

Grameen Gazette #23

Grameen Gazette, the Newsletter from **Grameen Australia** – the organisation empowering people to change their lives through the implementation of innovative Microfinance and Social Business Projects.

Grameen Australia is an Australian not for profit organisation with DGR 1 status, which means that donations are fully tax deductible to donors in Australia.

Visit our website at www.grameen.org.au for all the news and information on our activities including Current Projects and Case Studies



The Age article highlights why our microfinance model works

Grameen Australia hosted a visit by leading financial advisor Catherine Robson to our Social Business Hub in Manila.

Catherine witnessed firsthand how we work with our poverty-stricken borrowers to ensure their commitment to changing their lives is supported through training in proper financial management and business development.

Catherine's experience inspired a powerfully relevant article in *The Age* focused on how our simple yet effective model is the core for all financial activity in both the developing and developed worlds!



Catherine's article highlights that the key to the success of our borrowers businesses, as demonstrated by the 100% repayment rate to date, is:

1. Keep your business money separate from personal money
2. Repay the capital, not just the interest
3. Save some money for emergencies every week
4. Take insurance
5. Your character is the real loan collateral!



Click here to read Catherine's thought-provoking article in *The Age*:
<http://bit.ly/241NcZS>
or read on below for the article in full



Catherine Robson
Money contributor

THE  AGE

Third World microfinancing by Grameen Australia holds lessons for us all



Reaping rewards: Savers can learn from the lending criteria that microfinance group Grameen places on loans in Third World countries. *Photo: Bloomberg*

There has been a bit of controversy surrounding Australian banks in recent weeks, and it's easy to take for granted how essential access to the banking system, including the availability of credit, is to not only our economy, but also social inclusion. This was vividly demonstrated to me on a recent visit to the Philippines to learn more about the microfinance work of not-for-profit organisation Grameen Australia. Grameen provides small business loans to poor individuals, the majority of whom have never had a bank account and certainly would not be considered suitable borrowers by mainstream banks.

There are several requirements placed upon these very poor borrowers that, interestingly, read like a playbook for good financial management in any country, even a rich country with a mature financial services sector like Australia.

Keep your business money separate from personal money

www.grameen.org.au
Contact us at mail@grameen.org.au



It's easy to lose track if all your money is pooled in one bank account. Grameen borrowers must have a clear business plan and understand and demonstrate how the loan will facilitate the execution of that plan. This is a great discipline for any business, and while you might have in mind something more sophisticated than the purchase of a fishing net or electric sewing machine (which can be transformative for Third World borrowers), you will benefit from a clear plan and delineation between what is start-up capital to be repaid, and what is income that can be used to fund your lifestyle.

Repay the capital, not just the interest

As interest-only loans have proliferated in recent years, many of us have forgotten that eventually we need to repay the bank what we have borrowed. In contrast, Grameen borrowers must not only meet the low, but commercial, interest costs, but also repay the principal, in full, over 26 weeks. While the loans are tiny by our standards – starting at about \$20 – so are the borrowers' incomes. This financial discipline allows these fledgling businesses to quickly move past indebtedness, minimising interest costs and maximising income to meet living or education costs. These are compelling benefits, equally applicable to anyone – rich or poor.

Save some money for emergencies every week

It can be incredibly hard to save while making loan repayments and living on a very small income, but the ability to do this is evinced by the substantial deposits Grameen holds on behalf of its borrowers, providing an important funding source. This is not as glamorous as the start-up stories we hear from Silicon Valley, but you may be surprised that ensuring holding a cash provision is the secret of success of some of the world's biggest companies, as well as some of its smallest.

Take insurance

One of the only times that Grameen borrowers struggle to meet their repayments is when they, or one of their family members, are ill. Grameen facilitates insurance for its borrowers, not only to preserve their ability to meet loan repayments, but to ensure that once there is the promise of a sound financial future and the opportunity to break multiple generations of poverty, it is not taken away by unexpected ill health.

Your character is the real loan collateral

At heart, all loans are a relationship of trust. While Australian banks hold security, their primary assurance that loans will be repaid is the character of the borrower and social expectation that commitments will be honoured. Microfinance takes this to its extreme conclusion, lending to those who not only have no assets, but no income. This makes the 100 per cent full repayment rate truly amazing, and demonstrates the human desire to progress and be independent.

The saying "give a man a fish and you feed him for a day; teach a man to fish and you feed him for a lifetime" is relevant to how we look at lending. Microfinance in the Third World proves that lending can positively change lives, but only when coupled with strong education and financial discipline. There is a lesson in that for everyone.

*Catherine Robson is a financial planner with Affinity Private.
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