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ECONOMICS

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Muhammad Yunus decided one day to step beyond the bounds of his Vanderbilt University PhD in economics and "get real." He had returned to his native Bangladesh in 1972 to teach economics at Chittagong University, and thought nothing of talking of millions of dollars worth of this, that and the other thing. But the reality of Bangladesh life slowly encroached on his classroom, and he set out to learn of the actual economics of his countrywhich meant the state of the poor. He and his students began in the nearby village of Jobra. "Over the course of many visits," he wrote recently in Scientific American, "I learned all about the lives of my struggling neighbors and much about economics that is never taught in the classroom. I was dismayed to see how the indigent in Jobra suffered because they could not come up with small amounts of working capital. Frequently, they needed less than a dollar, but could get that money only on unfair terms."

So he and his graduate students made a list of those in need: 42 people, who had requested a total of us$27, (1,336 Bangladesh Taka). These were not the kind of people banks even let in the door, much less lend money to. Yunus gave out the $27 from his own pocket and was later pleasantly surprised when it was paid back.

From this humble beginning arose the now famed Grameen Bank ("village bank" in Bengali--visit www.grameenfoundation. org), based on the heretical economic view that poor people can actually be trusted with money, can spend it wisely, repay loans and develop independent capital. To be sure, the Grameen Bank is as much social movement as financial institution, and its system of lending tends to insure the safety of loans. Borrowers are required to join in self-formed groups of five, and if any one fails to repay a loan, all risk losing their line of credit. "Typically," Yunus writes, "a new group submits loan proposals for two members, each requiring between $25 and $100. After these two borrowers successfully repay their first five weekly installments, the next two group members become eligible to apply for their own loans. Grameen staff attend these meetings and often visit individual borrowers' homes to see how the business--whether it be raising goats or growing vegetables or hawking utensils--is faring." Borrowers must memorize a list of 16 resolutions on hygiene, health and social improvements such as refusal of dowry and managing family size. Ninety-four percent of the borrowers are women. Men, it was found early on, usually spent the loans

on themselves, whereas women used the money to secure their family.

There are now Grameen banks in 39,000 villages in Bangladesh, with 2.4 million borrowers and $2 billion in cumulative loans. The repayment rate is between 96 and 100 percent, an enviable rate even in normal commercial banking. The increase in family welfare as a result of the banks has been verified by the improved growth rate of borrower's children. Since 1995 the bank has been economically self-sufficient and not dependent on outside aid. The program has been copied in 40 countries, including India.

"Let us remember," Yunus states, "that poverty is not created by the poor, but by the institutions and policies that we, the

better off, have established. We can solve the problem not by means of old concepts but by adopting radically new ones."