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A REPORTER AT LARGE

MILLIONS FOR MILLIONS

This year's Nobel Peace Prize winner and some high-tech entrepreneurs are competing to provide credit to the world's poor.

by CONNIE BRUCK

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Over the Labor Day weekend of 1995, a ponytailed, bearded young software engineer named Pierre Omidyar wrote a code that enabled people to buy and sell items on the Internet. In the first few weeks after the program was introduced, items ranging from a Maxx comic book to a 1952 Rolls-Royce Silver Dawn changed hands. That program eventually became eBay. Not long after the company went public, in 1998, Omidyar's share of the stock offering was roughly ten billion dollars, and he became the richest thirty-two-year-old in the world. He found the experience slightly unsettling—he told friends that he had never planned to get rich—and he continued driving his Volkswagen Golf. With his wife, Pam, he started a foundation to give away large sums of money, but he was frustrated by the constraints and inefficiencies of the nonprofit world. Omidyar was searching for a way to change things on a grand scale, and, like many other highly successful young West Coast entrepreneurs, he became interested in a field called microfinance, or microcredit. In November, 2004, he and Sergey Brin and Larry Page, the co-founders of Google, and other leaders of the high-tech community gathered at the San Francisco home of the venture capitalist John Doerr for a weekend session with Muhammad Yunus, who is considered the godfather of microcredit.

Yunus, a silver-haired man of sixty-six with a round, luminous countenance, is a highly gifted interlocutor between the extremely poor in the developing world and the West, and for years he had been seen as a candidate for the Nobel Peace Prize. (This December, he will go to Oslo to receive it.) During the famine of 1974 in Bangladesh, when the dying lined the doorsteps of the better-off in Dhaka, Yunus, an economics professor at Chittagong University, found the theories he was teaching maddeningly irrelevant; so he went into a neighboring village and began talking to the poor. He experimented with ways of helping them—initially, he lent twenty-seven dollars to a group of forty-two villagers—and before long he became convinced that he had a remedy for their condition: providing very small individual loans to the impoverished to start activities ranging from making bamboo stools to buying a dairy cow. In 1976, after local banks refused his entreaties to make the loans, he resolved to do it himself, and he founded the Grameen Bank.

Yunus is a mesmerizing salesman. In the eighties and early nineties, the Grameen Bank received close to a hundred and fifty million dollars in soft loans and grants; today, funded by savings deposits from borrowers and others, it essentially supports itself. It has disbursed more than $5.3 billion to nearly seven million borrowers who have no collateral; ninety-six per cent of them are groups of women, who meet once a week and, through incentives, help to insure their individual loan repayments. (Traditionally, Third World banks lend only to men. Yunus says that he developed the policy of lending mainly to women not only because they were more responsible about re-paying the loans but because families benefitted more when the women controlled the money.) To cover the high cost of servicing these small loans, borrowers pay interest rates of up to twenty per cent, and Grameen claims that it recovers ninety-eight per cent of the loans. Some of Grameen's numbers have been challenged, but no one disputes Yunus's assertion that, contrary to traditional banking doctrine, the poor can be reliable borrowers, even at high rates of interest. These days, Yunus raises money for the Grameen Foundation, a global nonprofit group that supports microcredit institutions around the world. Many are related to the Grameen Bank, but only loosely; Yunus believes in locally designed, run, and controlled institutions.

As microcredit has changed in the past thirty years, achieving broad recognition and even some early commercial success, Yunus has modified his methods, but he has never wavered from his goal. He insists that microcredit can lead to a world in which poverty has been extinguished and that eventually, as he puts it, there will be "poverty museums." He told his audience at Doerr's home that more than fifty per cent of the Grameen Bank's borrowers who have been in the program for more than five years have risen out of poverty, according to a simple measurement system that he himself had devised. (To have graduated from poverty, a family must have, among other things, a house with a tin roof; clean drinking water; a sanitary latrine; warm clothes for winter and mosquito netting for summer; about seventy-five dollars in a savings account; and schooling for the children.)

