



Banker to the Poor

Micro-Lending and the Battle Against World Poverty

by Muhammad Yunus

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Take-Aways

- As a child, Muhammad Yunus was a good student and talented artist. He traveled to other countries as a Boy Scout.
- After college, he taught economics at a university in Bangladesh and opened a successful business with his father.
- Studying for a Ph.D. at Vanderbilt University, he became intrigued with the human side of economics.
- When Bangladesh declared its independence, Yunus joined the new government.
- Yunus went back to teaching economics, but became increasingly dissatisfied with purely theoretical work.
- After meeting impoverished village craftsmen who couldn't get credit, Yunus lent them money himself. He then broadened this practice using a loan from a state bank.
- Yunus learned how to be a banker by doing the opposite of what traditional banks did, particularly making small loans to the poor, women and people with no credit.
- Loaning money to women, Yunus found, was more effective than loaning to men.
- His Grameen Bank began as a branch of a government bank and became an independent multinational institution.
- Yunus has broadened his work beyond banking, but "microcredit" remains his focus.

Rating (10 is best)

Overall	Importance	Innovation	Style
9	9	8	8

Relevance

What You Will Learn

In this Abstract, you will learn: 1) Why Muhammad Yunus established Grameen Bank; 2) How he did it; 3) What obstacles he faced; 4) How the bank has succeeded; and 5) How “microcredit” and other market-based programs can improve the lives of the poor.

Recommendation

In 1974, while Muhammad Yunus was teaching economics in Bangladesh, the country was ravaged by famine. Increasingly uncomfortable teaching abstract theories while starving people shuffled by outside his classroom, Yunus realized his economic education was incomplete. To complete it, he went to local villages to “learn from the poor” about what they actually needed rather than what a textbook said they should have. The answer was credit, so Yunus founded a bank to provide it – Grameen Bank. The name means the “bank of the village.” Today, Yunus is a Nobel Peace Prize winner and Grameen Bank has extended credit to more than 2.6 million people. This down-to-earth, unsentimental autobiography recounts what inspired him, the obstacles he overcame and the ultimate success of this project, his life’s work. *getAbstract* highly recommends it to anyone who wants to know how one person’s efforts can have a huge impact.

Abstract

“To me, an entrepreneur is not an especially gifted person. I rather take the reverse view. I believe that all human beings are potential entrepreneurs.”

“I believe that if we play our cards right, social-consciousness-driven enterprises can do very well in the marketplace.”

“Without the human side, economics is just as hard and dry as stone.”

A Creative Childhood

Muhammad Yunus was born in 1940. He grew up in Chittagong, a commercial city of some three million people in the southeast of the Indian state of East Bengal (which became part of Pakistan in 1955 and then of Bangladesh in 1971). The third of 14 children (five died in infancy), Yunus lived with his family in a small two-story house. His father, Dula Mia, a devout Muslim, owned and ran a successful jewelry shop on the ground floor. While generally lenient, Yunus’ father insisted that his children study, otherwise leaving discipline to Yunus’ mother, Sofia Khatun, a resolute yet compassionate woman who was her son’s strongest influence. Fortunately, studying was not an issue. Yunus was an enthusiastic reader as a boy; as a teenager, he won a prestigious academic competition. He found time for creative hobbies, including photography, drawing, painting and graphic design. At one point, he even apprenticed with a commercial artist.

The Good Boy Scout

His first passion was the Boy Scout program at his secondary school. In the Boy Scouts, Yunus hiked, played games, participated in variety shows and discussions, and raised money. The Boy Scouts also helped Yunus first see the world. He traveled to Canada, Japan and the Philippines with the Scouts. In 1953, he crossed India by train to attend the first Pakistani National Boy Scout Jamboree. He also took trips with his headmaster from the Chittagong Collegiate School, Quazi Sirajul Huq, whom he admired deeply. “I had always been a natural leader,” says Yunus, “but Quazi Sahib’s moral influence taught me to think high and to channel my passions.”

Yunus’ next passion was teaching, which he first practiced by instructing his little brothers. After graduating from Dhaka University in 1961, Yunus taught economics while trying his hand at business. With a loan from a state bank, he and his father set

“I did not know anything about how to run a bank for the poor, so I had to learn from scratch.”

“The moment we open the door to making a social impact through investments, investors will start putting their investment dollars through this door as well.”

“Human beings are extremely creative and resilient, especially when they are operating within an institutional framework that encourages and supports their actions.”

