

# 'Little bit of capital can make a big difference'

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Muhammad Yunus (right), founder of the Grameen Bank in Bangladesh, was awarded the Nobel Peace Prize for his efforts in extending microfinance to the poor. What has Yunus accomplished? He began simply when, as a young economics professor in 1976, he lent \$27 to a group of desperately poor craftsmen in Bangladesh to help them sustain a viable small business.

Today, Yunus has grown the concept into Grameen Bank, which has extended \$5.1 billion in loans to 5.3 million borrowers. The concept is still simple — extend tiny loans to very poor people and help them create or improve "microbusinesses" — but it has spread far beyond Grameen and is being used to fight poverty all over the world.

CARE packages come in a variety of shapes and guises in the 21st century. Sometimes they contain sophisticated instruments of international finance. But the goal is still the same: to lift people out of poverty around the world. Following the lead of Muhammad Yunus and his Grameen Bank, Atlanta-based CARE has become deeply involved in microfinance, extending credit and counseling to "microentrepreneurs" in dozens of countries.

Joe Iarocci, senior vice president and chief financial officer of CARE, is also on the board of a private company called Microvest, an investment firm cofounded by CARE that operates on the revolutionary principle of microfinance: that you can solve poverty — and make money — by investing in the poor.

Microvest is banking on a fundamental truth that surprises many in the West: The world's poorest people pay their debts, and lending money to them is typically a safe investment.

Here's roughly how it works: Money is funneled to "microfinance institutions," which are in effect the retailers of microfinance. They're the ones who extend loans. They may lend directly to an individual, but often a rural village will form an association that borrows a small sum and then disburses it to members. The members use the loans to start or sustain "microbusinesses." With their income they pay back the association, which pays back the lender.

Iarocci (EYE-uh-ROW-chee) spoke with the AJC last week about CARE and Microvest and their involvement in microfinance. Here is an edited transcript of that conversation.

Q. I assume that, in microfinance, CARE is using a similar model to that employed by Grameen Bank?

A. Generally speaking, yes. It's making small, unsecured loans to individual entrepreneurs. Or sometimes [village] associations will get together — usually women, the vast majority, maybe 90 percent of our borrowers are women. Sometimes we provide business technical assistance, training, things like that. We're talking about loans of under a thousand dollars, and repayment times of under a year. Sometimes even less. Sometimes repayments are made by 25 cents at a payment. It's really small numbers.

Q. When you say less than a thousand, are we talking about all the way to, say, 20 bucks?

A. I don't know that it goes down that low. But probably individual poor people, if they were part of an association in some of these communities, sure, that's possible. In a place where you're scratching out a living on a dollar a day or less, that can make a big difference. In a supersmall business — something like selling oranges or sewing — just that little bit of capital can make a big difference.

Q. Where is CARE using microfinance?

A. It's really all across the world. It's particularly strong in India, in South and Central America, in Bangladesh. It's pretty widespread, so there's no particular place. I think we've got operations in between 40 and 50 countries.

Q. You mentioned that about 90 percent of your clients are women. Why is that?

A. In poor countries, the women are usually the most marginalized of people. That's kind of the reality of world poverty. When you're seeking to help the poorest of the poor, you're inevitably seeking to help women. And the truth is, in practical, empirical terms, you find that repayment rates are quite good with microfinance.

Q. Most reports say that repayment rates are really high.

A. They are. Most people don't appreciate that — it seems in a sense counterintuitive, you know, lending on an unsecured basis to really poor people. But the repayments rates are very high. That's because there's a lot of social pressure; when you lend to a community group, the community kind of puts pressure on one another. People recognize that one small loan will lead to another, and it's an effective business-building tool. So to the extent that you've been able to help a small business along, it makes it easier to repay.

It's interesting. Back in the '50s, somebody came up with the idea of making small, unsecured loans to American consumers, and the prevailing wisdom was, "This is never going to work." And we know it did work — it's called the credit card. So the prevailing wisdom that it doesn't make economic sense to lend to people in poor countries is just not right.

Q. Can you talk about interest rates? That's an issue that comes up a lot.

A. Right. When people are struggling for capital, to keep businesses going or to start them, in most cases [they turn to] a local loan shark, for lack of a better phrase. You'll find working poor people being charged interest at 10 percent a day. I've seen in some cases, up to a thousand, 2,000 percent a year. In microfinance of the type that we're involved in, people pay rates that are probably more in the 30 to 40 percent annual interest rate range, which strikes most Americans as quite high. But when compared with 10 percent a day, or 2,000 percent a year, it's pretty reasonable. Everybody is always sort of shocked when they hear that — that seems so high, and of course it is high by our standards. But it's so much better than their alternative.

Q. I gather too that a lot of microfinance institutions are not just extending money. They're actually extending assistance and counseling and training and things that add to the expense of taking care of the client.

A. That's exactly right. Sometimes that's part of it. The other is, you know, just the administration of these things, especially in the rural areas, can be pretty costly. I worked on a project once where . . . part of the funding was to buy motorcycles so the loan officers could go riding around on the countryside to collect the repayments. So, you know, it's not as efficient as your local ATM situation. And that's one thing that drives the interest rates up, because it's costly to extend these loans.

Q. You said CARE is in 40 or 50 countries with some sort of microfinance. Is this something that you see growing indefinitely?

A. Yes. To most people, the idea is still hard to accept — that it can work. That it helps to fight poverty and it's an economically viable business approach. Being on the front pages of the papers, what Grameen has brought to the public's attention is that microfinance is an effective way to fight poverty. What we're hoping will happen is that we'll see more and more private individuals actually investing in a socially conscious way in microfinancing type of activities.

So CARE has co-founded a fund called Microvest. It's a private fund. It pays a return on investment to its investors. It takes those funds and invests them in poor countries in microfinance. It provides investors with a double bottom line — an economic return and a social return.

By proving this concept can work, and showing larger numbers of people, we're hoping to encourage capital from the U.S. capital markets, and the rich-country capital markets really to move into this so it's not just the donors of the world doing this. That's the beauty of Grameen. It has shown that this business approach can work. So if the markets work, it's bound to grow. And it is growing, there's no doubt about it. It's a really effective way of fighting poverty and achieving sustainable change.

