

# Preface

TAKE A MOMENT to imagine. Imagine your house. Take a mental walk through each room admiring all you have accumulated – the soft fabric covering a cozy sofa, a beautiful piece of art adorning a well-painted, sturdy wall, a memory-provoking curio ornamenting a book-filled shelf. Open closets overflowing with linens, hanger upon hanger of warm jackets and coats, stacks of games, extra toys, and boxes bursting with holiday decorations. Now return to each room and unplug everything electric. Heated blankets, alarm clocks, your hairdryer. The stove, oven, refrigerator, microwave, dishwasher, washer and dryer. All lamps, telephones, televisions, and computers. Now imagine emptying your house of all these items.

Roll up every rug, pull up all the carpeting and remove every windowpane throughout your house. Now imagine ridding your home of these things too. Disable the heater, air conditioner and plumbing, and turn off the water main into your house. Then move one bed, a few blankets, one dresser, one small table and a single chair, a few bowls, pots and utensils, and a bag of beans and rice into one small room of your house. Allow each family member to choose one pair of shoes, one change of clothes and one special keepsake – a book, a photograph, a piece of jewelry or a toy. Put these items in that room as well. Now imagine your manicured lawn and gardens, the rest of your house and all its contents disappearing.

Literally billions of people around the world do not need to imagine this bleak scenario; they live it every day, or worse. Around the globe, an astounding 1.2 billion or one in five people, struggle to stay alive on less than \$1 every day. Three billion people, or half of us living on the planet, barely subsist on \$2 a day.<sup>i</sup> An unconscionable 23,000 children under five die every single day of largely preventable diseases such as pneumonia, malaria, measles, diarrhea, and malnutrition.<sup>ii</sup> One billion people entered the 21<sup>st</sup> century unable to sign their names, much less read a book, and two-thirds of them are women.<sup>iii</sup> One hundred million children of primary school age cannot attend school because their families lack funds for school fees, uniforms, books, or sometimes, even shoes.<sup>iv</sup> Afraid of, intimidated by, or unable to access or afford clinic-based healthcare, at least one woman dies every minute from complications during or just after childbirth, leaving one million motherless children behind.<sup>v</sup> Armed conflicts, the virulent HIV/AIDS epidemic and nature's wrath – earthquakes, tsunamis, drought

– compound the heart-wrenching devastation of an unimaginable number of livelihoods and lives.

The task of eradicating global poverty and its disastrous effects may seem hopeless. But it is financially poor, yet profoundly resourceful women in villages and urban centers, mothers and grandmothers, married and divorced, educated and illiterate, healthy and disabled, who are proving that poverty can be overcome. They know this because they are leading the way.

Women by the millions are taking advantage of *microfinance*, a broad portfolio of financial services and products targeted especially for the poor. What exactly is microfinance? In order to dispel any false assumptions, perhaps it is best to begin with what microfinance is *not*. Microfinance is not welfare. Nor is it a handout doled out to the poor. Microfinance is an ever-evolving selection of financial offerings including credit, savings, remittance services, and most recently, health, life and business insurance available to those who have no access to traditional financial services. Microfinance institutions (MFIs) exist because while the poor want and need these services, they have been excluded from the formal banking sector for a number of reasons: they lack convenient access, they may be intimidated, illiterate, or they have no collateral to obtain a loan. In addition, traditional commercial banks hold that the transaction costs to service microloans or microdeposits exceed the break-even point, rendering them unprofitable, thus unattractive, business risks.

Microfinance, on the other hand, allows for even the poorest of the poor to enter the formal financial arena. That is because MFIs seek out clients where they live and work, illiteracy is not considered a barrier (a thumbprint may often serve as a legitimate signature), conventional collateral is not required, and financial products are affordable (fees charged are higher than what a commercial bank charges for its large, conventional, collateralized loans, ranging from 15 to 35 percent, but far below rates demanded by local moneylenders whose charges range between 120 and 300 percent<sup>vi</sup>). Furthermore, for many MFIs that are able to offer their services efficiently on a large enough scale for the MFI to become self-sustaining, they do so profitably.

