

Book Review

Eradicating Poverty in the 21st Century

By Muhammad Mojlum Khan

Banker to the Poor, by Muhammad Yunus and A. Jolis, London: Aurum Press, 1999.

In his Foreword to the book under review, His Royal Highness The Prince of Wales wrote: "I first met Muhammad Yunus in February 1997, during a short visit to Dhaka....I found a remarkable man. He not only spoke the greatest good sense but had, against huge odds and in the face of dreadful cynicism on the part of the so-called experts, followed his ideas through and made them work. I also found an inspiring, entertaining and confident interlocutor who sent me away with a new and invigorating sense of what can be achieved with energy and determination". Who is Muhammad Yunus?

Muhammad Yunus was born in the port-city of Chittagong in British India, now in Bangladesh. Brought up in a lower middle class but devout Muslim family, Yunus attended his local schools. As a gifted student, he excelled in his studies, successfully passing his matriculation and intermediate examinations before graduating from Dhaka University. He then taught economics at Chittagong College until in 1965 he won a Fulbright scholarship to read economics in the United States. After obtaining a PhD in economics from Vanderbilt University, Tennessee, Yunus returned to Bangladesh in 1972 and became Dean of Economics at Chittagong University. It was here at Chittagong University that Yunus pioneered the system of micro-credit which is today practised in more than 100 countries around the world, including the United States, United Kingdom, Canada, France, Malaysia, China, Norway and Finland. The

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system of micro-credit pioneered by Dr Yunus has proved so successful that it has been acknowledged by world leaders including the President's of the World Bank and the International Monetary Fund (IMF) as a fundamental tool in the fight against poverty.

What is so special about the Grameen Bank founded by Dr Yunus? First and foremost, Grameen Bank is nothing like a conventional bank; indeed, Grameen Bank has no resemblance to a conventional bank. Since a conventional bank's basic operative principle is that, 'the more you have, the more you get', and conversely that, 'if you don't have it, you don't get it.' In other words, according to Dr Yunus, conventional banks have designated a class of people as 'not credit-worthy', meaning 'we can't touch you'; thereby, wittingly or unwittingly, the conventional banks have created a kind of financial apartheid. However, Grameen Bank has turned this basic banking principle on its head in that it does not operate on the premise of collateral.

In Dr Yunus's own words, "At first I did not know if I was right. I had no idea what I was getting into...learning as I went along, learning empirically from experience. Our work became a struggle to show that the financial untouchables are actually touchable, even huggable. To my amazement and surprise the repayment of loans by people who borrow without collateral is much better than those whose borrowings are secured by enormous assets. Indeed, more than 98 percent of our loans are repaid because the poor know this is the only opportunity they have to break out of poverty". Operating on the basis of this unconventional banking principle that the poor are credit-worthy, Dr Yunus founded the Grameen Bank with a loan of only £17, and in so doing pioneered a system of micro-credit which lends small (sometimes very tiny) amounts to the very poor, to whom no conventional banks would lend, and discovered - to his utter surprise - that with such small amounts it was possible for the poor and needy to pull themselves out of the vicious cycle of absolute poverty and deprivation, and boost their morale, confidence and self-esteem.

Although Dr Yunus studied conventional economics in a conventional way, his ideas and thoughts about economics are surprisingly unconventional; in fact, it is very radical indeed. In his acceptance speech for the World Food Prize, awarded to him in 1994, he said, "Brilliant theories of economics do not take into account issues of

poverty and hunger. They tend to imply that these problems will be solved when the march of economic prosperity will sweep through the nations. Economists spend all their talents detailing the processes of development and prosperity, but none on the processes of poverty and hunger. I feel very strongly that if the world recognizes poverty alleviation as an important and serious agenda, we can create a world that we can be proud of, rather than feel ashamed of, as we do now”.

Dr Yunus’s radical approach was dismissed by his critics, especially by those at the World Bank. He explains, “We at the Grameen Bank have never wanted or accepted World Bank money because we do not like the way they conduct business. Any project which they finance, their experts and consultants end up virtually taking-over. They do not rest until they mould it their way. We do not want anybody to come and meddle with the system we have built or dictate to us and make us conform to their views. Indeed, that year we rejected an offer of a \$200 million low-interest loan from the World Bank.”

“I [Yunus]”, he continues, “also told Conable [President of the World Bank], who was bragging about employing the best minds in the world, that ‘hiring smart economists does not necessarily translate into policies and programmes that are of any benefit to the poor.’” Needless to say, the concept of micro-credit pioneered by Yunus is both unique and phenomenally successful. This is evident from a quick browse through its Balance Sheet. The Grameen Bank disburses more than \$8 billion in loans to more than 6 million borrowers, 96 per cent of them women, with an unusually high repayment rate of 99 per cent. The bank crossed the first billion dollar mark in March 1995, about eighteen years after its inception in 1976 by lending \$27 to forty-two people. Since then, the Grameen Bank has expanded so rapidly that today it has become the largest provider of micro-credit in the world. In recognition of his efforts to tackle absolute - as opposed to - relative poverty, Dr Yunus has rightly received numerous prestigious international awards and prizes including the Nobel Peace Prize, which was awarded to him in 2006.

Despite his remarkable achievements, Dr Yunus is realistic enough to acknowledge that absolute poverty cannot be eradicated completely unless the global economic powers are prepared to tackle the main causes of global inequality and injustice, that

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is, unless the world powers are willing to scrap the existing international trade policies and practices which are clearly tilted in favour of the wealthy and powerful Western nations, it is not going to be possible to eradicate absolute poverty. His Muslim critics have also pointed out that his micro-credit scheme is an interest-based one, which has been outlawed by the Qur'an. For this reason, many Muslims have understandably refused to support such a scheme. However, recently many Islamic charities and NGOs have developed a modified, non-interest based version of the micro-credit scheme which has enabled them to support the poor and needy in different parts of the world without engaging in interest-based transactions. Even so, the credit for laying the foundation for such a scheme goes to Dr Yunus who remains hopeful and optimistic that one day we will be able to create a poverty-free world. Let's hope he is right. This is a fascinating and powerful book, co-authored by one of the most radical economists and arguably the single most influential banker of modern times.