
Putting Poverty in the Museum : A Revolution in Making

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Prologue

The award of the Nobel Prize to Dr. Mohammed Yunus of Bangladesh highlighted the role of microfinance and micro-credit in poverty alleviation. The Author has given an overview of the successful Microfinance Institutions and other committed Social Entrepreneurs, including the Grameen Bank of Bangladesh, whose work in this field has

impacted millions of households across the world, especially in India and Bangladesh. It has been brought out that 'For Profit Social Business' carried out by these institutions and entrepreneurs would be instrumental in poverty removal from the globe, and very hopefully, banish it to the museums.

- Editor

Incredible as it may seem, it now appears that Poverty is headed for the museum, to occupy a hall in the same section as Slavery and Apartheid. The magic bullet that will put it there is "For Profit Social Business" carried out by Social Entrepreneurs, forged in the experience of microcredit.

Microcredit

Microcredit-the granting of very small loans to the very poor, without financial collateral, to start or expand an enterprise has been practiced for many years, the latest incarnation being that developed in Bangladesh, by Dr. Mohammed Yunus, the founder of Grameen Bank. Many years of experience showed that microcredit, though capable of providing exceptional results, was by itself not enough. To provide opportunities for sustained success, to the fragile poor, it needed to be combined with microinsurance and savings - the suite then termed as Microfinance.

Successful, self sufficient and self sustaining microfinance has become the leading instrument in the fight against poverty. Not only by itself – by providing a

stable and sustainable source of income that enables borrowers to climb steadily out of poverty, have better living conditions and opportunities for their families – but also by questioning established constructs, definitions, mindsets and giving rise to innovative reformations and solutions.

Grameen Bank and Microfinancing Practice

Dr. Yunus in founding the Grameen Bank in Bangladesh, the first and perhaps the most successful microfinance institution in the world, set up a rigorous philosophy and principles for its working. He has, also been the most creative and vocal, many if not most practitioners, though following different constructs of microfinance practice, draw inspiration from his ideas, work and experience, making him the messiah of the war against poverty.

The Grameen Bank, overcomes the high unit transaction costs of making small loans to the poor through a group based lending programme. Five borrowers come together to form a homogenous affinity group. The group then serves as a social collateral and uses peer pressure to monitor and enforce contracts as also to screen good borrowers from bad.

The model involves the following elements:

- Eight groups form a centre.
- The centre meets every week.
- All members make regular savings.
- Loan proposals are discussed and approved in the meeting.
- Loans are disbursed directly to individuals.
- Loans (except for very special circumstances) are to be paid back in fifty instalments.

Group meetings enhance the transparency of the loan disbursement process and help eliminate problems of adverse selection. Since opportunity costs of the meetings are high and loan amounts small, large farmers and other rural rich get excluded from the programme, precluding leakage of cheap credit to the relatively richer rural households.

The Bank's principal target group is women, who make up 97% of the Banks' membership and receive 90% of the loans. This focus, is as a result of studies and experience that show that women are the more effective and committed poverty fighters. They use profits from their businesses to send their children to school, improve families' living conditions, nutrition and expand their business. In group meetings, members also receive training and advice on maternal health, nutrition and childcare and the importance of education, as part of the Bank's comprehensive social development programme.

The Governing principles are:

For the bank and each branch –

- Each branch will be like an independent bank and be owned by its borrowers. It will depend upon deposits it can mobilise from the area to lend money.
- Loans will be given to the poor-the poorest having priority – without collateral and without legal instruments for income generation activities. The borrowers, relying on their traditional skills and entrepreneurial instincts, to use the small loans to start, establish, sustain or expand very small self supporting businesses.
- The mission is to help the poor, to help themselves, to overcome poverty. The idea is to empower people to pull themselves out of poverty as fast as possible.
- As each loan is repaid the money will be recycled as another loan, thus multiplying the value of each unit of money to defeat poverty.
- All profits should be ploughed back to cover the costs of transaction.
- Generally, loans are given through non-profit organizations or through institutions owned primarily by the borrowers. If it is done through for-profit institutions not owned by the borrowers, efforts are made to keep the interest rate at a level which is close to a level commensurate with sustainability of the programme rather than bringing attractive return for the investors. The thumb-rule is to keep the interest rate as close to the market rate, prevailing in the commercial banking sector, as possible, without sacrificing sustainability. In fixing the interest rate market interest rate is taken as the reference rate, rather than the money-lenders' rate. Reaching the poor is its non-negotiable mission. Reaching sustainability is the directional goal. Each branch must reach sustainability as soon as possible, so that it can expand its outreach without fund constraints.
- The concept of sustainability is to make each branch self sufficient and self sustaining, covering the cost of its funds and services. This includes the cost of holding centre meetings, the peer support group process, the provision of information on social services, personal development, health and other critical information that helps the borrowers improve their lives and the future of their families.