At lunch, Janet McKinley, a Grameen Foundation donor who used to run a major mutual fund and retired at the age of forty-nine to concentrate on microfinance, told the group that in 1995 she had visited a small program run by the Vietnam Women's Union, and saw how a loan of twenty dollars could change a woman's life. Her companion, George Miller (now her husband), gave the union a five-year grant of a million dollars, enabling it to expand from five hundred women to ten thousand, so that the more successful participants could get bigger loans and hire other women. McKinley and Miller returned each year. "There was a woman who started out with a mud hut," McKinley recalled. "When we came back, she had a three-room house with a cement floor, and the pigs were in the hut she had stayed in before." When the women first came for loans, "they sat hunched, looking down into their laps. They would take the money and fold it into a hairpin behind their ears, looking so frightened—because, they said, they were afraid they couldn't pay it back. Two or three years later, these same women were running businesses, and were often involved in politics in their village." She continued, "Does everyone succeed? No. But it is the same in the investment business. You don't want to take a lot of risk? Buy some ducks. But the more risk-taking borrowers will pool their loans and buy a baby water buffalo and rent it to men for farming. And then there are those who blow right past livestock and build a brick factory."

That afternoon, the participants broke into discussion groups, and were given forty-five minutes to devise a solution to end world poverty. The entrepreneurs weren't humbled by the challenge. "The inner graduate student in all these people came out," Alex Counts, the Grameen Foundation's president, said later. "They were all rushing up, taking turns at the whiteboard. And they took it so seriously!"

None, perhaps, more than Pierre Omidyar. Born in Paris to Iranian parents, Omidyar came to this country as a child in the nineteen-seventies, and viewed himself as a truly transformative capitalist. His purpose in creating the program for what became eBay was to create a perfect market, something realized only in economics textbooks, where buyers and sellers would all have equal access to information and opportunity. And microfinance, after all, was about equal access to capital.

Counts recalled that Omidyar, who is given to phrases like "Wow!" and "That's neat!," kept refining the numbers throughout the day. Omidyar was struck by Yunus's statement that the poor are natural entrepreneurs, essentially because their business activities are a matter of survival. "By giving them the tools, you unleash the entrepreneurial instinct," Omidyar told me. Janet McKinley said, "All these wealthy entrepreneurs loved it, because they say, 'This woman is an entrepreneur—just smaller scale.' "

The event at Doerr's home had been billed as a learning session, not a fund-raiser, but several participants insisted that they be given a chance to contribute. Alex Counts introduced an idea that had been discussed at the Grameen Foundation for some time: a guarantee fund. If the guests would each guarantee a certain amount of money, the combined pledged funds would constitute a letter of credit, which Grameen could present to banks in various countries to induce them to loan to local microfinance institutions—in larger amounts and at a lower rate than they otherwise would. The donors' money could continue to work in their portfolios and would be called upon only if an institution defaulted on its loan. According to Counts, John Doerr declared that everyone should commit no less than 0.1 per cent of his net worth. "It was kind of awkward," Counts recalled, "but finally some raised their hands and said they would do it." Ultimately, nine people committed a total of thirty-one million dollars to the guarantee fund, which aims to reach fifty million dollars.

Omidyar, however, wasn't among them. As much as he admired Yunus's belief that anyone, provided the means, can become self-sufficient—even successful—he has a different idea about the future of microfinance. Yunus is now seen by Omidyar and many others as the archetypal founder, too wedded to his original vision. In recent years, younger and nimbler players have been taking microfinance—their preferred term—toward the idea of building a fully commercial, profit-making sector. This conflict, between pure do-gooders and profit-minded do-gooders, has come to define the current debate in the microfinance world.

