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Poverty: Cheap Loans at Insanely High Rates? Give Us More.

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What the world needs right now is more subprime lending—a lot more of it. Yes, I know that in the public imagination, subprime lending is the scourge responsible for crippling the U.S. financial system. The massive extension of credit to people who lacked extensive credit histories and documented wages seems, in hindsight, supremely stupid. But far from the madding, depressed crowds of Wall Street, billions of people are starving for credit.

Lending tiny sums to people who live on a few dollars a day—street vendors in New Delhi, goatherds in Kenya—doesn't carry the glamour or financial rewards of *haute banque*. And compared with efforts to vaccinate children, or build dams, it seems like an exercise comparable to shooting pellets at a runaway rhinoceros. But in an era when a great deal of foreign aid has been wasted, or fallen into the hands of corrupt officials, microlending has built a track record of effective poverty relief. Microcredit pioneer Muhammad Yunus, who founded Bangladesh's Grameen Bank in 1983, won the 2006 Nobel Prize. And microfinance, which now touches the lives of more than 100 million people, is one of the few bright spots in the troubled financial sector. "We've helped about 80,000 entrepreneurs, and the repayment rate is about 98 percent, which is a better performance than consumer credit-card portfolios in the U.S.," says Premal Shah, president of Kiva.org, an online microcredit organization that allows computer programmers in Seattle to lend sums as low as $25 directly to small-scale grocers in Uganda.

These subprime loans provide working capital to budding entrepreneurs, usually women—small amounts of cash to buy a sewing machine or livestock. Frequently, credit is extended to groups; peer pressure turns out to be a powerful motivating factor. But figuring out the borrowing capacity of people who may not keep records is a labor-intensive proposition. While in the United States subprime lending was totally mindless—ask a few questions, collect the fee, sell the loan—global microfinance is totally mindful. "We need loan officers with a banker's head, a social worker's heart and the stamina of a distance runner," says Roy Jacobowitz, external-affairs officer at the microlender Acción, which has a $3 billion portfolio.

To have a truly major impact, though, microcredit needs to move out of the realm of the social worker and into the halls of finance. "There's been a realization that the only way to make this work is to do it according to business and financial incentives," says Elizabeth Littlefield, CEO of the Consultative Group to Assist the Poor (CGAP), the microfinance think tank housed in the World Bank. Newcomers to microlending are frequently shocked to learn of the high level of interest. "Rates in our network range from 25 to 30 percent per year," says Mary Ellen Iskenderian, president and CEO of Women's World Banking, a New York-based outfit that provides services to dozens of microfinance institutions and commercial banks. "But that compares favorably with the village loan shark, who may charge 200 to 300 percent a year."

Only when major banks see the possibility of making real money in the field will it grow to the scale needed in the developing world. Littlefield believes there are some 700 profitable microlending institutions. Some large commercial banks are getting in on the action; the British bank Standard Chartered pledged in 2006 to invest $500 million in microfinance. CGAP projects that private-sector microfinance will nearly triple from $7 billion in 2007 to $20 billion in 2015. But that's the kind of sum a good Wall Street bank can lose in a year. Shah believes there are another 400 million potential clients for microcredit organizations. And loans are only a piece of the puzzle. As Federal Reserve Bank of Dallas economist Edward Skelton noted in a research paper, "Less than 25 percent of Mexicans possess even the most basic financial convenience: a simple checking account."

Advocates are counting on technology to foster the widespread consumer access to credit that Americans take for granted. "The advent of mobile banking is promising, especially in rural areas, because it's reducing cost and making microfinance more efficient," says Littlefield. But what's really needed is a new, larger crop of indigenous profit-seeking entrepreneurs and institutions, local banks that understand customers the way American Express understands our habits. "At the end of the day, we need to set up self-reinforcing systems that aren't dependent on other people's largesse," says Jacqueline Novogratz, CEO of the Acumen Fund, a New York-based venture-philanthropy fund.

Debt is frequently referred to as leverage—a force that allows people to lift large weights. Those toiling at the bottom of the pyramid need all the levers they can get.

With Matthew Philips in New York

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