For the borrowers –

- If you borrow you have to pay back. This culture has to be built, else banking system shall not work.

- Loans are never waived, though special arrangements are made for disasters-endemic to Bangladesh – wherein fresh loans are made and existing loans are converted to long term ones, with the proviso that they must be paid back and that, no matter how long it takes, the interest cannot exceed the principal.

Grameen Banks borrowers have proved that the poor are excellent credit risks. The repayment rate is between 95 and 98%. In fact, it is higher than all repayment rates common to a bank for all loans including student loans and credit card debts. They have shown that the poor value the opportunity to improve their lives.

“The Right to Credit” not only creates possibilities of self-employment (the only kind available to the very poor), but also brings responsibility, a sense of dignity and of self-worth that poverty so often denies and the most compassionate of reliefs or charity cannot provide.

Success of the Grameen Bank and Escape from Poverty

Grameen Bank has been able to expand rapidly. Indeed, from fewer than 15,000 borrowers in 1980, the membership had grown to nearly 100,000 by mid-1984. By the end of 2007, the number of branches in operation was 2481, with 7.4 million members (97% of them women) in 80,678 villages.

It is estimated that the average household income of Grameen Bank members is about 50 percent higher than the target group in the control village, and 25 percent higher than the target group non-members in Grameen Bank villages. The landless have benefited most, followed by marginal landowners. This has resulted in a sharp reduction in the number of Grameen Bank members living below the poverty line, 20 percent compared to 56 percent for comparable non-Grameen Bank members. There has also been a shift from agricultural wage labour (considered to be socially inferior) to self-employment in petty trading. Thus, what started as an innovative local initiative, “a small bubble of hope”, has grown to a point where it makes a substantial impact on poverty.

A 1998 World Bank study showed that, in Bangladesh, Grameen Bank’s borrowers were escaping poverty at the rate of 10,000 per month. Another study showed that in the eight year period of the study, amongst the poorest in Bangladesh with no credit service of any kind, only 4% pulled themselves above the poverty line but with individuals and families with credit from Grameen Bank, more than 48% rose above the poverty line.

The Bank’s 2007 Report is illuminating. Of the 2343842 of its members covered in a survey on Poverty Alleviation, a total of 65.5% had become poverty free as a result of the Bank, of these 10.1% (236455) had become poverty free in the year.

At the same time Grameen Bank was viable and sustainable. While cumulative disbursement of US\$ 6.7 bn had been done till end of 2007, the year-end outstanding amount was only US\$ 5.3 m against total deposits available with the Bank of US\$ 7.56 m. The Bank has been fully self sufficient for sometime; since 1995 it stopped accepting grants or donations.

It is important to note that the Grameen Bank was fulfilling its major objective of "Poverty Alleviation" and also maintaining a strong bottom line.

The Indian Scenario

Microfinance Institutions

The Indian microfinance sector though old is still evolving in ways in which microcredit is made available to the large and varied population.

There are over 225 Microfinance Institutions in the country, working in 398 districts with a client outreach of 14 million and portfolio of outstandings of nearly Rs. 6000 crores.

These MFIs are of multiple types to address different credit needs of the disadvantaged. For example, it is understood that Grameen type systems are best suited for the very poor and marginal producers, joint liability groups working through intermediaries are best to advance loans to small farmers and micro-enterprises, whereas commercial farmers and growth enterprises are often given direct loans as individuals.

Sa-Dhan – the designated National Association of Community Development Financial Institution plays a crucial role in increasing capabilities, affecting the evolution and adopting of best practices as well as increasing the number of service providers besides contributing to improving the policy and operational context of MFIs. It has already published a code of core values and conduct for MFIs. Identifying these as Quality, Transparency, Fair Practice, Integrity and Privacy of Information.

Self Help Groups

In addition to Microfinance Institutions, microcredit in India, is made available to the poor and near-poor through Self Help Groups (SHGs) having linkages to normal commercial Banks. This programme forms part of the priority sector for the Government, which encourages and monitors the programme through the National Bank for Agricultural and Rural Development (NABARD) in addition to making available a large corpus of funds. Linkage of SHGs with banks aims at using the intermediation of SHGs (between banks and the rural poor) for cutting down transaction costs for both banks and their rural clients.