During that weekend at Doerr's, Omidyar told me later, he was most impressed by the notion of "sustainability," and by the idea that microfinance could help millions of poor people. "I was asking questions—'How much does it cost to reach a new borrower? How much does it cost to open a new branch?' What I was hearing back from Professor Yunus was very encouraging. So if you do the math, say it's two hundred dollars per client—and that includes initial loan capital and the cost of the loan officer and the branch. This is cocktail-napkin math, right? But multiply the two hundred dollars by the three hundred million poorest people." He estimated that three hundred million heads of household represented the world's 1.2 billion poorest people. It would cost sixty billion dollars. "And then you're done! It's not an annual number. Once it's scaled"—that is, once it has expanded to its full potential—"it's a self-sustaining, profitable model, which opens the door to reaching large numbers of people who need to be reached by this tool of access to capital." Microfinance institutions would eventually be able to raise money in the capital markets, and no longer have to rely perpetually on donor funding. "Rather than saying it’s going to cost forty-five billion dollars a year, this year, next year, and forever, you can think of it as an initial investment—but there’s a cap to how much you’re ever going to put in. That’s the difference between microfinance and the typical sort of government aid or charity, which is an ongoing thing.”

Yunus, too, believes in sustainability, and he certainly wants to reach all the world’s poor, but he is convinced that the traditional goal of business—maximization of profit—is inappropriate when dealing with the poor. “I had a long debate with Pierre,” Yunus told me, referring to Omidyar. “He says people should make money. I said, Let them make money—but why do you want to make money off the poor people? You make money somewhere else. Here, you come to help them. When they have enough flesh and blood in their bodies, go and suck them, no problem. But, until then, don’t do that. Whatever money you are taking away, keep it with them instead, so they can come out more quickly from poverty.”

The discussions at the Doerr event, Omidyar told me, led him to “a little epiphany.” He and his wife are alumni of Tufts University, to which they had already made substantial contributions; but a capital campaign was starting soon, and the president of Tufts, Lawrence Bacow, “was sort of circling,” Omidyar said. “I was hearing, ‘You’re a pretty successful alumnus—you may have to step up.’ ” Typically, when a donor makes a gift to a university endowment, the principal goes into an investment pool, and the annual return on that capital is what the donor can direct to a specific use. “I said, Wait a minute! Instead of making a gift to an endowment and having it go into this pool, why not use that capital to further the mission of microfinance? Kill two birds with one stone—support the alma mater and support the mission. That’s pretty neat!” Several months later, Omidyar gave a hundred million dollars to Tufts—the largest gift in its history. But he stipulated that the principal be dedicated to a fund to invest in microfinance—specifically, in investments that would promote microfinance’s commercialization.

The idea of reaching billions of the poor by achieving “scale”—a word invoked ceaselessly in the microfinance community—has enticed foundations, rich individuals, even investors into channelling millions into microfinance. The $1.2-billion Michael and Susan Dell Foundation—established by the founder of one of the world's largest computer manufacturers—has begun making grants to microfinance institutions in India, a country of 1.1 billion people, most of whom have no access to financial services. In October, 2005, Google established a philanthropic entity called Google.org, with seed money of about a billion dollars, to fight disease, global warming, and poverty; microfinance is expected to be a key component of its poverty portfolio. And last April the Bill and Melinda Gates Foundation announced that it would devote an undisclosed amount of money to expanding financial services for the poor in developing countries. Dr. Rajiv Shah, who oversees the new Gates program, said of microfinance, "This can reach hundreds of millions of people, and do so in a way that helps them move out of poverty and that sustains over time."

