



Banker to the Poor

Micro-Lending and the Battle Against World Poverty

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About The Author:

Muhammad Yunus was born in Bangladesh. He was educated at Dhaka University and received a Fulbright Scholarship to study economics at Vanderbilt University. He is head of the economics department at Chittagong University in Bangladesh and the founder and managing director of Grameen Bank, which is at the forefront of a burgeoning world movement towards eradicating poverty through micro-lending. He and the Grameen Bank were the co-recipients of the Nobel Peace Prize for 2006.

General Overview:

Banker to the Poor chronicles the life of Muhammad Yunus and his creation of the micro-lending institution Grameen Bank, which as of press date, had disbursed \$3.9 billion in loans, with \$3.6 billion repaid. In this book, Yunus explains the requirements of a successful micro-credit lending program and maintains that micro-credit is, at its core, a simple concept that anyone can participate in, and thus make a real difference in alleviating poverty.

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Chittagong and Beyond

Yunus grew up in the heart of the old business district of Chittagong, the largest port in Bangladesh. After graduating from college, he took a post as a teacher of economics in his old college at Chittagong, teaching there from 1961 to 1965. He received a Fulbright Scholarship in 1965 and studied at the University of Colorado and Vanderbilt University.

On December 17, 1971, Bangladesh won its war of independence. However, the war's heavy price was three million Bangladeshis killed and 10 million more leaving the country. It was a devastated country with a shattered economy. Yunus knew he had to return home.

Thinking about Poverty

Upon his return to Bangladesh in 1972, Yunus became head of the Economics Department at Chittagong University. There, he launched a project to study the economy of the nearby village of Jobra. They examined how many families actually owned cultivatable land, what crops they grew, how other villagers made a living, who the poor were. "What [Yunus] did not know yet about hunger, but would find out over the next 22 years, was that brilliant theorists of economics do not find it worthwhile to spend time discussing issues of poverty and hunger. They believe that these will be resolved when general economic prosperity increases. These economists ...rarely reflect on the origin and development of poverty and hunger. As a result, poverty continues."

Yunus attempted to help the villagers of Jobra grow more food. Farmers agreed to let him plant high-yielding rice in their fields. A new type of agricultural cooperative called "the Nabajug Three Share Farm" was established. The landowners contributed the use of the land during the dry season, sharecroppers contributed labor, and Yunus contributed the cost of fuel to run the deep tubewell, the seeds for high-yield crops, the fertilizer, the insecticide, and the technical know-how. In exchange, the parties shared one-third of the harvest. The first year's effort ended in success. They had managed to grow a crop during the dry season, which had never been done before.

The success highlighted a problem. When the rice was harvested, the mindless work of separating the rice from the dry straw fell to destitute women. These women were the poorest of the poor and after a few weeks of threshing, they were out of work with little money to show for it. For the same work, a woman could earn four times more if she had the financial resources to buy the rice paddy and process it herself.

Yunus realized how important it was to differentiate between the really poor and the marginal farmers. His definition of poor included the women who threshed rice, women who made bamboo stools, petty traders, and those who made so little that they often resorted to begging. These people all had no chance of improving their economic base. So, he began arguing that in a world of development, if one mixes the poor and non-poor in a program, the poor will always be driven out unless protective measures are instituted from the beginning.

The Stool Makers of Jobra Village

In 1976, Yunus began visiting the poorest households in Jobra to see if there was a way he could help. One woman he met, Sufiya Begum, made bamboo stools; she borrowed money from traders to buy the bamboo, selling the bamboo stools back to them as repayment, making a profit of two cents a day in the process. Her income was barely enough to feed her, let alone clothe and shelter her family. Sufiya's status as a virtual bonded slave would only change if she could find the extra money for her bamboo (an equivalent of twenty-two cents); she could then sell her products and charge the full retail price to her consumer.

Within a week of talking to Sufiya, Yunus had a list of all the people in Jobra who were dependent upon traders. It named 42 people who borrowed a total of 856 taka – less than \$27.

These people were not poor because they were stupid and lazy. They were poor because the financial institutions in the country did not help them widen their economic base. Yunus handed his student the \$27 and told her to lend this money to the people on the list. Then, they could sell their products to anyone, get the highest possible return for their labor, and not be limited to the usurious practices of the traders and moneylenders.

What was truly needed, however, was not an *ad hoc* response, but an institution that would lend to those who had nothing. Yunus approached the local branch of the Janata Bank about setting up such a program, but was told they would not loan money where there was no collateral. At the regional level, the idea of a guarantor was brought up, someone who would be willing to act on behalf of the borrower. Yunus agreed to be a guarantor, although he refused to pay on any defaulted loan. After six months, he succeeded in taking out a loan from the Janata Bank and giving it to the poor of Jobra.