The SHG Model is homegrown and unlike other models of microcredit, the SHG model starts with savings as a base. The essential design elements of this model are :

- Homogenous affinity group of 15-20 members.
 - Regular meetings.
 - Regular savings
 - Lending decisions are of the Group.
 - Groups select their leaders.
 - Groups access external funds.
 - Groups federate at cluster/Block levels.
- SHG groups build up and rotate savings amongst themselves, open bank accounts and take responsibility for lending and recovering money financed by banks. Most Groups in India have been promoted by NGOs on whom they tend to be dependent to help them maintain accounts, conduct meetings and also manage external interfaces. This system is not as regimented as the Grameen System and allows for flexibility and focus on internal capacity development.

The objectives of SHG Bank Linkage Programme are:

- To evolve supplementary credit strategies for meeting the credit needs of the poor, combining flexibility, sensitivity and responsiveness of the informal credit system with the technical and administrative strength of formal financial institutions.
- To build mutual trust and confidence between bankers and the rural poor.
- To encourage banking activity, thrift and credit, in a segment of the population that formal financial institutions usually find difficult to reach.

And the main Advantages :

To the Banks –

- Externalisation, of a part of the credit cycle including assessment of credit needs, appraisal, disbursal, supervision and repayment.
- Reduction, in formal paperwork and consequent reduction in transaction costs.

- Improvement, in recoveries and margins leading to a wider coverage of the target group.
- Larger mobilization of small savings.

To the Self Help Groups –

- Access to a larger quantum of resources compared to a corpus generated through self-thrift.
- Access to better technology.
- Skill upgradation through different schemes of the banking sector.
- General improvement in the nature and scale of operations that would accelerate economic development.

Besides providing policy input, coordination and 100% refinance facility at 6.5% interest p.a. to the banks, NABARD organises exposure and dialogue programmes in the linkage project for banks and NGO officials.

There are many different models of linkage between SHG and banks, some of which are:

- **MODEL 1:** The simplest and most direct, it is a model in which the banks deal directly with the individual SHGs, providing financial assistance for on-lending to the individual members.
- **MODEL 2 :** A slight variant of the first, the bank gives direct assistance to the SHG and the SHG promoting institution (SHGI), usually an NGO, provides training and guidance to the SHG and generally keeps a watch to ensure its satisfactory functioning.
- **MODEL 3 :** This model places the NGO or SHGI as a financial intermediary between the bank and a number of SHGs. The linkage between the bank and the SHGs in this case is indirect. The NGO accepts contractual responsibility for repayment to the bank.
- **MODEL 4 :** The fourth model envisages bank loans directly to individual members of SHGs upon recommendations of the SHG and NGO. In this case, the NGO assists the bank in monitoring, supervising and recovery of loans.

The SHG Bank Linkage Programme has been a success. NABARD estimates that it has resulted in 40% reduction in Transaction Costs of the Banks and the

reduction in transaction costs by way of reduced documentation, time spent, and costs incurred in repeated visits to the bank by the Borrowers, is nearly 85%.

The Indian SHG Bank Linkage programme has cumulatively reached 9.4 lakh SHGs involving 14 million households.

Overall Context of Microfinance in India

It is estimated that Microfinance in India served 33.6 million Indians in 2007-08, which was 9 million (37.5%) more than the previous year. Four out of every five microfinance clients in India were women.

Outstanding Portfolio on 31-3 -2008	(in crores of Rs)
SHG Bank Linked Programme (SBLP)	16,900
Sa-Dhan representing 223 MFIs	5,954
	21,961
Client outreach	(in million persons)
SBLP	21.57
Sa-Dhan	14.10
	33.55*

* Total reduced by 15% of MFI figure assumed to be overlap by SBLP.

Growth of MFI loan portfolio surpassed 70% annually in the two years March '06 March '08, and a stable 80% of the clients were provided loans of less than Rs. 10,000 indicating that Indian MFIs are true to their mission of serving the poorer strata of society.

It is estimated that there will be a growth of atleast 20% annually during the next 5 years, by which time 75% of all poor households in India shall be reached and the outstandings will go up to Rs.42,000 crores.

World Context

World Bank estimates that there are now 7000 microfinance institutions serving 16 million poor people in developing countries all over the globe. The total cash turnover of MFIs worldwide is US\$2.5 billion with a tremendous further potential for growth.

Some ground breaking microlenders from around the world are:

- Bank Rakyat Indonesia – the single largest microfinance network in the world. Its expansion of small balance savings accounts to over 30 million people brought financial inclusion to the severely disadvantaged .

