

this category to do it – *themselves*. Because at the end of the day, it’s about engagement. It’s about understanding that people really don’t want handouts, that they want to make their own decisions, they want to solve their own problems, and that by *engaging* with them, not only do we create much more dignity for them – but for us as well. ... We all [can] make poverty ‘history’ by really becoming part of the process and moving away from an us-and-them world and realizing that it’s about all of us – and the kind of world that we together want to live in and share. Thank you!”

Having discussed what the poor can do for themselves, let’s discover how they might be helped to finance their own development.

2.3 MICROCREDIT – FINANCING ENTREPRENEURIAL ENDEAVORS

*“Credit is a human right.”
– Muhammad Yunus –*

On October 13, 2006, a man from one of the poorest countries on earth – Bangladesh – was awarded the 2006 Nobel Peace Prize in Oslo, Norway. What is unprecedented is that the prize was split into two equal parts and awarded to him and – get this – to his bank. His meritoriousness? Microcredit-mastery! For three decades this man has tirelessly translated his vision of “development from below” into practical action for millions of poor people. His bank was created as a response to conventional banking which flatly rejects the poor as “not creditworthy.” Through loaning money to the poor so that they can make small investments (perhaps a millstone, cow, potter’s wheel, plow, etc., wherewith to generate income

and repay the loan), this 66-year-old man has revolutionized banking across the developing world. His business model does not debase the poor as being in need of charity – but rather defers to them as being in need of no more than a fair chance! In three decades his concept of microfinance has blazed a trail through the thicket of global poverty and in the process of doing so has attracted a widespread following of some 12,000 institutions worldwide which are imitating his ground-breaking approach. Ladies and gentlemen, meet Muhammad Yunus!

How fitting that the Norwegian Nobel Committee has crowned the grandfather of all microfinance with the honor of the 2006 Nobel Peace Prize with the words “Every single individual on earth has the potential and the right to live a decent life. Across cultures ... Yunus and Grameen Bank have shown that even the poorest of the poor can work to bring about their *own* development” (source: nobelprize.org). How fitting indeed! I can’t think of any other banker who ever stood that tall.

Yunus’ vision in life? Eliminating global poverty! What is remarkable is that despite his lavish successes and imposing awards, this humble banker and economist did not amass personal riches in the process of championing the poor and to this day holds no shares of the Grameen Bank which he founded. (The bank is owned – get this – by the poor who borrow from it.) Raised in a respectable and affluent family in Chittagong, Yunus attended the finest schools, became a market economist and soon embarked on a promising teaching career in the United States. But he was to find no respite from the nagging unease he felt about the reeking hunger that continued to rock his home country. In 1972 he returned to Chittagong, became a professor, but grew so troubled about the fate of the poor that he confessed: “We professors thought we were so wise. But what did we know about the poverty all around us? Nothing!” (Hein, 2006, p 12). He realized that aid and subsidies were proving to be inef-

fective measures wherewith to weed out poverty by its roots. In the end he more or less unsuspectingly stumbled upon the idea of microfinance. One day he loaned a few women the equivalent of \$27 for the raw materials they needed to make bamboo stools. Little did he know then that through the years this idea would grow into a bank of nearly 20,000 staff which would – thirty years later – receive the Nobel Peace Prize and for three days plunge his whole nation in jubilant celebration!

The Grameen Bank Project was thus born in the Bangladeshi village of Jobra in the year 1976. In the words of Yunus, “One that does not possess anything gets the *highest* priority in getting a loan.” And he practices what he preaches. Even beggars can get loans from the Grameen Bank. They are not required to give up begging but are encouraged to take up an additional income-generating activity, such as selling popular consumer items door-to-door. Thirty years later, at the end of 2006, a total of 933,242 entrepreneurs have taken out micro-enterprise loans, with loans averaging about \$309. The loan recovery rate is close to 99%! This is particularly remarkable in light of the fact that the bank relies entirely on personal *trust*, not collateral (sources: Yunus 2004, Grameen Bank 2006, GEM 2005).

While in the seventies the word “microcredit” did not even exist, it has since mushroomed into a trendy buzz word which today can mean nearly “everything to everybody.” It therefore seemed advisable to point the reader back to the original foundation which Yunus and Grameen Bank laid in 1976. Features of microcredit granted on that basis (Yunus, 2006) included and continue to include the following elements:

- Promoting the idea of credit as a human right
- Targeting and empowering the poor, particularly women
- Basing credit not on collateral or legal contracts, but on “trust”

- Offering loans for the creation of income-generating activities
- Meeting the poor where they're at and providing services at their doorstep (literally!)
- Building up community cohesion and accountability by requiring borrowers to join a group of other borrowers
- Requiring repayment in weekly or biweekly installments
- Understanding that helping poor families means helping them to “help themselves” from the bottom up

Three decades later the distinguished “Banker to the Poor” does not tire of promoting his idea with the same simplicity and humility that characterized it right from the start: “When I began, I was clueless. I simply thought the world was unfair. Banks only lend money to those who already have it. Yet things should be the other way round: first in line should be those who have nothing!” (Hein, 2006, p 12).

