

## Micro Loans: A Way to overcome Poverty

### Little Money, Big Effects

By 2015 the number of poor people in the world is to be cut in half, pronounces the UNO in its "Aims for the Millennium". Unfortunately, in reality things look brutally different: price increases for basic nourishments lead to new starvation periods. And the number of hungry people in the world is presently climbing up to 850 million.

When despite thereof hope still exists that the situation might improve, it will have to be attributed to Muhammad Yunus, a Professor of Economics in Bangladesh. Two years ago, he appeared in the public limelight when he was awarded the Peace Nobel Prize. His merits: he invented the Micro Loan, a credit of very few dollars granted without collateral securities and handed out to villagers without an income. The idea originated 30 years ago. Today the "Banker of the Poor" is one of the most influential men worldwide. Prof. Yunus and his followers have paved a way out of poverty for millions of people by converting them from helpless beggars into mindful entrepreneurs with a clear life profile, a fact which incidentally refutes and disproves the general assumption that capital market logistics work with rich people only (and not with the underprivileged), a train of thought that borders on indecency for normal bankers.

In Bangladesh their refusal to lend out monies without security led to the foundation of the "Grameen" (Village) Project in 1976. With just 27 dollars out of his own money purse Prof. Yunus managed to set free a whole village of natives from the intrigues of a loan shark. The Grameen Bank was founded in 1983. Since then a number of firms are working under its roof, all following free market principles, but with an eye on social aims. Handing out loans is still the core of their business which from 1983 till now climbed to 6.8 million US Dollars. More than 6 million US\$ of the total were repaid in the meantime and were loaned out again (a share of 98,15 percent). Another figure is just as important to micro bankers: As published by Grameen, 65 percent of the loan debtors found ways and means to escape from poverty, meaning that they now have more than one dollar per capita and day at their disposal.

The obvious success depends on two distinct qualities of the Grameen Bank: it employs women almost exclusively and is owned by its customers, which means that the debtors are creditors at the same time, and, as village companions, watch over the timely repayment of the monies lent out. As one can clearly see, the business serves as a motor to debtor honesty and as a basis for the continued social development within the village.

The catalogue of "What to do" which Grameen insists that their customers observe lists 16 points, among them directives to conduct their affairs with due care, to family planning, education of children, hygiene and pollution control. The micro loans in fact serve as a lever for the general improvement of life conditions. "Today all children of Grameen loan customers go to school," says Prof. Yunus in one of his press interviews, "and many continue their schooling at universities to become physicians or engineers. Their mothers have a lot to do with that. For mothers, the welfare of their children is always a center point."

At one time Bangladesh was the poverty center of the world, it still exists frugally and in dire straits. But: Since 80 percent of the poor have access to micro loans, the country is on its way up. "In the chase after the millennium aims of UNO, the country has gained status", writes Der Spiegel, a renowned news magazine, making reference to decreasing levels of malnutrition, analphabetism and child labor. "All that is not solely the work of the Peace Nobel Price bearer but he is definitely one of the promoters for the campaign against poverty."

As a matter of fact, micro loans are only part of the project under the general headline of "Social Entrepreneurship". What it is really all about Prof. Yunus demonstrates at the example of the Danone Company, a global player. For the better part of one year "Grameen-Danone" has been producing low priced yoghurt, quark and soft drinks in Bangladesh on a non-loss-non-profit basis. Plans are to open a total of 50 factories of this type within the country. In an

interview with the weekly newspaper “Die Zeit”, Prof. Yunus said: “Companies with an open eye for social matters function as well as the classic types, but they do not strive to make the same kind of money. Instead of outlining its expected profit figures, a socially structured company might say: Next year we plan to reduce the number of underfed children at a rate of x percent.”

As it proves to be difficult to reconcile ideas of this type with traditional thinkers among business people, Prof. Yunus pleads for a reformed system of economic education, by initiating courses for activities under the heading “Social Business Conduct”. Students should be taught to effectuate great social goals with as little money as at all possible.

The fact that there is a need for solutions of this nature not only in developing countries but also in wealthy Germany became evident during the discussions about One Euro Jobs and the “I- Corporation”. There is a definite demand for micro loans of the kind described here, only with higher amounts. “Small Business Enterprises” are given access to bank loans of up to 10.000 Euro by the German Institute for Microfinance (Deutsches MikrofinanzInstitut, DMI) which operates outside of the traditional money market. A currently running advertising campaign “Project 5000” seeks to acquaint the interested parties with the conditions offered by the Kreditanstalt für Wiederaufbau (KfW). Presently, micro finance institutes operate under a KfW license in eleven German states, acting as agents of KfW to arrange loans and to provide guidance to debtors. For Mr. Wolfgang Wodarg (SPD), Member of the German Parliament and a well informed expert, the program offers “attractive chances for unemployed people”, since the available guidance is now much better organized as compared to the way it had been in connection with the I-Corporations. Local situations are not comparable, but the basic problem is the same the world over: Loan customers unable to offer collateral securities have no chance with “normal” banks. In developing countries this situation is a great impediment and hindrance in the fight against poverty.

For Prof. Yunus, the key lies on the side of the banks: “The question is not whether the poor are worthy of loans, but whether the banks are willing to respect human dignity.”...

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### Rotary promotes Credit Projects

Rotary has been aware of the ideas developed and entertained by the “Banker of the Poor” since the early nineties, and gave Prof. Yunus the “Award for World Understanding” in 2000. The Micro-Credit Advisory Committee, working at the highest corporate level of Rotary International, is active in two directions: by advising the Board of Directors of new developments in this particular field, and in advising clubs and districts during their practical project work. In cooperation with the committee, the Rotary Action Group for Microcredits (instituted one year ago) attempts to win over clubs and districts to engage themselves in finance projects.

The topic proves to be attractive, as President Wilf Wilkinson found out when he sent out invitations in December 2007 to attend the Microcredit Conference in Chennai/India, and saw himself confronted with more than 2.000 visitors, most of them members of the Rotarian Community Corps (RCC), that work as teams of Non-Rotarians under the supervision of local Rotary Clubs to accomplish community service projects in their cities and towns (presently 6.100 RCC teams work in 76 countries).

Microcredits often are a complementary program part of a world community service project, designed to make it last. That serves the interests of the Rotary Foundation which entertains a special Revolving Loan Fund. Up to a sum of 10.000 US\$ are available pro credit group as a capital basis. [www.rotary.org/de/ServiceAndFellowship/FundAProject/RevolvingLoanFunds](http://www.rotary.org/de/ServiceAndFellowship/FundAProject/RevolvingLoanFunds)

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