

Life & times

Credit where it's due - how microfinancing helps the poor

Australians in three states are on the road to recovery following recent disastrous floods, with a great deal of help from their friends, governments and other financial donors.

Microfinance has been suggested by some as a solution to their dire straits, whereby people can start small businesses with a small start-up loan. Microcredit financing, microfinance or microcredit lending helps the poor create jobs and work their way out of poverty, by providing them with small loans on manageable terms and teaching them sound financial principles.

The National Australia Bank already provides similar loans: indicating the scaled-up requirements for microfinance in this country, it provides unsecured business loans of between \$500 and \$20,000 for people on low incomes who have limited access to affordable business credit. It has also been suggested that indigenous Australians could benefit from microfinance, which has the proven positive side effects on health, school attendance and empowerment.

In Bangladesh, where poverty means an income of less than \$1.25 a day, the poor have been helped to recover from floods and other adversity with support from microfinance lending, where loans of \$100 are used to start businesses.

Last month, the Microcredit Summit Campaign provided new evidence that the poor of Bangladesh have been working their way out of poverty through microfinancing.

Some in Australia have been questioning the merits of our foreign aid, especially after the devastation wreaked by the floods and Cyclone Yasi. However, the Government recognised the importance of seed money in March last year, when Australia's foreign aid agency AusAID launched its first microfinance strategy, through which Australia was to increase our overseas aid for microfinance to \$21 million in 2010-11. This is an increase from \$16.5 million in the previous year.

The MSC recently reported that 155 million people worldwide had received these loans between 1997 and 2007, of whom 83 per cent were

women, providing benefits for more than 533 million family members.

Microcredit was created to fight the money lender, not to become the money lender, but it appears not all lenders are ethical with some shonky deals in India and elsewhere.

However, next door in Bangladesh, clients of the Grameen Bank appear to be thriving. They have been usually women, who form groups of five and apply for a loan together, at an average amount of \$150-\$200. They form a peer support group that can provide financial support during a member's illness or hardship and provide positive social support.

Grameen itself is now also operating in the United States, where loans below \$50,000 are not regarded as profitable by the traditional banks, and therefore not provided by them.

One of the United Nations' Millennium Development Goals is to halve the proportion of people whose income is less than \$1 a day between 1990 and 2015. In 2008, the World Bank increased this to "\$1.25 a day". Progress is being made in Bangladesh, where annual income per head



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rose from \$270 in 1990 to \$520 in 2008. This is still only about \$10 each week and 40 per cent of Bangladesh's 160 million people live below this poverty line. However, this is a decrease from the 67 per cent who did so in 1992.

Led by the Dhaka-based Economic Research Group, a 2009 survey of more than 4000 Bangladeshi households found that a dramatic number of families moved out of poverty between 1990 and 2008. In those years, nearly two million Bangladeshi households and 10 million family members benefited from microfinance, by crossing the important threshold of \$1.25 a day.

In 1998, Bangladesh suffered from one of its most severe floods ever. This survey appears to show that significant progress can be made, even in the most difficult circumstances.

Peter Graves is a member of RESULTS, a global network of volunteers whose purpose is to generate the public and political will to end poverty.