Besides financial services, many MFIs offer courses either as a direct service, or through an adjunct organization or agency. Business development courses include training in how to write a business plan, obtain a business license and insurance, develop a marketing strategy, and budget money effectively. While helpful for any nascent microentrepreneur, these courses are particularly useful in developed countries such as the United States, where business start-ups are subject to stringent and often complex rules and regulations. Women (and as a result, particularly their daughters)

are reaping significant benefits from non-financial courses in literacy development, proper healthcare, and nutrition, family planning and HIV/AIDS prevention as well. The United Nations Development Program's *Human Development Report 2005* states: "Improved access to health and education for women, allied with expanded opportunities for employment and access to microcredit, has expanded choice and empowered women [in Bangladesh]. While disparities still exist, women have become increasingly powerful catalysts for development, demanding greater control over fertility and birth spacing, education for their daughters, and access to services."<sup>vii</sup>

Microfinance providers operate in a number of different forms. Non-governmental organization (NGO) microfinance institutions often depend on grant funding from donors, subsidized loans, or self-generated revenue. Commercialized microfinance institutions have more options available to them for funding and hence outreach. These funding options may include public deposits, debt, convertible debt, quasi-debt and equity. These commercial MFIs are most often regulated and must meet certain requirements before being authorized to accept deposits or access other funding sources. Commercialized MFIs generally apply commercial or market-based principles to microfinance with an eye towards MFI self-sustainability. While some NGO MFIs are able to access commercial debt, in most countries they cannot accept deposits from the public unless they are regulated. This places a limitation on many NGO MFIs as they are not able to take advantage of the low cost of capital available with mediating deposits, nor are they able to offer this valuable savings service to their clients. While possible, without the additional income flow, becoming a self-sustaining organization is more difficult for NGO MFIs. This book focuses on the multiple benefits that microentrepreneurs gain from microloans, however, it is important to point out that not all clients seek loans. Business training may be a woman's primary goal. And savings, particularly by those in developing countries, plays a key role in reducing poverty and mitigating risks of unforeseen expenses among the poor.

Microcredit, or the provision of small business loans, allows borrowers to open and operate businesses of their own. This opportunity is especially crucial to the poor because of the global dearth of permanent, salaried jobs. Contrary to the conventional belief that the poor are "unbankable" or an untenable business risk, 92,270,289 women, 66, 614,871 of whom were amongst the poorest of the poor when they took out their first loan, have proven this opinion wrong.<sup>viii</sup> Microentrepreneurs are using their loans to buy supplies to produce homemade goods such as reed mats, saris or pastries. Some are purchasing prepared items such as prepackaged snacks, school supplies and sundries for resale door to door, from makeshift stalls in a market, or as their businesses profit, from shops of their own. Others

are investing in livestock such as chickens, pigs, or a water buffalo, which yields profits both from its milk and its work in the fields. Borrowers are also purchasing farming materials such as tomato and cucumber seeds, or rich dirt, plastic wrap and spores to grow mushrooms. And they are profiting. As their businesses grow, microentrepreneurs hire others whose lives in turn, prosper. As significant, these microentrepreneurs have maintained an enviable repayment rate of 95 to 98 percent on their loans.<sup>ix</sup> Indeed, using their profits and savings, these women are pulling themselves, their families and entire communities free of poverty's dehumanizing grip.

Since the poor generally have no collateral to qualify for a traditional bank loan, MFIs have created a group lending approach that allows groups of women to act as each other's guarantor. If a group member is unable to meet her financial obligation, the others cover her payment. Any member who does fall into arrears is expected to reimburse her group as soon as she is able. In essence, the system is based on trust, trust that each member will do everything possible to uphold her commitment to use her loan for business purposes, and to budget wisely in order to repay a portion of her principal plus interest on a weekly, bi-weekly or monthly basis, depending on the procedures set up by each MFI. Individuals who operate successful business ventures and have a proven repayment history, often have the opportunity to become independent borrowers with access to larger, individual loans.

