The way out of World Poverty

THE GRAMEEN BANK

By James Franklin

IN THE OLD DAYS, when the benefits of big government and massive public programs seemed more self-evident than they do today, it was presumed that untied aid to governments would solve world poverty. Give the governments of the Third World massive aid for dams, roads and other large "development projects", it was thought, and the poor would automatically gain opportunities to help themselves.

It did not work out like that. As explained in the 2009 book by the Zambian economist Dambisa Moyo, *Dead Aid: Why Aid is Not Working and How There is a Better Way For Africa,* there was a problem with what are euphemistically called "cultural factors". Without accountability of aid funds, the corruption that has already entrenched poverty in so many countries simply diverts aid funds to rocket launchers, mobile phones and Swiss bank accounts for the elite. Even apart from that, the inflow of aid is likely to create economic distortions that mean people are dependent on continuing funds instead of economic development being created from the ground up.

Those of a more "economic rationalist" persuasion have concluded that the free action of market forces is more likely to drag the Third World out of poverty, as it allows individuals to make free decisions on how to allocate their resources responsibly, at the same time providing opportunities for those who provide the goods and services that people actually want. That plan has had its successes, but it is not much help in the short term for the poorest of the poor. They have no resources to allocate and no effective freedom of choice.

Can the very poor be supplied with money in a way that enables them to use it productively, without simply creating welfare dependence? The idea of "microcredit", small-scale lending to the poor, has some history in the Christian West, from the Monti di Pietà of late medieval Europe to the credit unions of 1950s Australia. But the most successful plan of this kind has been the Grameen Bank, begun in Bangladesh in 1976 and now operating in many countries. Muhammad Yunus, a university economist, investigated how the village economy near his university actually worked. He found that women weaving bamboo into stools and men pulling rickshaws were economically productive, but unable to escape from poverty because of their debts to moneylenders. The debts, at effective rates of hundreds of percent per year, ate up all the workers' income and prevented them from saving or investing in improvements. Traditional banks do not lend to such customers, both because of the tiny sums involved and because of the poor credit risk. (Normal banking is based on the principle: if you need the loan, you can't have it.) He had his students take a survey of the village. They found that 42 people had initial capital requirements totaling $US26. Yunus lent the money from his own pocket.

He gradually expanded the plan into a bank and had immense success. Some $10 billion has been lent to some 8 million members (and a very high though disputed proportion repaid). In 2006 Yunus and the Grameen Bank won the Nobel Peace Prize, the only commercial organization to do so. The Bangladeshi economy has advanced rapidly in that time and poverty has been reduced greatly. That is contrary to expectation; in the 1970s Bangladesh was regarded as a basket case and perhaps the least likely country in the world to make economic progress. Grameen has been one factor in spreading wealth.

The idea of microcredit faces certain inherent problems, and it is in the solutions to them that the Grameen Bank shows its genius. First, how is it possible to lend to poor people without collateral, in such a way as to ensure that most of the money is spent productively and is repaid? Secondly, there are high overheads in lending such tiny sums of money – how are they to be paid?

Mubarak gone Copts still attacked

EGYPTIAN soldiers attacked for the second time the Monastery of Saint Bishoy Alexandria in Wady el-Rayan, Fayoum, 110 km from Cairo. Two monks and six Coptic labourers were wounded. Four people were arrested — three monks and a Coptic lawyer who was visiting the monastery to investigate a similar incident the day before. The army stormed the monastery using five tanks, armoured vehicles and a bulldozer to demolish the fence built by the monastery last month to protect the building and its residents from the lawlessness that has prevailed in Egypt since the 25 January uprising. In fact, the monastery since that day has been attacked by common criminals who escaped from prisons."We contacted state security and they said there were no police available for protection," Fr Bemwa said. "We were put in touch with the military personnel who told us to protect ourselves until they reach us." The army also attacked the Monastery of St Makarios of Alexandria in Wady el-Rayan, Fayoum, 100 km from Cairo, for the same reason. One monk was shot and more than ten were beaten. – Source: Asia News.

Grameen lending is not a matter of simply handing out money and hoping it will come back. The Bank has many branches, and obtaining a loan involves considerable discussion of plans for its spending and repayment. An individual taking a loan must do so as a member of a group of about five – typically the members of the group take loans consecutively and support one another's repayment. Although members are not legally liable for one another's debts, a group with a defaulter will not obtain further loans. There is strong pressure on each group member not to (in Australian terms) let down one's mates. Meetings for repayments take place normally weekly. The group also commits to following Grameen's "Sixteen decisions" for sound living, including growing vegetables, educating children and avoiding the practice of dowries. Thus the loan exists in an ethical context involving practices tending to economic advance. Finally, Grameen has had success by making an increasing proportion of its loans to women. In recent years some 97% of borrowers have been female.