A Pilot Project is Born

In January, 1977, when Grameen Bank was started, Yunus structured its credit program exactly opposite from conventional wisdom. Rather than demand large lump sum payments, he instituted a daily payment program of an amount so small that borrowers would barely miss the money and asked that the loans be paid back fully in one year's time. As the bank grew, its organizers discovered that support groups were crucial to the bank's success, so they required that each applicant join a group of like-minded people living in similar circumstances. Subtle and not-so-subtle peer pressure would keep each group member in line with the broader objectives of the credit program.

In Jobra, they discovered that it is not always easy for borrowers to organize themselves into groups. A prospective borrower would have to take the initiative to convince a second person to join the group, and then the two would recruit more members. Once a group of five had formed, the bank would extend a loan to two members of the group, and if repayment was reliable for six weeks, then two more members could request loans. It could take anywhere from a few days to several months for a group to be recognized or

certified by Grameen Bank. Each group member had to present themselves to the bank, undergo at least seven days of training on the bank's policies, and be tested on their understanding of the policies. The pressure provided by the group and the exam helped ensure that only those who are truly needy and serious about joining Grameen would actually become members.

Early on, Grameen's organizers required all borrowers to deposit five percent of each loan into a group fund to act as a reserve for interest-free loans in the event of an emergency. Through the years, such loans have helped to stave off seasonal malnutrition, pay for medical treatment, purchase school supplies, re-capitalize businesses affected by natural disasters, and pay for modest but dignified family burials. As of 1998, the total amount in all the group funds exceeded \$100 million. Groups could request help in solving repayment problems from other groups in their "center," a federation of up to eight groups in a village that would meet weekly with a bank worker. All business conducted during center meetings would be open, thus reducing the danger of corruption, mismanagement, and misunderstandings.

Since its inception, Grameen has distilled its repayment mechanism to the following formula:

- Loans last one year
- Installments are paid weekly
- Repayment starts one week after the loan
- An annual interest rate of 20 percent is charged
- Repayment amounts to two percent of the loan amount per week for 50 weeks
- Interest payments amount to 2 taka per week for every 1,000 taka of the loan amount.

Grameen's repayment rate has remained high all along. The bank also worked to make sure that women benefited from the program, setting a goal that half the borrowers be women. In Bangladesh, hunger and poverty are more women's issues than men's. If a family member has to starve, it will be the mother. Poor women in Bangladesh also have the more insecure social standing. A husband can throw out his wife any time he wishes, and divorce her by simply saying "I divorce thee" three times, thus making her disgraced and unwanted in her parents' house. Perhaps as a result, poor women are willing to work harder to lift themselves and their families out of poverty.

It was not easy to focus efforts on lending to women. The first and most formidable opposition came from the husbands, who wanted the loans for themselves. Religious leaders were suspicious and moneylenders saw the bank as a direct threat to their authority. Yunus and his colleagues were also unsure how to attract women borrowers, since 85 percent of poor women in Bangladesh cannot read, and most are rarely free to come out of their houses without their husbands. Ultimately, Yunus stood in a clearing between several houses and waited while a female student entered an appointed house

and introduced him, then shuttled back and forth with questions and answers. In this manner, day by day, the women's' hesitancy was overcome.

Expanding Beyond Jobra into Tangail

In October 1977, Yunus was given permission to set up a branch of the Bangladesh Krishi ("Agriculture") Bank in Jobra and allowed to grant loans up to a total of 1 million taka. It was named the Experimental Grameen Branch of the Agriculture Bank and staffed by Yunus' ex-students. Most bankers, however, did not believe that such a program could not be sustained on a national level. Yunus took a two-year leave of absence from the university to officially join the Grameen Project in the District of Tangail. Tangail was selected because it was close to Dhaka and would allow the national banks to judge if the program was having any real effect on the villagers. Every decision made had to be reviewed by all the managing directors of all the participating banks at the regular monthly meeting of the Central Bank of Bangladesh in Dhaka.

By November 1982, Grameen Bank membership had grown to 28,000. The hard work and dedication of the bank workers and managers clearly was an essential factor in the membership's growth. Working in a bank for the poor is highly specialized work. Trainees are immersed in the Grameen culture and culture of the poor, and taught how to appreciate the unexplored potential of the destitute. Trainees are hired from a wide variety of economic backgrounds and they grow to consider themselves teachers.

