

Advanced - Case Study-4

Class objective: I will be able to understand the case study and learn new vocabulary.

Concept A: Case study (2014)

Today, Comprehension rises to its credit, Grameen is one of the largest microfinance organizations in the world. It started out providing small sums to underprivileged tycoons in Bangladesh to help them grow from a survival living to a livelihood. The great discovery its founders made was that even with few assets, these entrepreneurs repaid on time. Grameen and microfinance have since become financial staples of the developing world. It's approach, distinct from other microfinance, uses the group lending model.

Costs are kept down by having borrowers vet one another, tying together their financial fates and eliminating expensive loan officers entirely. The ultimate promise of Grameen is to use business lending as a way for people to lift themselves out of poverty. Recently, Grameen has taken on a different challenge by setting up operations in the US . Money may be tight in the waning recession, but it is still a nation of 1,00,000 bank branches.

Globally, the occupied microfinance equation consists of borrowing reserves economically and keeping loan evasions and overhead expenses adequately low. Microlenders, including Grameen, do this by charging colossal interest rates as high as 60% or 70%-which is necessary to compensate for the risk and attract bank funding, but loans rates much above the standard 15% would most likely be attacked as usurious in America. So, the question is whether there is a role for a Third World leader in the world's largest economy. Grameen America believes that in a few years it will be successful and turn a profit, thanks to 9 million US households untouched by mainstream banks and 21 million using the likes of payday loans and pawn shops for financing. But enticing the unbanked won't be easy.

After all, profit has long eluded US micro financiers and if it is not lucrative, it is not microlending, but charity. When Grameen first went to the US, in the late 1980s, it tripped up. Under Grameen's tutelage, banks started microloans to entrepreneurs with a shocking 30% loss. But Grameen America says that this time results will be making loans, not training an American bank to do it. More often than not, the borrowers, Grameen finds, in the US already have jobs(as factory workers for example) or side business-selling toys, cleaning houses etc. the loans from Grameen, by and large, provided a steadier source of funding, but they don't create businesses out of nothing. But money isn't everything. More importantly for many entrepreneurs, group members are tremendous sources of support to one another.

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