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'Microloan' Father Yunus Is Awarded Nobel Peace Prize

Bank Spurred Global Movement Through Aid to Women, Poor; Major Insurers Following Suit

By MICHAEL M. PHILLIPS in Washington, MARCUS WALKER in Berlin and MARK WHITEHOUSE in New York
October 14, 2006; Page B1

In giving Bangladeshi economist Muhammad Yunus the Nobel Peace Prize on Friday for financing the business aspirations of "millions of small people," the award's judges made a clear attempt to draw a connection between poverty and conflict.



Muhammad Yunus does good, though some in his industry privately question just how much.

Mr. Yunus shared the prize with Grameen Bank, the institution he founded decades ago to provide tiny loans to help some of the world's most-impooverished people start businesses -- and to prove that the poor, especially women, could be trusted to repay.

"Every single individual on earth has both the potential and the right to live a decent life," the Norwegian Nobel Committee said. "Across cultures and civilizations, Yunus and Grameen Bank have shown that even the poorest of the poor can work to bring about their own development."

The peace prize has often gone to such global peacemakers as Jimmy Carter and Nelson Mandela. This year's award was different: Committee members wanted to highlight a peaceful export from the Muslim world and to send a message to Western governments that they should do more to promote equitable economic growth.

"There are those that say there is a conflict between Muslims and the rest of the world," Geir Lundestad, director of the Nobel Institute and secretary of the prize committee, said in an interview. "Here we see a Muslim influencing the rest of the world. The microcredit model has been developed in Bangladesh, but it has spread to other countries." It has also drawn interest from some of the insurance industry's biggest players. (See related article.¹)

Mr. Lundestad described Grameen Bank as a challenge to radical Islamists. "There are many fundamentalist elements that have criticized Yunus and microcredit both for charging interest, and for promoting women's rights," he said.

The committee was careful not to tout microcredit as the cure-all for global poverty, and not to tout economic growth as the cure-all to global conflict. But the message was clear.

"Eradication of poverty can give you real peace," the 66-year-old Mr. Yunus told reporters in the Bangladeshi capital, Dhaka, according to Reuters. "Now the war against poverty will be further intensified across the world."

Mr. Yunus, who has a Ph.D. in economics from Vanderbilt University, has said he was inspired to start Grameen by a chance meeting with a poor woman in 1974. She made bamboo stools for a living, but had to borrow money at rates as high as 10% a week to purchase materials. The exorbitant interest left her with the tiniest of profits.

Mr. Yunus, according to his autobiography, dipped into his own pocket and lent a group of 42 basket weavers the equivalent of \$27. Even that small amount improved living standards. Equally importantly, he has said, the women repaid the loans.

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That led to the creation in 1983 of Grameen, which means "village" or "rural." The bank organized the poor into five-person lending groups, which in turn formed six-group lending societies. No collateral was required, but group members got loans only if all members made their payments. Grameen now boasts 6.6 million borrowers and, as of August, had lent some \$5.7 billion.

Grameen has also inspired imitators. About 10,000 organizations describe themselves as microfinance institutions, and a growing number of commercial banks, retail outlets and state banks provide savings and loans services to the poor from Kampala, Uganda, to New York.

The Microcredit Summit Campaign, an advocacy group, estimates that more than 100 million microloans were made last year, up from 13.5 million in 1997. More than four-fifths go to women, who use them to invest in income-producing assets such as cellphones, cows and tortilla-making machines. The average amount is about \$250.

Rhoda Lohier, who runs a skin-care business in Manhattan, says she learned about microfinance when her electrolysis machine broke down in spring 2005, leaving her without a source of income. Project Enterprise, a New York microlender modeled on Grameen, gave her a \$1,500 loan for a new machine and supplies. Now, she says, her monthly revenue has more than doubled to about \$5,000.

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5

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"I can't believe that somebody else didn't think of it before," said Ms. Lohier. "Sometimes all you need is a few dollars to get you through a tough moment."

Mr. Yunus has been feted by the likes of former President Bill Clinton and Queen Sofia of Spain. "He really did refine this credit methodology and have the vision of it being a sustainable banking institution," said Mary Houghton, president of ShoreBank Corp., whose ShoreBank unit services poor clients in Chicago, Detroit and Cleveland.

But while admiring his innovations, some in the microcredit industry have privately criticized Mr. Yunus for overstating Grameen's success.

Mr. Yunus often says the bank has a loan-recovery rate as high as 98.5%. Yet that figure ignores the clients who are far behind in their loan payments. The bank reports a loan as overdue only if the borrower has missed 10 or more consecutive payments. And the bank has often provided new loans to allow borrowers to keep current on old ones. The problem came to a head early this decade, when 19% of Grameen loans were at least one year overdue.

"Grameen was incredibly successful before, and then it had these problems," said David Cracknell, Nairobi, Kenya-based Africa program director of MicroSave, a private organization that assists financial institutions with microfinance. The crisis served as a wake-up call for Mr. Yunus and his aides, who "came home from their world tours," he said.

Since then, Grameen has remodeled its operations and released more detailed financial information. "The situation is quite radically transformed," Mr. Cracknell said.

Other financial institutions began to improvise on the Grameen model. Commercial banks -- including **ABN Amro Holding NV**, **Standard Chartered PLC** and **Citigroup Inc.** -- now finance microloans, while microcredit charities have evolved into commercial banks. Some microlenders issue credit cards, seek credit ratings, allow access to ATM networks and comply with international audit standards.

"Many of the microfinance institutions of today don't look anything like the Grameen of today," said Elizabeth Littlefield, chief executive of the Consultative Group to Assist the Poor, a microfinance think tank housed in the World Bank.

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