Why don't conventional banks lend money to the poor? Easy. The poor have no collateral, no business experience, no education, and no credit histories. Simply put: they have no financial securities banks can *bank* on. Rejected by banks and sucked dry by loan-leeches and moneylending pawn-sharks, the poor – until Grameen Bank closed the gap – had nowhere to turn for financial help. In addition, few people in the developing world even have bank accounts. Less than 10% of the adult population in Africa has a bank account



*Muhammad Yunus,
“Banker to the Poor”*

and even in middle income countries such as Mexico, the percentage is scarcely higher than 20% (source: International Year of Microcredit 2005). Add to that the glaring absence of ritzy venture capitalists and business angels (whose share of entrepreneurial funding by the way is a mere bucket-drop of 0.01% [sources: GEM, World Bank]), and you begin to understand why underfunded entrepreneurs have traditionally been left with nothing but the four F-sources of financing: founders, family, friends, and foolhardy strangers (GEM 2005).

While family members, friends, and neighbors can indeed be significant sources of informal seed capital for entrepreneurs, in impoverished communities this can present insurmountable difficulties. Since too little money is spread out too thin among too many villagers, poor would-be entrepreneurs are trapped in a market-based ecosystem which dooms them to gloom! This is what makes the role of microfinance so pivotal in getting new start-ups lifted off the ground. In 2005 (the International Year of Microcredit) it was estimated that approximately 40% of the world's poorest people were being reached by microcredit (GEM 2005; yearofmicrocredit.org). I'm so grateful Mr. Yunus closed the gap!

Allow me to conclude this section about microfinance by leaving you with some quick facts about Grameen Bank (August 2006):

- *Bank ownership:* Grameen Bank is an organization of the poor, by the poor, and for the poor. Of the bank's total equity, 94% is owned by the poor borrowers of the bank and 6% is owned by the government. The bank has 2,226 branches, works in 71,371 villages, and has 18,795 staff on its payroll. To date, the total number of borrowers is 6.61 million, of which 97% are women.
- *Credit and collateral:* Grameen Bank does not require any collateral against its micro-loans. Since the bank does not wish to take default-

ing borrowers to court, it does not require the signing of legally binding documents. Each borrower must belong to a five-member group, a requirement which fosters accountability and reciprocal repayment responsibility.

- *Disbursement model:* Since its inception, Grameen Bank disbursed loans amounting to \$5.72 billion. During the past 12 months alone the bank disbursed \$706.48 million (the monthly average was \$58.87 million). The loan recovery rate is 98.85%. Grameen Bank finances 100% of its outstanding loans from its deposits. Because by 1995 the growing amount of deposits was viewed as “more than enough,” the Grameen Bank ceased accepting donor funds and since then has been fully self-financing. In 2005 it made an overall profit of \$15.21 million. [In keeping with a government condition which exempts Grameen Bank from paying corporate income tax, the entire profit was transferred to a disaster rehabilitation fund.]
- *Interest rates:* Grameen Bank offers attractive interest rates both for deposits and loans. There are four interest rates for loans: income-generating loans (20%), housing loans (8%), student loans (5%), and interest-free loans (0%) for “struggling members” (beggars). Deposits earn between 8.5-12% interest!
- *Beggars as partners:* Grameen Bank does not drive away beggars but treats them with dignity. This shines through in the way it talks about them: “Begging is the last resort for survival for a poor person, unless he/she turns into crime or other forms of illegal activities. Among the beggars there are disabled, blind, and retarded people, as well as old people with ill health. Grameen Bank has taken up a special program, called *Struggling Members Program*, to reach out to the beggars. About 81,000 beggars have already joined the program. The total amount disbursed under that scheme stands at Taka 68.44 million (\$623,000). Of that amount a total of Taka 41.22 million (\$375,000) has already been paid off. ... All these loans are *interest-*

free. Loans can be for very long-term, to make repayment installments very small. For example, for a loan to buy a quilt or a mosquito net, or an umbrella, many borrowers are paying Taka 2.00 (\$0.03) per week” (grameen.com).