“I firmly believe that all human beings have an innate skill. I call it the survival skill. The fact that the poor are alive is clear proof of their ability.”

up a packaging and printing company. The company was successful, but Yunus wanted to continue studying and teaching. He won a Fulbright scholarship to study in the U.S. In 1965, he left home for a summer at the University of Colorado at Boulder and further studies at Vanderbilt University in Tennessee. He worked on his Ph.D. under Nicholas Georgescu-Roegen, who taught him, “It is only our arrogance that prompts us to find unnecessarily complicated answers to simple problems.”

Yunus felt awkward around women, and expected to have a traditional arranged marriage. But in 1967, a young woman introduced herself to him at the Vanderbilt library. She was Vera Forostenko, a Russian-born graduate student in literature. They married in 1970 and settled in a small, quiet town 50 miles south of Nashville, near Middle Tennessee State University, where Yunus was teaching. However, their quiet life was short-lived.

On March 25, 1971, the Pakistani army moved into East Pakistan to suppress a Bengali independence movement. In response, the people of East Pakistan decided to fight for independence. The Bangladesh Liberation War had begun and Yunus declared his allegiance to the new nation of Bangladesh. With six other Bengalis, he formed the Bangladesh Citizens’ Committee, which began working in the U.S. to support independence. Yunus traveled to Washington, D.C., where his group (with other Bengalis living in America) held a demonstration on Capitol Hill, spoke to the press and lobbied ambassadors from various nations to recognize Bangladesh.

At one point, an ambassador asked Yunus’ group a simple question that brought them up short: “Do you have a government of your own?” They didn’t, so Yunus and his compatriots decided to form one, working with other expatriates. Yunus ran the information center for the new government from an apartment in Nashville while back home the war continued, eventually killing three million people and forcing 10 million to flee to India. Finally, on December 16, 1971, Bangladesh won its independence, and Yunus, now 31, left the U.S. to help build a country.

Back in Bangladesh, Yunus joined the new government’s Planning Commission. But his role wasn’t what he expected. After trying to get more meaningful responsibility, and failing, Yunus quit. He went back to the Economics Department of Chittagong University, now as department head. He lived with his parents in Chittagong, about 20 miles from the university campus.

The Practical Professor

It was now 1974 and Bangladesh was suffering famine. During his daily commutes to the university, Yunus noticed something odd: fields suitable for agriculture lay uncultivated in the midst of a starving population. This seemed like a problem that could be solved. With his students he started investigating the nearby villages, trying to learn why the fields weren’t being used. The answer was poor irrigation. He and his students asked what skills villagers had and how they made their living. By this stage of his career, Yunus had decided he preferred personal experience and contact with people above learning from books and classrooms. In an attempt to merge the academic and practical worlds, Yunus founded the Chittagong University Rural Development Project, through which students earned academic credit while assisting local poor people. They focused on irrigation technology and helping the villagers grow high-yield rice. Yunus also experimented with agricultural cooperatives, which he funded himself.

While these projects were successful, Yunus concluded that he wasn’t doing enough to help the poorest of the poor – landless people such as Sufiya Begum, a 21-year-old

“International development programs in rural areas always focus on farmers and landowners. In Bangladesh, half of the total population is worse off than the marginal farmer.”

“Unlike other commercial bank workers, our staff members grow to consider themselves teachers.”

“Grameen believes in social intervention without government getting involved in running businesses or in providing services.”

“Grameen is against the existing institutional framework. It opposes an economy grounded solely on greed-based enterprises.”

mother of three who made bamboo stools in the nearby village of Jobra. Sufiya bought 22 cents worth of raw materials from a middleman on credit, then sold him finished stools to repay the loan. Her income was two cents a day. She could have borrowed money for her raw materials from local moneylenders, but they charged interest rates ranging from 10% a week to 10% a day. As Yunus talked with others in Jobra, he saw the same problem: a dependence on usurious loans. Working with a student, Yunus listed all the villagers in Jobra who were borrowing money and added up how much they needed. These 42 people needed only \$27 to buy their raw materials. Yunus decided to loan the villagers the money himself, interest free.

Knowing that this *ad hoc* solution couldn't work on a large scale, in 1976, Yunus approached the local branch of Janata Bank, one of the largest government banks in Bangladesh, and pitched an idea: small loans to the very poor. It seemed like a simple solution to a complex problem. But the bank managers rebuffed him. The poor were illiterate and couldn't fill out the necessary forms, he was told. And they had no collateral (which was obviously true – that was the problem). After some negotiation, Yunus offered to personally guarantee the loans, which totaled about \$300. Gradually, the bank managers came around and agreed. It took another six months, but finally the loans were made to Yunus. The bank required him to act as intermediary, filling out the necessary paperwork for each loan because it didn't want to deal with the poor directly. Why did Yunus think the poor would repay these unsecured loans? “The poor know this credit is their only opportunity to break out of poverty,” he says. “If they fall afoul of this one loan, they will have lost their one and only chance to get out of the rut.”