- Activists for Social Alternatives, Tamil Nadu-formed in 1986 to assist “the poorest of poor women”; its Grama Vidya project now reaches 2.6 million women.
- Kiva.org – changed the face of microfinance by giving Internet users a easy way to loan money directly to enterprises in 40 countries. It had generated US\$40 million by April'08. Till the emergence of eBay's MicroPlace it was the most significant Internet site.
- IMAGE project South Africa-helps to reduce HIV/AIDS and gender-based violence.
- M-PESA Kenya set up a mobile phone money transfer service, which was particularly useful for poor rural clients, who cannot be reached by normal financial/banking services.
- ACCION formed in 1961 to assist South America's working and rural poor began microlending in 1973 with the idea that MFI's should be financially sustainable. Its network now stretches to 25 countries and serves 3 million clients.
- MICROVEST – uses a commercial investing approach to finance MFI's with the aim of generating above average return for investors. By mid 2007 it had invested over US\$28 million in MFIs in 16 countries.
- GRAMEEN BANK – founded in 1983; by early 2008 the bank had 7.4 million borrowers 97% of whom were women.

Development of Social Businesses

The signal achievement of microfinance institutions across the world of being financially sustainable – in Dr. Yunus' words “Broke the mindset that the rich will do business and the poor will have charity.”

Dr. Yunus went on to form a number of companies to address poverty and development issues in the model-doing social good, with each company being sustainable – in a range of industries including mobile telephony, internet access, capital management and renewable energy. The objectives of these companies were not only to “maximise profit” but also produce “happiness” by fulfilling social goals. He called these ventures “social businesses”, a concept he developed upon, in the Nobel Lecture delivered in December 2006 at Oslo while receiving the Nobel Peace Prize.

He said that free market capitalism assumes that an entrepreneur is dedicated solely to the maximisation of profit. In his view this simplified “one dimensional view”

stripped the entrepreneur of the very essentials of human existence, isolating him from all political, emotional, social, spiritual and environmental dimensions of their lives. Dr. Yunus felt that since human beings are wonderful creations embodied with limitless human qualities and capabilities theoretical constructs should make room for the blossoming of those qualities, not assume them away.

He suggested that by defining “entrepreneur” in a broader manner the character of capitalism could be changed radically to solve many unresolved social and economic problems within the scope and power of the free market.

Certain entrepreneurs instead of having a single source of motivation (such as, maximizing profit), could have two sources of motivation, mutually exclusive, but equally compelling - a) maximization of profit and b) doing good to people and the world. And each type of motivation would then lead to a separate kind of business. He called the first type of business a “Profit-maximizing Business”, and the second type of business a “Social Business.”

Social business would be a new kind of business introduced in the market place with the objective of making a difference in the world. Investors in the social business could get back their investment, but would not take any dividend from the company. Profit would be ploughed back into the company to expand its outreach and improve the quality of its product or service. A social business will be a “non-loss, non-dividend company”.

Growth of Social Business

Dr. Yunus went on to establish a number of joint venture social businesses in Bangladesh including :

- Grameen Danone – with the French food giant Groupe Danone, to produce yogurt fortified with micronutrients missing in the diet of malnourished children.
- Grameen Agricole Microfinance Foundation – to provide support to microfinance institutions and social businesses.
- A JV with Veolia – one of the leading water companies in the world, to set up a small prototype unit to produce safe drinking water in a village, so that it can be replicated in other villages
- Grameen Intel – to bring IT based services to the poor to provide healthcare, marketing, education and remittances.

These businesses created industries which were able to provide measureable performance and results besides :

- Scale, to reach the massive numbers in need.

- Permanence, to be available over a long period of time.
- Continuous efficacy, so as to get better each passing day.
- Continuous efficiency, so as to get cheaper each passing day.

The Nobel Peace Prize considerably enhanced world's exposure to Dr. Yunus' work and ideas. With the construct of a profit making Social Business – which merged market incentives with social development goals, bringing about the greatest thrust in the war against poverty, – it no longer consisted of “great programs but disappointing results”.

A number of philanthropic organisations working in the field of social uplift and poverty alleviation built upon these ideas, to enhance their reach and impact. These included Microfinance Institutions working in over 100 countries around the world, the Grameen Foundation of USA and business minded donors such the US\$ 35.5 bn Bill and Melinda Gates Foundation, which treats its charitable contributions like venture capital investments and seeks programmes that can become catalysts for broad changes in fields like Health, Education and Environment. These programmes are required to give measurable performance and results and encourage non-profits to become self sustaining.

