Can the US learn from Bangla

Bangladesh

By Muhammad Yunus

In Bangladesh, we've learned that when aid is free, not only do the poor get the least of it, but everyone inflates their needs

AMERICA'S government and people brought charity to a new level last year in their response to Hurricane Katrina. The rebuilding has been particularly difficult, however, because it has involved lives as well as bricks and mortar. Many victims had been desperately poor all their lives. Helping them to self-sufficiency has proved just as difficult, if not harder, than putting homes and businesses back up again.

Having many very poor citizens, and more than its share of natural disasters, Bangladesh - my own country - has a great deal of experience facing both these challenges. We have a per capita gross national income of $440, with half the population living below the poverty line. We've little to start with, and much of that is repeatedly snatched away. In 1998, floods covered much of the country for over two months, affecting 30 million people; and a single cyclone killed 300,000 in 1970. Despite these catastrophes, more of our people are climbing out of poverty.

So at the risk of sounding presumptuous: What can the US learn from Bangladesh about post-disaster economic recovery? Like many other countries, even Bangladeshis were quick with a handout after Katrina, giving the US $1 million for the victims. But Americans might be surprised to learn that one of our most successful tools for rebuilding businesses is not government handouts, but rather, small loans packaged with practical business and social advice.

Microfinance is one of the biggest success stories of the developing world, and proponents like me believe it could be just as successful in helping the poor in wealthy countries such as the US The basic philosophy behind microfinance is that the poor, although spurned by traditional banks because they can't provide collateral, are actually a great investment: No one works harder than someone who is striving to achieve life's basic necessities, particularly a woman with children to support. Sadly, it is also true that in catastrophic circumstances, very little of the cash so generously given ever gets all the way down to the very poor. There are too many "professionals" ahead of them in line, highly skilled at diverting funds into their own pockets. This is particularly regrettable because very poor people need only a little money to set up a business that can make a dramatic difference in the quality of their lives.

I started the Grameen Bank 30 years ago by distributing about $27 (no typo here!) worth of loans among 40 extremely poor Bangladeshis. Since the bank officially opened in 1983, it has loaned $5.7 billion in microfinance. Today, Grameen has 6.6 million borrowers in Bangladesh alone, borrowing $500 million a year in loans that average just over $100 each. The loans are entirely financed by borrowers' deposits and the bank recovers 98.85 percent of all money loaned. Notably, Grameen Bank has

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been profitable in all but three years since its launch. Our largely poor customers save $1.008 for every dollar they borrow, so the poor are truly funding the poor.

The bank supports businesses such as small services, stores, direct sales, furniture-making, cell phone stations and milling, all of which support the local economy. And it works. More than half of our borrowers have moved out of poverty, mainly through their own efforts. Most importantly, when you lend money to disadvantaged people, it gives them a sense of pride, rather than the humiliation they

ladesh's 'banker to the poor'?

may feel over a handout. And just as helpful as the money is the guidance they get from the bank. Training and connecting poor, inexperienced workers to a reliable and ethical lending and savings service is a huge advantage for them that only gets stronger after a disaster. This is particularly true of women, who are often constrained by social and financial barriers. Grameen communities have also made

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tremendous strides on health and social issues, such as sanitation, and pushed aside discriminatory practices such as bridal dowries.

The impact of microfinance is spreading worldwide. As of December 2004, 3,100 microcredit institutions reported reaching 92,270,289 clients, 66,614,871 of whom were among the world's poorest when they took their first loan. Assuming five persons per family, the loans to the 54.8 million poorest clients affected some 330 million family members by the end of 2004.

Microfinance has worked so well that it has become a major instrument of reconstruction in post-tsunami Asia as well. A Sri Lankan conglomerate, Ceylinco, partnered with Grameen to provide small loans to 10,000 tsunami victims. These range from \$300 to \$10,000 and carry an interest rate of 6 percent, less than half the rate for similar small loans in Sri Lanka. The loans have a one-year grace-period, and Ceylinco takes no collateral, thereby heaping all the risk onto itself. But the company felt this was still a wise investment.

Because some countries that rely heavily on microfinance also happen to be disaster-prone, Grameen now has special disaster loan funds (DLFs) to help meet the urgent need for cash after a catastrophe. These funds also aim to offset the microlender's own losses. The funds were established in Bangladesh after the record flooding of 1998, which affected 20 percent of the population. Similar funds were set up in Central America in the wake of Hurricane Mitch, and in Poland after the floods of 1997. The DLFs are financial reserves and usually derived from the initial donor grant to the micro-credit lender.

Many people ask, why not just give free cash, especially under such dire circumstances? In Bangladesh, we've learned that when aid is free, not only do the poor get the least of it, but everyone inflates their needs. While some handouts are clearly necessary in such times, we focus on lending small amounts of money. This lets us keep costs down and rebuild funds for the next disaster. Most importantly, our Grameen banks are ready to act at a moment's notice. They can respond to a disaster without waiting for anyone's permission, immediately becoming like humanitarian agencies by suspending loan payments, and providing cash, food and medicines. Once rebuilding starts, the bankers keep detailed records of the money lent, and people are allowed to repay bit by bit.

That is the strategy we followed after the 1998 flooding, which covered 50 percent of Bangladesh's land and affected customers at about 70 percent of our branches. More than 700 Grameen borrowers or their family members were killed and just over half (a million borrowers) were affected by the flooding. That represents a small percentage of the overall population affected, but the Bank and its staff where there right away to help with immediate needs. Later, microlenders helped people restructure their loans or gave out new loans on more favourable terms.

Microlending has already helped millions reach a better life through their own initiative. It has also given them valuable skills as well as crucial financial back-up in case they ever face a natural disaster like Katrina. So it might be time to think about another type of support for Katrina's victims: the microloan. As our small, flood-battered country has learned, giving someone a hand up doesn't always require a handout. The most important thing is to help people get back to work while letting them hold on to their self-respect. Microloans can do just that. COURTESY THE WALL STREET JOURNAL

The writer, who yesterday won the 2006 Nobel Peace Prize, is founder and managing director of the Grameen Bank of Bangladesh