

Microcredit

Microcredit is a credit service that involves providing small loans to people who would otherwise be unable to secure credit because of poverty, unemployment, lack of collateral and credit history. It is a component of microfinance, which also includes other financial services such as savings accounts, insurance and money transfer.

The birth of modern microcredit occurred in rural Bangladesh in the mid 1970s when professor Yunus, from the University of Chittagong, disillusioned by abstract economic theories, began to visit local villages to find out the reason why many people were starving. He discovered that a group of 42 women who made bamboo stools in Jorba lacked the funds to purchase the raw materials and that, as a consequence, they went into a cycle of debt with local traders. He was shocked to find out the total sum needed was the equivalent of U\$ 27.00. So he lent them the money at zero interest enabling them to break the cycle of debt. The Grameen Bank, literally “village bank”, was born. Today, it works in over 80 thousand villages with more than 6 million borrowers. In 2006 professor Yunus and Grameen Bank were given the Nobel Peace Prize “for their efforts to create economic and social development from below”.



Grameen Bank

The success of Grameen Bank also led to the UN Microcredit Summit in 1997. As enthusiasm for microcredit increased, several large banking institutions, such as Credit Suisse, Deutsche Bank and Citigroup, joined the former non-governmental organisations, funded by grants and subsidies from public and private sources, in this field. By the end of 2008, nearly U\$ 15 billion of foreign investment had been channelled into microcredit institutions mainly from the World Bank, but also from a variety of private and commercial sources.

In recent years microcredit has been the subject of various innovations and experiments, from mobile banking to the introduction of new loan products tailored to local contexts, such as machinery loans or cattle fattening loans. Loan methodologies have also diversified offering micro-insurance and micro-savings.

The future of microcredit is hard to forecast, but it is estimated that the traditional working market will not be able to absorb the expected demographic boom. Therefore, microcredit is still likely to play a role in the global economy in the near future.

