microfinance loans goes back into the program to cover costs and fund more loans.

### WHY IS THIS DIFFERENT FROM OTHER LOAN PROGRAMS?

Unlike other loan programs, microfinance does not require clients to have collateral to receive loans. This feature allows people who would not qualify with traditional financial institutions to receive credit. MFIs are also very client-friendly. They usually go to their clients to provide loans and receive payments, rather than requiring their clients to come to them. The peer support system practiced by many microfinance programs is another great feature. When clients gather weekly at “center meetings” to make loan payments, or in smaller support group meetings, they share successes and discuss ideas for solving business and personal problems. Most importantly, perhaps, is the fact that they empower each other to stay on the right path away from poverty. This mutual support strengthens their resolve.

In addition, MFI staff members share vital information and resources to improve their clients’ well-being. This might include bringing in local people to provide health and nutritional counseling or help improve literacy.

### ARE THESE PEOPLE REALLY POOR?

MFI partners serve very poor people, many of whom are in rural areas and live on only \$1 or so a day. While the exact dollar figures for measuring their level of poverty may vary from country to country, one thing is constant: they are literally struggling to live from day to day.

### WHY DO YOU FOCUS ON WOMEN?

Women are the best poverty fighters. Experience and studies have shown that they use the profits from their businesses to send their children to school, to improve their families’ living conditions and nutrition, and to expand their businesses. They are also more likely to fully repay their loans on time.

### CAN VERY POOR PEOPLE ACTUALLY START AND RUN A SUCCESSFUL BUSINESS?

Absolutely. Many poor people have skills that can quickly become an income-producing activity. With small sums of money, they are able to purchase the inventory, supplies and tools necessary to start or expand microbusinesses such as weaving, sewing, grinding grain, reselling produce, growing and selling vegetables, catching and selling fish, wholesaling dried fish, raising chickens to sell eggs and breeding livestock. We also help the rural poor start technological microbusinesses such as selling cell phone time to other villagers. This also provides a

valuable means of communication and access to vital information.

These small ventures can grow into vibrant community businesses. One microentrepreneur in the Philippines sold fish caught by her husband to local markets. The demand grew quickly, so she hired her neighbors to help. Now, nearly 20 neighbors earn an income from her family fishing business and her entire community is benefiting.

### DO VERY POOR PEOPLE REPAY THEIR LOANS?

Yes. Microfinance clients are excellent credit risks. The repayment rate is between 95 and 98 percent. In fact, it is higher than the repayment rate of student loans and credit card debts in the United States. They value the opportunity to improve their lives.

### DO PEOPLE REALLY GET OUT OF POVERTY?

Microfinance is not a silver bullet. It will not defeat global poverty by itself. But, it is an important part of the solution. Microfinance provides a stable and sustainable source of income that enables clients to climb steadily out of poverty, while providing better living conditions and opportunities for their families. For some, that progress means moving from a house made of mud to one made of wood. For others, it means getting better nutrition and obtaining the money to finally send their children to school. A 1998 World Bank study showed that Grameen Bank's clients in Bangladesh were escaping poverty at the rate of 10,000 per month.

ing poverty by increasing access to financial services for very poor households.

UN International Year of Microcredit 2005  
[www.uncdf.org/english/microfinance/year/index.php](http://www.uncdf.org/english/microfinance/year/index.php)  
**+1.212.906.3645**

UN program for building inclusive financial sectors to achieve the Millennium Development Goals.

UNCDF Microfinance  
[www.uncdf.org/english/microfinance/](http://www.uncdf.org/english/microfinance/)

UN program building inclusive financial sectors that serve poor and low-income people.

*Projects include:*

Microfinance Distance Learning Program  
[www.uncdf.org/mfdl/](http://www.uncdf.org/mfdl/)  
**+1.212.906.3645**

### GLOBAL POVERTY

World Bank  
[www.worldbank.org/data](http://www.worldbank.org/data)  
**202.473.1000**

Poverty data from official statistical systems organized and financed by national governments.

Poverty Mapping  
[www.povertymap.net](http://www.povertymap.net)  
**+39 06 5705 5510**

Articles, case studies, maps and graphics on the issues of poverty, food security and the environment.

World Bank PovertyNet  
[www.worldbank.org/poverty](http://www.worldbank.org/poverty)  
**202.473.1000**

Information about poverty, its assessment, its impacts and initiatives to reduce poverty internationally.

USAID  
[www.usaid.gov](http://www.usaid.gov)  
**202.712.4810**

An independent U.S. government agency that supports long-term economic growth around the world to advance U.S. foreign policy objectives.

## MICROFINANCE RESOURCES

### Learn more about microfinance and global poverty.

The Grameen Bank  
[www.grameen-info.org](http://www.grameen-info.org)  
**[88 02] 9005257.69**  
The official site of Grameen Bank.

RESULTS  
[www.results.org](http://www.results.org)  
**202.783.7100**

Nonprofit, grass roots citizens' group that works to end hunger and the worst aspects of poverty.

The Microcredit Summit Campaign  
[www.microcreditsummit.org](http://www.microcreditsummit.org)  
**202.637.9600**

Industry organization whose goal is to bring microcredit to millions of the world's poorest families.

The Virtual Library on Microcredit  
[www.gdrc.org/icm/](http://www.gdrc.org/icm/)  
**+81.78.452.8414**

Compendium of information about microcredit programs and practices.

MIX Market  
[www.mixmarket.org/en/home\\_page.asp](http://www.mixmarket.org/en/home_page.asp)  
**202.659.9094**

Global information exchange site for the microfinance industry.

The Consultative Group to Assist the Poorest (CGAP)  
[www.cgap.org](http://www.cgap.org)  
**202.473.9594**

World Bank entity with the goal of reduc-