



# story

## **Microcredit: An Innovative Way to Help Poor People Improve Their Lives**

Microcredit refers to small loans given to poor people to help them start or expand businesses. Borrowers have used the funds to start grocery shops, set up trading activities, rear cattle and poultry, farm fish, or start up businesses such as tailoring, rickshaw pulling or paddy husking.

Microfinance was started in 1970s by Muhammad Yunus, a Bangladesh economist, who had a radical idea of giving poor people access to credit to help them improve their lives.

Poor people generally don't have access to traditional financial institutions such as commercial banks. The amount of money they want to borrow is too small to make it worthwhile for a bank. Also, poor people tend to have no collateral to back up their loans; if they were unable to pay off their loan, the bank would have nothing to take from them to recover its losses.

So, according to financial institutions, lending money to poor people didn't seem like a sound idea.

Except Mr. Yunus didn't think so.

### **A \$27 Loan Starts the Microcredit Industry**

In 1976, Mr. Yunus created Grameen Bank ([en.wikipedia.org/wiki/Grameen\\_Bank](http://en.wikipedia.org/wiki/Grameen_Bank)), a microfinance institution, to lend small loans to poor people, especially poor women. The first loan of \$27 was given to groups of five women: Actually, two women in each group were given loans for specific projects. While each woman was responsible for repaying her individual loan, her group stood behind her to guarantee the loan repayment if she couldn't.

This approach created a system of checks to ensure the money will be repaid. Philosophy behind microfinance lending remains the same: Microcredit institutions loan money to individuals for a specific initiative, but the group as a whole guarantees that the loan will be repaid in case the individual can't.

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## A \$27 Loan Starts the Microcredit Industry (continued)

Considered radical less than 40 years ago, this type of microfinance lending is now common throughout the world and exists in 43 countries.

Last year, Mr. Yunus and Grameen Bank were awarded a Nobel Peace Prize for his work (find more information at [www.grameen-info.org](http://www.grameen-info.org))

### Boosting Women's Role in Society

The money is predominately lent to women, making them responsible for loans, ensuring repayment through them, and maintaining saving accounts for them.

This approach has yielded additional social benefits. Having women handle money and own their businesses has improved women's standing within the family and the wider community.

### Impacting the Lives of the Poor

Microfinance has evolved into much more than giving poor people start up businesses loans. Microfinance institutions today provide poor people with access to savings, credit, insurance and other financial services.

Access to microcredit has helped poor people better plan for life and avoid living day-to-day.

Having a financial cushion, poor people can be better prepared to handle unexpected shocks, such as accidents, natural disasters, etc. In general, poor people tend to be more vulnerable to these types of shocks than the rest of the population and find it hard to bounce back from them.

### Not Enough to Pull People out of Poverty

However, microfinance alone can't help poor people get out of poverty. There are many reasons why people fall into poverty and remain poor. To climb out, poor people must have access to health, education and other basic needs outlined in the Millennium Development Goals ([youthink.worldbank.org/issues/mdgs](http://youthink.worldbank.org/issues/mdgs)).

### IT'S A FACT

In Bangladesh alone, 90% of microcredit borrowers are women, according to 2006 World Bank data.

- 99% report **increase in income**, often by more than 15%
- 96% report **improved quality of life**
- 99% **eat better and more food**
- 99% are **clothed better**
- 86% live in **better housing**
- 88% are now able to **send children to school**
- 83% have **better access to sanitation**
- 55% of rural borrowers now **own land**