



## Grameen Bank: Mainstreaming Microfinance

Once Bangladeshi economist Muhammad Yunus and his Grameen Bank won the 2006 Nobel Peace Prize for pioneering the use of microfinance to lift millions out of poverty. Sadly, Trinidad & Tobago missed a golden opportunity almost 10 years ago to set up a similar Grameen type operation and to make a meaningful impact on rural poverty. In 1997, the UNC administration whose support base is in the sugar heartland established a Committee to investigate the feasibility of instituting the Grameen Bank model within the Agricultural Development Bank (ADB). Unfortunately, the results of that Committee, if any, never saw the light of day. What a pity! Instead, Sister Rosario Hackshaw has admirably been walking in Yunus' shoes. In 2000, she founded Helping Ourselves Prosper Economically (HOPE), to provide small loans to the poor in rural east Trinidad. Ironically, HOPE receives no funding from government.

As the Nobel Committee said in its citation, "Lasting peace cannot be achieved unless large population groups find ways in which to break out of poverty. Micro credit is one such means. Development from below also serves to advance democracy and human rights." Since its beginnings 30 years ago, the Grameen Bank has seen its business model – lending to groups of mainly poor women without traditional forms of collateral – adapted by microfinance institutions from Latin America to Africa to East Asia. Microfinance today is much more than small loans. It's about confronting systems of inequity and exclusion. And it's about integrating into the mainstream financial sector.

### Unique Model

The Grameen Bank was the first lender to provide microcredit, giving small loans to poor Bangladeshis, mainly women, who did not qualify for credit from conventional banks. Recipients are put into self selected groups of five. Once two members of the group have borrowed money, the other three must wait for the funds to be repaid before they get a loan. No collateral is required and repayment is based on an honour system. Members monitor each others' performance and provide mutual help and assistance. Those who do not conform are subjected to peer pressure, including fines and expulsion. This method encourages social responsibility, helping to screen out bad borrowers. The Grameen Bank also attempts to ease rural poverty by offering training programs in maternal health, nutrition and health care. It is difficult to argue with the results. The Grameen Bank has lent US\$5.72 billion to more than 6 million Bangladeshis and has collected US\$5.1 billion, an enviable 98.9% loan recovery rate.

### Replication

Grameen Bank-type microfinance programs have spread throughout the developing world and are now considered a key approach to poverty alleviation. Replication of such a model on national basis in Trinidad & Tobago could go a long way

towards addressing socio-economic inequities. Between 17%-25% of the population reportedly lives at or below the poverty line. Female-headed households constitute a particularly vulnerable group, accounting for one-third of poor households. Rural communities in Nariva/Mayaro and St. Andrew/St. David have historically been the poorest areas of the country. Major pockets of poverty have also emerged within Caroni, Port of Spain and St. George that require immediate attention. Agriculture has been on the decline but still accounts for about 5% of total employment. A large informal economy exists.

Of the specialized institutions in Trinidad & Tobago, two are most relevant to replicating a Grameen-type program. The first is the National Entrepreneurship Development Company (NEDCO), which seeks to empower individuals and communities through the promotion of small and micro enterprises. Its services include direct funding, business advice and information, management training and export development. To date, NEDCO has helped almost 5,000 individuals with either the start up or expansion of their business.

The second institution is the ADB, which provides between 75-80% of total credit to the agricultural sector. Its major areas of lending include agro-processing, food crop and livestock farming, fishing and apiculture. However, the ADB has experienced losses for several years primarily due to the non-performance of its loan portfolio. This may impact its capability to channel credit to the poor.

Moreover, culturally, many Trinians are involved in or familiar with the Sou Sou, a group-based financial activity that encourages members to be socially and economically accountable to each other, similar to the norms of the Grameen Bank.

It therefore seems that a joint venture Grameen-type operation between the ADB and NEDCO may prove to be a promising microfinance vehicle for directing credit to the rural poor. The government would be well advised to use the rich experience and knowledge of community-based HOPE in creating this new poverty eradication vehicle.

As the Consultative Group to Assist the Poor (CGAP), a global microfinance resource centre, said in congratulating Professor Yunus..."we want those in the financial mainstream to realize what Professor Yunus proved to the world three decades ago: that poor people are just as reliable as the better off when it comes to repaying loans, saving money and making use of basic services like money transfers.

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## FINANCIAL & ECONOMIC INDICATORS

As at 8th November 2006

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	117.45	117.13
Euro	1.28	1.28
Jamaica	66.53	66.49
Guyana	201.4	201.4

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	61.16	57.88
Natural Gas (US\$/mmbtu)	7.35	7.32
Gold (US\$/Troy Ounce)	633.41	624.70

### Eurobond Indices (Returns, % YTD as of 8- Nov- 06)

Lehman Brothers Global Aggregate Index	3.17
JP Morgan EMBI+	-0.21
CMMB Eurobond Index	2.84

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Month</u>
United States	5.25	5.25
Euro Zone	3.25	3.25
Japan	0.25	0.25
Brazil	13.68	13.75
Trinidad	8.00	8.00
Jamaica	11.95	11.95
Barbados	4.75	4.75

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	4.97	4.96
US 10-Yr Treasury	4.62	4.60
3-month UK Libor	5.23	5.20
Japan 90-day T-Bill	0.28	0.28
Brazil 90-day T-Bill	13.25	13.30
TT 90-day T-Bill	6.72	6.72
Jamaica 90-day T-Bill	11.77	11.77
Barbados 90-day T-Bill	6.37	6.37

Sources: Bloomberg, CMMB Research Centre, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, [www.lehman.com](http://www.lehman.com)

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