Although the loans have been generally repaid, with some interest, the cost of making, supervising and servicing the loans is high – very high, compared with the value of the loans. This cost has been met from outside, from the Bangladesh Bank and from foreign foundations. International organizations such as the Grameen Foundation and Grameen Foundation Australia accept donations which provide seed funding for new loans and support the cost of operations. They allow Westerners an avenue for donating funds that are reliably used by poor individuals to escape poverty, and that by recycling can be used many times.

It could well be asked if the principle of the Grameen Bank is applicable in remote aboriginal communities in Australia, which suffer from lack of economic development (as well as health and violence problems) similar to the Third World. As in the Third World, the massive spending of government funds on well-meaning top-down programs has proved largely ineffective in making changes on the ground.

It is certainly worth experimenting with indigenous microcredit, but there are obstacles to success. First is the lack of an economic base in remote communities; except for a few that are located near mining and tourist sites, there are few economically viable potential projects in which an entrepreneur could invest. A second obstacle is cultural. In contrast to Bangladesh, where entrepreneurial self-employment is common, the indigenous cultural practice of "demand sharing" obliges anyone with resources to share them with an extensive network of kin. That makes it difficult for a recipient of a loan to maintain control of how it is used. Whether microcredit could be adapted to lending to a kin group is difficult to predict.

Further information can be obtained from the Grameen Foundation Australia (http://www.grameen.org.au) They are particularly active in the Philippines. The book *The Price of a Dream*, by David Bornstein (1998) gives a readable account of the earlier part of the Grameen story.

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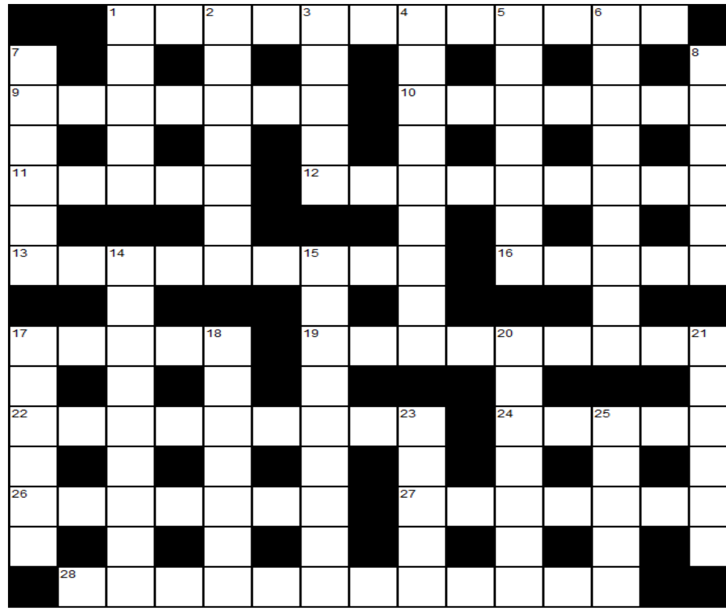
ANNALS CRYPTIC CROSSWORD 25



Across Clues

1. Wine and gold price around beginning of November in Caribbean capital (4,2,6)
9. Chap with unruly pile of Roman soldiers (7)
10. Let out after this to get a prickly plant (7)
11. Lasso carried by some Monsignori at a rodeo in Italy (5)
12. Violent storms ripped commercial canoes in half (9)
13. Cherub to angle for scalare (9)
16. High priest in the role of a Douay Bible Old Testament prophet (5)
17. University student has third of tucker found on golf course (5)
19. My, Tim does produce some indecency (9)
22. Religious recluse stops ship from drifting away with knotted tie (9)
24. Medieval warrior aboard train in Jakarta (5)
26. After half a pint, drunken saint plays music (7)
27. A month ago world power left nun with a many sided shape (7)
28. At Omsk tech, be converted by Canterbury's martyred archbishop (6,6)

Down Clues

1. National Guard carries father on a small fishing boat (5)
2. Her pal is confused over a heavenly helper of Tobit and Sarah (7)
3. Central Ghana Department is proficient (5)
4. Heavy woollen overcoat made from Apostle's pigmeat (9)
5. Parrot? ... one mate swallowed it (7)
6. Protestants oppose them distributing coal chits (9)
7. Code of silence at Rome is out of order (6)
8. Safest ingredients for slap-up meals (6)
14. Terrible charges at party when you come uninvited (9)
15. I can turn up with first Irish broken seat for novices (9)
17. Takes long walks with public transport to outskirts of Paris? (6)
18. Tim goes funny with narcissism (7)
20. Finished task leaving a Ukrainian city (7)
21. Longs for ages around top of Norway (6)
23. Our hero decided to eat away inside (5)
25. It's dark near the middle of Austria (5)

SOLUTION TO CRYPTIC NO.24