Why are women the primary loan recipients? The 768 MFIs listed on the Microfinance Information Exchange (MIX Market) report that on average, 80 percent of their clients are women. Studies have shown that while men tend to spend their profits on themselves, women, who are families' primary caregivers, use their hard-earned profits to more adequately feed, educate, house, clothe and obtain medical care for their children. These provisions, provided by and large by women, are critical to breaking free of the vicious cycle of poverty. Additionally, women devote their loans and profits to expanding their businesses and establishing secure savings accounts for emergencies, and future wants and needs. From a business perspective, studies have also shown that women are a more reliable credit risk; they repay their loans at consistently better rates than men.

Microfinance began in the 70's on two sides of the globe, by Professor Muhammad Yunus, 2006 Nobel Peace laureate and founder of the Grameen Bank, in Jobra, Bangladesh, and ACCION International in Recife, Brazil. By 2005, ACCION had spread its expertise developing sustainable anti-poverty programs to its partners and affiliates in 22 countries in Latin America, Asia, sub-Saharan Africa and the United States, and had made \$9.4 billion in microloans to 3.97 million borrowers.<sup>x</sup> In Professor Yunus' case, a mere \$27 loan split between forty-two women, each in perpetual debt to a local moneylender who charged an exorbitant rate of interest, allowed

these budding microentrepreneurs to work their way out of poverty. This seemingly small act set in motion what has become the Grameen Bank that, as of May 2006, had lent US\$5.52 billion to 6.33 million borrowers in 67,670 villages throughout Bangladesh.<sup>xi</sup>

While microfinance is not *the* panacea to addressing all of poverty's ills, it has and is proving to be *a* key solution. Today, there are over 100 million active clients taking advantage of microfinance services around the world. Over 4100 MFIs are working to eradicate poverty. The United Nations named 2005 the International Year of Microcredit. In support of the UN's Millennium Development Goals, the Microcredit Summit Campaign (a network of over 4000 microfinance practitioners) has pledged to ensure that 100 million of the world's poorest families rise above the \$1 a day threshold by 2015, thus lifting 500 million family members out of extreme poverty. Regional and global networks such as the Katalysis Network serving MFIs in Central America, and the Microfinance Network, a global association of leading microfinance institutions, bring together practitioners to develop best practices and share expertise about how to reach the greatest number of clients with financial services, attain organizational sustainability, and measure genuine impact. A growing number of private entities now provide individuals and businesses with the opportunity to make equity investments in MFIs that give investors a financial as well as a social return. Business schools around the world have added programs focused on corporate social responsibility, including microfinance. Advocates, such as RESULTS, with branches around the world, are working diligently to influence government agencies to enhance their support of microfinance programs. Donors and volunteers spanning the globe are committing their resources to help the poor help themselves.

When I first learned about microfinance I was absolutely amazed. Was it possible that with the same \$40 I might spend on one evening's meal, a woman like Ghanaian Stella Sabang, one of the first microentrepreneurs I met, could start a business whose growing profits would feed her family indefinitely? Fund her children's schooling? Put a solid roof over their heads? A dream, I thought. But if it were true, I wanted everyone to know about it and maybe even be inspired to help. When I realized that there was no book in the market highlighting those most directly involved in microfinance – microentrepreneurs – I decided that I would be the one to witness and report on this global phenomenon.

Traveling, photographing and interviewing people were not new to me. I had traveled to many parts of the developing world: war-torn Nicaragua and El Salvador; around the world as an advisor and professor's assistant with Semester at Sea, a shipboard educational program for college students with stops in South Africa, which at the time was embroiled in apartheid,

and Sri Lanka, a country in the throws of civil war; and a few years later to Cuba to understand and experience firsthand, Castro-style communism.

