

What Needs to be Done

Muhammad Yunus

The interesting thing about microcredit is that it works in a business way and the private sector produces the best result. As a matter of fact, microfinance brings the financial sector to its logical conclusion. Without microfinance, the financial sector remains half-done, because more than half the population of the world remains ineligible to access the services of the existing financial institutions.

Creation of microfinance institutions makes credit universal. Looking at it politically, it democratizes credit. I keep arguing that credit should be accepted as a human right because it has such a fundamental role to play in bringing out the potential creativity in each individual human being. That is why it is so important for poverty reduction.

I feel that it is important that we keep microfinance exclusively in the private sector. If we make it a public sector initiative, there will be heavy risks of running it on short-term political considerations, rather than adhering to the sound financial principles and practices to make it strong and permanent.

Microfinance institutions are just like any other banks, but doing a completely different kind of job with a very different methodology. Once governments create the legal framework for microcredit banks, and set-up regulatory commissions to supervise them, they can run like any other business enterprises.

Ownership of microcredit banks can be of many kinds, such as:

- a. Owned by private investors
- b. Owned by borrowers themselves (Grameen Bank is owned by its borrowers)
- c. Combination of a & b
- d. Owned by NGOs
- e. Co-operatives

Multilateral financial institutions have

expressed their rhetorical support to microfinance, but this has not been followed up by resource allocations to match with the verbal expressions. Not even one percent of the annual World Bank funding goes to microfinance. Records of other multilateral financial institutions are still poorer. Even within the limits of their support, funds are not aimed at the poorest, arguing that the poorest cannot benefit from microcredit. This argument is absolutely wrong. Grameen Bank, which lends even to the beggars, is rich with concrete evidence against this argument.

Political initiatives at the highest level are very much needed to encourage the multilateral financial institutions to at least double their present funding level to microfinance, and to make sure that at least half of this money reaches less-than-a-dollar-a-day families around the world. Grameen Bank currently lends to 3.7 million borrowers, 96% of whom are women. All of them come from less-than-a-dollar-a-day families when they joined Grameen Bank.

These multilateral funds can be best utilized by:

- a. Creating wholesale microfinance institutions within each country to provide funding to the NGOs and microcredit banks at commercial interest rates.
- b. Establishing microcredit banks, and regulatory bodies.
- c. Financial sector reforms which will include opening of doors of conventional banks to the poorest, directly or indirectly, by lending to microcredit banks.
- d. Funding BOT (Build, Operate and Transfer) and BOO (Build, Operate and Own) microcredit projects in various countries.

In Asia, Sub-Saharan Africa and the Middle East, microfinance projects are carried out basically by the NGOs. They are not allowed to take deposits.

Continued on next page

What Needs to be Done

Continued from previous page

That is why they remain perennially dependent on donor funding. This keeps them away from hard commercial calculations and sustainability.

One important corrective measure will be to set up microcredit wholesale funds as sources of commercial funds for NGO microcredit programs.

Next important step would be to set up commercially viable microcredit programs on BOT and BOO basis with bilateral and multilateral donor funding in various countries. Grameen Bank and Grameen Trust will be happy to accept responsibility to set up microcredit programmes in any country on BOT and BOO basis. This will help quick expansion of good quality microcredit programs. These projects should be allowed to take deposits to make them self-reliant. A legal framework should be created to set up microcredit banks and a regulatory body to supervise them. Centers of excellence should also be created, so that all microcredit programs can look upto them.

Countries in Europe have a long history of state taking care of the unemployed, unemployables, immigrants, old and disabled people, through a very elaborate

welfare delivery system.

Before microfinance was introduced, there was no problem of any program coming in conflict with welfare laws. But once microfinance is made available, this immediately comes in conflict with the welfare system. One reason for this contradiction originates from the fact that the welfare system does not stipulate that a poor person can be an independent, self-employed person. Even tax laws, licensing requirements, which were actually created for a formal economy, come directly in conflict with microfinance operations, which work within an informal economy.

Legal reforms are desperately needed to allow welfare-recipients to accept and benefit from microfinance.

Microcredit will prove to be a very attractive opportunity in the lives of many families in Eastern and Central Europe, including the countries which recently became new members of the EU. BOT and BOO microcredit programs may be initiated in all these countries.

I have been campaigning to convince people around the world that poverty is not created by the poor. It has been created by the system we have built

around us. Institutions are to be blamed, not the people. The poor are the victims, not the cause. If we can redesign our existing institutions and/or build new institutions and policies, to fix the mistakes we made in the past (such as, in designing the financial institutions), nobody will remain poor.

All nations of the world came together in the UN headquarters to commit themselves to reduce the number of poor in the world by half by 2015. There are now less than 11.5 years to go. We need to act immediately.

We must get into serious actions to achieve the 2015 goals. Among the things we must do, two actions will remain very vital:

- a. Making microfinance services available to the poorest, particularly poorest women.
- b. Making information technology available to the poorest so that they can find answers to their own problems, they can design their own lives based on all the available opportunities in the world, their children can become world citizens, rather than live in isolation and ignorance through of the lack of information.