- *Housing for the poor:* Grameen Bank housing loans were introduced in 1984. Since then 637,469 houses have been constructed with the housing loans. The average housing loan average is Taka 13,243 (\$190). In the past 12 months alone, 13,668 new houses have been built with housing loans amounting to Taka 141.57 million (\$2.08 million).
- *Micro-enterprise loans:* People requiring more sizable loans to fund their entrepreneurial ventures may apply for micro-enterprise loans. There is no restriction on the loan size. To date 933,242 members have taken micro-enterprise loans. The average micro-enterprise loan is \$309. The biggest loan ever taken out was \$19,897. It funded the purchase of a truck. The most popular items for micro-enterprise loans are irrigation pumps, river-craft for fishing, power-tillers, etc.

Time and space constrain me to omit scholarship loans, education loans, pension funds, life insurance schemes, retirement benefit models, and “achievement stars” [a color-coded star-award system which recognizes special achievement]. Is it any wonder that Yunus and his Grameen Bank have received the 2006 Nobel Peace Prize? [Incidentally, as early as 1994, U.S. President Bill Clinton had already recommended Yunus and his bank for the Nobel Peace Prize.]

As a final contribution to the discussion of microcredit, I again quote Frese who undertook extensive research into the role of entrepreneurial planning in Namibia. While the detailed psychological findings of his research are beyond the scope of this article, I shall extract one conclusion

that pertains to this study and expound it in broad strokes: *Entrepreneurial planning* is positively related to entrepreneurial success (the author distinguishes between three types of strategic planning: complete planning, critical point planning, and opportunistic strategies). On the other hand, the absence of proactive planning (reactive strategy) is negatively related to business success. Since Frese's research was conducted in the developing country of Namibia, the author's closing recommendation is of particular significance for the conclusion of this section:

“Practically, this means that one can advise people to use different strategies to deal with their markets and, thus, to become more successful. This also implies that it is possible to develop a training program to change strategy ... and entrepreneurial orientations. It might be useful to *complement microcredit programs with ... training programs* to help people become more successful business owners” (Frese et al, 2002, p 279).

Microfinance has clearly proved a highly effective means of championing entrepreneurial endeavors. Coupling it with training, ongoing supervision, and mentoring will further increase its rich rate of return.

If entrepreneurship is the liberating pathway out of the prison of extreme poverty, then microfinance is the key that unlocks the door! Muhammad Yunus has liberally given that key to the world and has freed millions of people from the bondage of extreme poverty. When the bank recently took stock of its progress it concluded: “According to a recent internal survey, 58% of Grameen borrowers' families ... have *crossed* the poverty line. The remaining families are moving steadily towards the poverty line from below” (Grameen Bank).

Remember Iqbal Quadir from the previous section who championed connectivity in Bangladesh by founding Grameen Phone? According to the latest figures, Grameen Bank has now provided loans to 250,730

borrowers to buy mobile phones and offer telecommunication services. According to Grameen Bank, many women now “run a very profitable business with these phones. ... [They] play an important role in the telecommunication sector of the country, and also in generating revenue for Grameen Phone, the largest telephone company in the country” (grameen.com). An article published by Schuurmans (2004) announced that Grameen Bank has even begun recruiting *beggars* to join the legendary “telephone-ladies” in retailing roving phone services for cash under the microcredit scheme. The header of the article reads: “Grameen Bank gives beggars phones instead of cash” and quotes the deputy managing director of Grameen Bank, Dipal Chandra Barua: “Beggars... deserve to be part of our network [and]... lending program!” [Under the scheme beggars need to become Grameen Bank members to be eligible for a mobile phone costing \$143. The sum is repayable over two years in interest-free installments. A subsidized monthly service charge funds the idea.]

The way in which Yunus and Grameen Bank have empowered the poor to live lives of dignity and self-sufficiency is an encouragement to the world that the fight against global poverty can and will be won! The poor don’t want charity. What they want is someone who will believe in them and give them a chance to prove themselves worthy of trust! And isn’t that what credit means – to trust – to “give someone credit”?

May Grameen Bank continue to dispel some of the most vociferous prejudices about the alleged impotence of the poor: “Poor people are recipients? – Poor people are a *resource*! Services cost too much for the poor? – Their *involvement* reduces the cost! The poor are uneducated and cannot do much? – They are very eager *learners* and very capable survivors!” (Quadir, TED, 2005).



One of over 250,000
“telephone-ladies.”

It is my hope that the “prudent” Western banks will learn something from the gutsiest and sexiest bank in town: the Grameen Bank (“village bank”) for the poor. Not only is it the right thing to do, but it would also serve their own interests: Four billion people on earth make less than \$4 per day which – aggregated – is the *third-largest* economy in the world! (Novogratz, TED, 2005). Research by the Ministry of Foreign Affairs in the Netherlands seems to suggest that major banks are beginning to catch a glimpse of the awesome power and market potential of “unre-sourced” people (Hein, 2006, p 2).