In starting a branch, a manager and assistant manager will travel to the area with no formal introduction, no office, and no place to stay. Their first assignment is to document everything about the area. Every day, they walk for miles to meet with villagers and explain the procedures of the bank. Ultimately, it is not their words, but their hard work that softens the attitudes of the villagers. If a handful of women make the leap of faith and join Grameen, they get their money, earn additional income, and nothing terrible happens to them. Once others see that, borrowing groups form more quickly.

After two years, with the Tangail experiment coming to an end, the Central Bank asked the managing directors of its member commercial banks for their assessment of Grameen's work. The directors felt that the concept of the Bank was too dependent upon the force of Yunus' personality. Yunus responded by asking them to spread the experiment over a larger area (so that he could not possibly be in all those areas at once) and drew up a five-year expansion plan. The Ford Foundation provided a guarantee fund and a loan was negotiated from the International Fund for Agricultural Development. In 1982, the expansion program was launched into five widely separated districts: Dhaka, Chittagong, Rangpur, Patuakhali, and Tangail.

A Bank for the Poor is Born

In late September 1983, the Bangladeshi president signed a proclamation and the Grameen Bank was born. However, the government kept 60 percent of the ownership shares, essentially making it a government-run bank. While Yunus and his colleagues were unhappy with this development, they felt they had no choice but to accept it and steer the bank in the right direction.

As a peer institution, Grameen continued to encounter skepticism from Bangladeshi bankers, but it financially outperformed many traditional commercial banks and its independence allowed it to grow rapidly. It also made many improvements to its methodology: temporary staff members were promoted to permanent status, housing loans were integrated into the program, social development efforts were expanded, and irrigation loans and other seasonal loan programs were launched. Eventually, Grameen's request to change the ownership structure was granted, with 75 percent of the shares going to the borrowers and 25 percent for the government.

Through the 1980s, Grameen's aggressive expansion program saw it add approximately 100 new branches every year. As it expanded, it watched the borrowers' progress through successive loan cycles. In most cases, the size of their loans increased as their businesses and self-confidence grew. Yunus, however, wanted to create a new program that would offer dependable borrowers long-term loans for building houses and repairs. After several rejected applications, the governor of Central Bank allowed Grameen to introduce a housing loan program on an experimental basis. To date, Grameen has extended a total of \$190 million in loans to build more than 560,000 houses with near-perfect repayment in weekly installments.

Challenges in Alleviating Poverty

Since Bangladesh became an independent country, its population has almost doubled, but its people have fewer food shortages and are far more self-sufficient than 27 years ago. Governments and international agencies should concentrate on improving the economic status of their people, particularly the people in the bottom half, rather than worry about limiting population growth. United Nation studies conducted in more than 40 developing nations show that the birth rate falls as women gain equality. Income-earning opportunities that empower poor women will have more impact in curbing population growth than the current system of "encouraging" family planning practices. As proof, the birth rate among Grameen families is significantly lower than the national average.

At every Grameen branch, the members take enormous pride in reciting the "Sixteen Decisions." These decisions take into account family planning, taking care of the environment, planning for modest consumption in all areas, and staying healthy. They are a demonstration that the poor are the most determined fighters in the battle to solve the population problem, end illiteracy, and live healthier, better lives.

Grameen has always gone against traditional methods of poverty alleviation by handing out cash without attempting to first provide skills training. Why give credit first? Because all human beings have an innate skill at survival. Grameen tries to make maximum use of their existing skills, putting into practice the skills they already know. Formal learning is a threatening experience for most of Grameen's borrowers. Training should not be forced on people, but offered only when borrowers actively seek it out and are willing to pay in kind or in cash for it.

Grameen and Yunus have been critics of the World Bank and have never accepted World Bank funding, believing that their experts and consultants often take over the projects they finance. The growth of the consultancy business has seriously misled international donor agencies. Donors and consultants tend to become overbearing in their attitudes toward the countries they help. One research institution in Bangladesh estimates that of the more than \$30 billion in foreign donor assistance received in the last 26 years, 75 percent was not spent in Bangladesh, but on equipment, commodities, and consultants from the donor country. Foreign aid becomes a kind of charity for the powerful while the poor get poorer.

Economists have failed to understand the social power of credit. In economic theory, credit is seen as a means to lubricate the wheels of trade, commerce and industry. In reality, credit creates economic power, which translates into social power. When credit institutions and banks make rules that favor a distinct section of the population, that section increases its economic and social status. In both rich and poor countries, the rich have been favored by these institutions and in so doing have pronounced a death sentence on the poor.