A Bank “of the Village”

This program later evolved into Grameen Bank, which Yunus started even though he had no training in managing a bank, particularly one for impoverished people. How did he learn? He decided to look at the way other financial institutions operated, gain from their errors and, often, do the exact opposite of what a traditional bank would do. For instance, Yunus thought that bearing large debts would discourage poor borrowers, so he made them start repaying immediately. Loans lasted one year and borrowers had to pay back a tiny amount each day. (Later, payments were made weekly.) Yunus discovered that repayment was likelier if the borrowers formed groups. If one borrower defaulted, the group's members couldn't get loans. Yunus also required borrowers to accumulate savings, which could then be lent to other members of the borrowing group. (By 1998, \$100 million had been saved this way.) He conducted all transactions in the open, so everyone could see how the system worked. There were no secrets. The system was self-policing, and never involved the courts or anyone outside Grameen.

In another departure from the norm, Yunus loaned money almost exclusively to women because he found that extending credit to them created more change, more quickly, than lending money to men. “Not only do women constitute the majority of the poor, the underemployed, and the economically and socially disadvantaged,” he explains, “but they more readily and successfully improve the welfare of both children and men.” If a family member must starve in Bangladesh, often it is the mother. Any children she is breast-feeding starve with her. Moreover, women tend to focus on improving their children's lives. When she gets extra money, a typical woman buys cooking implements, repairs her house or acquires beds. In contrast, men tend to spend borrowed funds on themselves. Numerous studies of male and female borrowers bear out this pattern.

“If Grameen was to work, we had to trust our clients.”

“To me, changing the quality of life of the bottom 50% of the population is the essence of development.”

“I have always believed that the elimination of poverty from the world is a matter of will.”

Yunus sadly divorced Vera in 1977. She felt Bangladesh was not the right place to raise their daughter, Monica; he could not abandon it. In 1980, he married Afrozi Begum. As a Bangladeshi who studied physics in England, she shares his ability to be “comfortable...in the eastern and western worlds.” Their daughter Deena was born in 1986.

Growth, Change and the Future of Poverty

Since the late 1970s, Yunus’ loan programs have constantly changed and evolved to meet the needs of the poor. In 1977, a meeting with the managing director of the Bangladesh Krishi (“Agriculture”) Bank led to the loan program’s expansion beyond Jobra into the district of Tangail, a poor area of Bangladesh near the nation’s capital, Dhaka. Two years later, Yunus took a leave of absence from teaching and opened the first official branch of Grameen Bank as an offshoot of Krishi Bank. It grew rapidly. By the end of 1981, loans totaled \$13.4 million. In 1982, with Ford Foundation money as well as a loan from the International Fund for Agricultural Development, Grameen Bank moved into five more districts and disbursed another \$10.5 million.

The same year, a coup ousted Bangladesh’s civilian government. The coup occurred during a conference Yunus was attending. With martial law newly declared, Yunus was unable to leave the conference. The man who would become the new government’s finance minister was trapped there also. Yunus took the opportunity to describe Grameen Bank to the future minister, who became an ally. With his help, Yunus restructured Grameen Bank into an independent institution. With independence, the bank grew even more quickly, adding 100 branches a year. It started offering different kinds of loans and expanded into other poor countries, including Malaysia, the Philippines, India, Nepal and Vietnam. Grameen even started operations in the U.S. With President Bill Clinton’s support, Grameen began a program in Arkansas. Similar programs followed in South Dakota, Oklahoma and Illinois. Yunus started other antipoverty programs involving fish farming, textile production and cellular telephones.

The institution that began in the village of Jobra in 1976 with a \$27 loan has become an impressive antipoverty program. Grameen Bank has almost 2,000 branches and a staff of some 11,000. It has loaned \$3.9 billion, with a recovery rate of 98%. About 90% of its loans are financed from its own funds, using the savings of depositors, most of whom are also borrowers. Since 1998, Grameen Bank has not used any donor funds in its loan programs. Other than its first year and two later years when Bangladesh was devastated by cyclones, Grameen Bank has always made a yearly profit.

These accomplishments seemed highly unlikely in 1976, but Yunus believes that “before we actually translate something into reality, we must be able to dream about it. Any socioeconomic dream is nothing but the first step in the process of mapping the course to our destination.” Accordingly, Yunus imagines a world free from poverty by 2050. “Poverty does not belong in a civilized human society. Its proper place is in a museum,” he says. “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 these accomplishments while at the same time reinforcing them. This would be a world we could all be proud to live in.”

About The Author

Nobel Peace Prize laureate Muhammad Yunus is the founder and managing director of Grameen Bank. He chaired economics at Bangladesh’s Chittagong University.