Muhammad Yunus has initialized a paradigm shift from viewing the poor as helpless victims to be pitied to resilient entrepreneurs to be *en-gaged*. With four billion people awaiting their turn at the bottom of the economic pyramid, may the conventional banking sector wake up and seize upon this not-to-be-missed opportunity. Engaging the poor through microcredit will give bankers by far the most “bang” for their “buck.” Thank you, Professor Yunus and Grameen Bank, for blazing the trail!

“Let us be clear: microfinance is *not* charity. It is a way to extend the same rights and services to low-income households that are available to everyone else. It is recognition that poor people are the *solution*, not the problem. It is a way to build on their ideas, energy, and vision. It is a way to grow productive enterprises, and so allow communities to prosper” (Kofi Annan, extending his gratitude to the people of Bangladesh on the launch of the International Year of Microcredit, Jan 15, 2005. Source: Babson).



Mubammad Yunus standing together with a group of “telephone-ladies.” (Source: Grameen Bank)

You have read the chapter
"2.3 Microcredit – Financing Entrepreneurial Endeavors."
Excerpted with permission from the book:

Opportunities for Global Poverty Reduction

The Role of
Policy Makers,
Corporations,
NGOs, and
Individuals

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This book is dedicated to “my” World Vision sponsored child Melwie who lives in the Philippines. In March of 2006 I was afforded the joy of meeting him in his homeland. Although our brief time was limited to a few hours of savoring a hefty seafood lunch together, I will always remember this meeting.

*“Speak up for those who cannot speak for themselves,
for the rights of all who are destitute.
Speak up and judge fairly;
defend the rights of the poor and needy.”*

Proverbs 31:8-9, Holy Bible

REVIEWERS' PREVIEW

“In his dissertation Mr. Lütz has chosen to analyze ways to reduce poverty in the world. In contrast to the usual critical globalization debate, Mr. Lütz argues for an important role of corporations to fight poverty. For him, big *and* small are beautiful. This means that multinational companies as well as small companies can help to reduce poverty. Mr. Lütz discusses the poverty problem in a comprehensive approach. He combines the macroeconomic and microeconomic levels and discusses possible actions of different agents, especially policy makers, corporations, NGOs, and individuals. In the debate about poverty reduction, this approach is not common. Mr. Lütz managed to overcome boundaries of established thinking and in this way created something new.”

—Prof. Dr. Hansjörg Herr, Chief Reviewer
(Academic Director of the School of Labour Policies and Globalisation)

“This thesis is definitely an unusual one. Not only by its format. Johannes Lütz has delivered an opus with a more than challenging aim: display the opportunities of all men and institutions, regional and global, to fight human poverty. For this, the author exploited his own experiences and economic knowledge and interviewed experts from different areas, such as the German Minister Wiczorek-Zeul and University Lecturer Eileen Baldry from Australia. He demonstrated his ability to develop a clear story, full of interesting facts and numbers. His economic competence enabled him to draw compelling conclusions that show where the opportunities are. The thesis is based on excellent content.”

—Prof. Dr. Sven Ripsas, Co-Reviewer
(Director of the Institute of Management at the Berlin School of Economics)

“Opportunities for Global Poverty Reduction in the 21st Century presents the sobering reality of the world’s dire state of poverty. At the same time the book shines a hopeful ray of light on the path towards a poverty-free world. It is easy to follow and introduces views and ideas from key leaders and sectors in society pinpointing a myriad of opportunities which may be examined and pursued for the respect of human dignity and the betterment of the world. The book inspires empathy, hope, vision, and motivation. All leaders and laymen who cherish basic human values will be encouraged to take action in an endeavor to reach that grand goal which has never been more attainable than at the dawn of the 21st century: making poverty ‘history.’”

—Prof. Dr. Ulrich Trogele

*(North American Director for FMC Corporation and
Professor at the Berlin School of Economics in Germany)*

“Twenty years from now you will be more disappointed by the things that you didn’t do than by the ones you did do. So throw off the bowlines. Sail away from the safe harbor. Catch the trade winds in your sails. Explore. Dream. Discover.’ This famous invitation to ‘dream audaciously’ has been attributed to none other than Samuel Langhorne Clemens, better known as Mark Twain (1835-1910). One-hundred years later – in the early 21st century – another ‘audacious’ dream is presented to mankind: the dream of ending global poverty. *Opportunities for Global Poverty Reduction in the 21st Century* is an invitation to get on board, cast off, catch the trade winds, and discover new shores of human dignity, peace, and prosperity. Whether as politicians, corporate executives, aid workers, or individuals... I personally wish that the dream this book inspires will attract a widespread global following.”

—Dr. Shlomo Ben-Hur

(Chief Learning Officer DaimlerChrysler Financial Services AG)

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