Social businesses proliferated around the world in an almost “viral manner” their strengths being lucidly brought out in NYT coverage of the D. light organisation in its 4th March '09 issue

“It used to be that people who wanted to solve a social problem – like lack of access to clean water or inadequate housing for the poor – created a charity. Today, many start a company instead.

D.light, a company co-founded by Sam Goldman, who spent four years in the Peace Corps in Benin before earning a master's degree in business from Stanford University, is an example. Mr. Goldman started D.light with the mission of replacing millions of kerosene lamps now used in poor, rural parts of the world with solar-powered lamps.

His time in Benin also convinced him, he said, that only as a business could a project become large enough to reach the great number of people who use these lamps as their primary source of light.

“We could have done it as a non-profit over a hundred years, but if we wanted to do it in five or 10 years, then we believed it needed to be fueled by profit,” he said. “That's the way to grow.”

Since the company incorporated in May 2007, it has raised \$6.5 million from a combination of investors who, Mr. Goldman said, are

able to push the company on both its social mission and its profitability.

What to call these innovative business people is the subject of some debate. The terms “social entrepreneur” and “social businesses” are generally used to characterize people and businesses that bring entrepreneurship to ventures that have a social mission.”

Social Entrepreneurs

It has been estimated that nearly 94% of world income goes to 40% of the population and that the balance 60% of the population has to live on the remaining 6% of the income, pointing to the large spread of poverty. To tackle poverty, a very large need exists for “Social Entrepreneurs” and of organisations to enhance their effectiveness.

A Social Entrepreneur is defined as someone who recognises a social problem and uses entrepreneurial principles to organise, create and manage a venture to make social change. Whereas a business entrepreneur measures performance in profit and return, a social entrepreneur assesses success in terms of impact he/she has on society. Essentially, a social entrepreneur improves the quality of life of many people while creating new alternatives to generate money for projects.

This wide definition and the power released by networked Information Technology has provided a fillip to “The war against poverty”, generating great enthusiasm and uniting the many who have and are making contributions in the social sector.

Social Entrepreneurs are spread across the world, changing and uplifting the lives of millions. Some role models are:

- Wangari Maathai, the 2004 Nobel Peace Laureate, the founder of the Green Belt Movement and inspiration for its spread to many countries of the world
- Bunker Roy, for rural uplift and improving life in the poor areas of Rajasthan.
- Amitabh Sadangi, developing and marketing micro-irrigation technologies to over 800,000 marginal and small farmers
- Fabio Rosa for his work in uplifting millions of the Brazilian poor by Rural Electrification
- Jeroo Billimoria for work with poor children and setting up the National Child Protection Service (1980) in India. Her organisation “Aflatoun” now works in 18 countries and aims to cover 1 million children by 2010.

Expanding Social Entrepreneurship

Institutions and Organisations now regularly honour Leaders in the field and provide mechanisms to share best practices. It is clear, they say, that you cannot solve the worlds' problems unless you tackle them at the global level.

These institutions include :

- **Ashoka: Innovators for the Public** – Founded by Bill Drayton in 1981 to identify and support leading social entrepreneurs through a Social Venture Capital approach with the goal of elevating the citizen sector to a competitive level equal to the business sector. It currently operates in over 60 countries and supports the work of over 2,000 social entrepreneurs, elected as Ashoka Fellows, with a revenue of over US\$30 million. Ashoka also creates mosaics of best practices that map the commonalities and intersections of key principles that guide Fellows' individual solutions.
- **The Skoll Foundation** – with a mission to advance systemic changes to benefit communities around the world by investing in connecting and celebrating social entrepreneurs.
- **The Schwab Foundation** – to identify and disseminate solutions to crucial issues

In addition there are Colleges and Universities across the world that are now offering courses on “Social Entrepreneurship” developing its concepts and producing a large number of entrepreneurs, who are motivated to apply entrepreneurial skills to war on want and poverty, in a sustained, efficacious and efficient manner. These include Universities of Harvard, Columbia, Duke, Notre Dame and the London Business School.

Conclusion

Such an inspired and enthusiastic, worldwide movement, working with proven models and sharing best practices leads to hope that knowledge to manufacture keys to the locks of poverty has now been found, and that it is being continually refined by application and testing of theories. It therefore seems reasonable to believe that in the foreseeable future poverty shall no longer imprison a large mass of humankind and will only be seen in museums.

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It would be nice if the poor were to get even half of the money that is spent in studying them.

- Bill Vaughan

Almsgiving tends to perpetuate poverty; aid does away with it once and for all.

- Eva Perón