In 1990, Carmen Velasco, a Bolivian psychologist, and Lynne Patterson, an American then living in Bolivia, founded an organization called Pro Mujer. It is, in many ways, a classic microcredit N.G.O., inspired by the Yunus model, and its clients are predominantly very poor women. It provides credit for income-producing activities, but, unlike a bank, it also offers its clients training in health care, family planning, child development, and self-esteem. Velasco, who still runs the organization, says, "If you give them a loan and don't see that their other needs are met, perhaps they are worse off. They have a debt to repay, but still they have no sanitation, no health care, no education." Unlike many N.G.O.s, however, Pro Mujer largely supports itself. "We don't fudge on our numbers, we have the best auditing firms, we have received awards and high ratings for our business practices," Velasco said. "And as soon as we become more efficient we lower the interest rates our clients have to pay. If we weren't financially viable, we wouldn't have the right to argue for our way." By "our way," Velasco meant the traditional emphasis on social justice—even though, as she put it, "the fashion today is all about making it into a business."

Last spring, I accompanied some Pro Mujer officials to the rural town of Tizayuca, about a two-hour drive from Mexico City. Twenty Pro Mujer clients—all women—were sitting under the canopy of a large tree outside a simple stucco house. "*Presente*," one after another responded as their names were called. They were attending their weekly meeting. The women ranged in age from their twenties to their fifties; many had small children with them, who played nearby or sat solemnly on their mothers' laps. This day's session—after the women had made their payments to the treasurer—was devoted to self-esteem. The instructor, a relentlessly energetic woman, was encouraging members of the group to stand and describe how they viewed themselves. One by one, they rose, took a few steps into the center of the circle, and began to speak.

Like all Pro Mujer clients, the women had begun by forming a group and then taking a week of training to learn about the process and develop a business plan. By the week's end, they had elected their board and chosen a name for themselves—Mujeres del Futuro. They had started by each borrowing two thousand pesos, or about two hundred dollars, in a three-month loan; then they had graduated to three thousand pesos, then four thousand, and now they were borrowing five thousand pesos, in a six-month program. They had advanced to the higher loan level after repaying the smaller loans. Weekly savings were mandatory, as were the installments on repaying the loan. Each woman was engaged in what might be called a microbusiness. Some sold quesadillas or tortillas at a market stand; others sold women's underwear, Tupperware, or blankets, mainly door to door.

The Pro Mujer officials began asking questions. What do your husbands do? Several were carpenters and construction workers. Should men join the group? That sparked a great deal of laughter and rolling of eyes. "No, but let them have a different group," a woman suggested. "They would be thinking differently. They wouldn't be on the same wavelength," another said. A young, soft-spoken woman said, "There is a little machismo here. It is a great help to go out. Some husbands don't really agree that we should be here. Even when there is not enough income, it is difficult for husbands to acknowledge that. So there are double challenges. We have to do everything at home so that when we are here they don't have any problems in our house." Do their husbands know about their savings? "No!" they responded at once. "If they knew we managed to save," one said, "they would give us no money for the house." Not one of them had ever had a bank account, although they were all familiar with moneylenders, who generally charge about twelve to fifteen per cent a month, and in some instances as much as fifty per cent a week.

We drove to another small town, San Francisco Zacacalco, and waited on a narrow, dusty street. After a time, a stocky figure appeared, walking beside a bicycle that had been modified into a three-wheeler. It was a portable oven: balanced over the front wheel was a bright-red propane tank, which was attached by a pipe to a large aluminum can, carried in a makeshift cart between the two rear wheels. Its inventor and owner, Ilze Concepción Rodríguez Chávez, invited us into her workplace, a two-room concrete structure, painted blue, about eight feet high. A huge Rottweiler was on the roof, barking ferociously. "Close your eyes," Chávez said, grinning with mock dismay as we entered the small room, where cans, pots, and tamale ingredients were strewn over the counters.

A warm, self-possessed woman of fifty-four, Chávez was wearing a navy baseball cap and a blue work shirt over a pink-and-blue plaid apron. She has eight children and twenty-five grandchildren. Eight years ago, she said, she and her husband were extremely poor, and they saw no way to improve their situation. But then a friend who had become a Pro Mujer client invited her to attend a meeting. Chávez said that she was worried about the one-week training program ("I learned how to read and write making tortillas—I don't know much"), but she decided to join.

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