As a teacher for 17 years, I helped students hone their writing skills and understand the complexity of the world. But did my role as an educator, teaching English and World Cultures, qualify me to venture into the world of professional photojournalism? The question for me was, "Do I have the capacity to capture in words and pictures, the essence of these women's aspirations, struggles and successes?" After a year of contemplation, I decided I had to give my idea a try. I didn't want to regret not having taken advantage of the opportunity to meet women around the world who, with the help of microfinance, are upending the economic and social status quo. And I didn't want to wake up some day wishing I had had the nerve to attempt something as momentous as trying to portray their lives in pictures and text. Embarking on this journey challenged and inspired me in countless ways, both personal and professional. My only regret was the need to select amongst the millions of women who are taking risks much greater than mine to transform their lives.

In August 2003, with wholehearted encouragement from my husband Mark, and our son Jack, then five, I headed to Ghana with my Nikon D100 digital camera, a notebook filled with questions and an open heart and mind. Over the next three years, two of which I took a sabbatical from teaching, I visited MFIs and their clients in Guatemala, Bolivia, Chile, Argentina, Bangladesh, India, the Republic of Georgia, Jordan, Vietnam and China. Since microfinance is also practiced in the developed world as a means of combating poverty, I interviewed clients in France and the United States as well.

While I had initially intended to include only women in my book, given that they comprise approximately 80 percent of the microentrepreneurs in the world, I changed my mind when I met some men whose microbusinesses are also impacting their families' lives in significant ways. It is these heroic women and likeminded men that *Transforming Lives \$40 at a Time* is all about. The stories and photos will bring you face-to-face and heart-to-heart with individuals from every continent who are using microfinance to provide otherwise unimaginable and unattainable opportunities and security for their families. And that is not all. Through their hard work and success, their societies are gaining something more than sustainable economies; research has shown that access to financial services is changing the status of women. They have more self-confidence, more decision-making power and greater influence in their communities. As Adwoa, a Ghanaian woman and now the primary financial provider for her family announced to me, "Now I want for nothing. I have pride!"

Even with all the work that is being done, CGAP (The Consultative

Group to Assist the Poor) estimates that institutions are currently “serving less than one-sixth of the potential microfinance market,” and that “some three billion people of working age lack access to financial services.”<sup>xii</sup> My hope is that a single photograph or story from this book might inspire a commitment to get involved in some way, so that our combined resources and resourcefulness can put an end to poverty around the world.

Just imagine.

Dana E. Whitaker

## Notes

- i EarthTrends Environmental Information. World Resources Institute. [earthtrends.wri.org/updates/node/6](http://earthtrends.wri.org/updates/node/6)
- ii IMCI, A Joint WHO/UNICEF Initiative, [www.who.int/child-adolescent-health/New\\_Publications/IMCI/imci.htm](http://www.who.int/child-adolescent-health/New_Publications/IMCI/imci.htm)
- iii UNICEF. “The State of the World’s Children 1999: Education.” [www.unicef.org/sowc99/index.html](http://www.unicef.org/sowc99/index.html)
- iv *World Development Report 2004: Making Services Work for the Poor. The Microfinance Revolution.* (Washington, DC: The International Bank for Reconstruction and Development/The World Bank, 2003) p.20.
- v World Health Report, WHO [www.who.int/features/qa/12/en/index.html](http://www.who.int/features/qa/12/en/index.html)
- vi Grameen Foundation. “Frequently Asked Questions about Microfinance.” [www.grameenfoundation.org/what\\_we\\_do/microfinance\\_in\\_action/faqs/#1](http://www.grameenfoundation.org/what_we_do/microfinance_in_action/faqs/#1)
- vii Daley-Harris, Sam. The State of the Microcredit Summit Report 2005. pg. 13-14.
- viii Daley-Harris, Sam. pg.1.
- ix Grameen Foundation.
- x ACCION Home Page, [www.accion.org/about\\_key\\_stats.asp](http://www.accion.org/about_key_stats.asp)
- xi Grameen Bank Home Page [www.grameeninfo.org/bank/GBGlance.htm](http://www.grameeninfo.org/bank/GBGlance.htm)
- xii CGAP. “Microfinance by the Numbers.” [www.cgap.org/portal/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet\\_Press //byNumbers.pdf](http://www.cgap.org/portal/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet_Press//byNumbers.pdf)