Applications in Other Poor Countries

Dozens of Grameen projects have been launched in Malaysia (Project Ikhtiar), Asia (CASHPOR), and the Phillipines (Ahon Sa Hirop, Project Dunganon, and the Landless People's Fund of the Center for Agriculture and Rural Development). Despite the success of these programs, the controversy about Grameen's applicability outside of Bangladesh has not been put to rest. A report released by the United Nations in 1998 argued that micro-lending projects can work only in places with unique characteristics, in which the poorest of the poor are in a position to undertake an economic activity. Still, new programs have sprouted up in India, Nepal, Vietnam, China, Latin America, and Africa.

Many organizations had a hard time mobilizing financial support for their activities – funds to travel to Bangladesh for training, start-up money, and funds to expand after the initial phase. Fortunately, the MacArthur Foundation decided to support the Grameen Trust and encouraged other donors to follow suit. Yunus also convinced the government to establish a non-governmental agency, the Polli Karma-Sahayak Foundation (PKSF), to make loans of two percent to 156 micro-credit programs throughout the country. In

1998, the World Bank approved a \$105 million loan to PKSF, one of its largest investments in micro-credit ever.

Dozens of projects in countries with very different cultures, climates, and levels of development have shown how versatile the micro-credit methodology really is. Micro-credit is not a miracle cure that can eliminate poverty in one fell swoop, but it can end poverty for many and reduce its severity for others. Combined with other programs, it is an essential tool in our quest for a poverty-free world.

Applications in the United States and Other Wealthy Countries

Wherever there is poverty, including in wealthy countries such as the United States, Grameen's programs can work. However, many Americans argue that their welfare state has created a lazy underclass of dysfunctional individuals who would never be interested in starting a business or supporting themselves. It was not until the mid-1980s that people in the United States began to show real interest in applying Grameen principles to their own poverty problems.

Under the interest of then-governor Bill Clinton, the Grameen pilot project in Pine Bluff, Arkansas began in 1986, although it was renamed the Good Faith Fund. It grew to reach hundreds of low-income people in Arkansas. Yunus also helped to set up similar funds in South Dakota and Oklahoma.

In Chicago, the Women's Self-Employment Project implemented a number of antipoverty programs, including the Full Circle Fund, which was set up according to Grameen principles. Here, the frustration existed because those who received welfare benefits became virtual prisoners to poverty and to those who would help them. Any dollar earned had to be deducted from the next welfare paycheck; welfare recipients were not allowed to borrow from any institutional source. Under the then-existing laws of Illinois, micro-credit programs such as the FCF could not approach welfare recipients at all. After protracted negotiations, the state of Illinois granted a one-year waiver, which was renewed. Now the law has been amended to allow people on welfare to borrow money.

Today, the Grameen Foundation USA jump-starts Grameen-style micro-credit programs all over the country. There are also many U.S. programs that have taken the micro-credit idea and adapted it.

The Nineties and Beyond

In April 1996, Grameen extended its one-billionth dollar in loans to one of its two million borrowers. Just over two years later, it loaned its two-billionth dollar. It began a variety of new loan programs, including seasonal loans for sharecropper borrowers, family loan programs, and equipment- and cattle-leasing programs.

Through the contacts that Yunus has made working on behalf of Grameen, the bank has taken on projects that, while continuing to fight poverty, take its work beyond simply that

of micro-credit. It took on a project of re-excavating ponds in Nimgachi for farm fishing, created an independent, non-stock, not-for-profit company ("Grameen Check") to link traditional hand-loom weavers with the export-oriented garment industry, entered the field of cellular telephones to take them into the villages, became an Internet service provider (in the hopes of creating international jobs for the children of Grameen borrowers), and started a health care plan to make health care available to all members of Grameen families and to all villagers who are not Grameen borrowers.

The Future

By the year 2050, Yunus would like the world to be free from poverty. Charity is not a solution. It only perpetuates poverty by taking the initiative away from the poor. The real issue is creating a level playing field for everybody. Globalization must promote harmony and partnership between the big and small economies, rather than become a vehicle for unhindered takeovers by the rich economies.

There will always be differences in lifestyles between people at the bottom of society and those at the top income levels, but those differences will exist only between the middle class and the luxury class, not the third and fourth classes of the current system. "We have created a slavery-free world, a smallpox-free world, an apartheid-free world. Creating a poverty-free world would be greater than all of these accomplishments while at the same time reinforcing them. This would be a world we could all be proud to live in."

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