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The Grameen Bank

A small experiment begun in Bangladesh has turned into a major new concept in eradicating poverty

by Muhammad Yunus

Over many years, Amena Begum had become resigned to a life of grinding poverty and physical abuse. Her family was among the poorest in Bangladesh—one of thousands that own virtually nothing, surviving as squatters on desolate tracts of land and earning a living as day laborers.

In early 1993 Amena convinced her husband to move to the village of Kholshi, 112 kilometers (70 miles) west of Dhaka. She hoped the presence of a nearby relative would reduce the number and severity of the beatings that her husband inflicted on her. The abuse continued, however—until she joined the Grameen Bank. Oloka Ghosh, a neighbor, told Amena that Grameen was forming a new group in Kholshi and encouraged her to join. Amena doubted that anyone would want her in their group. But Oloka persisted with words of encouragement. “We’re all poor—or at least we all were when we joined. I’ll stick up for you because I know you’ll succeed in business.”

Amena’s group joined a Grameen Bank Center in April 1993. When she received her first loan of \$60, she used it to start her own business raising chickens and ducks. When she repaid her initial loan and began preparing a proposal for a second loan of \$110, her friend Oloka gave her some sage advice: “Tell your husband that Grameen does not allow borrowers who are beaten by their spouses to remain members and take loans.” From that day on, Amena suffered significantly less physical abuse at the hands of her husband. Today her business continues to grow and provide for the basic needs of her family.

Unlike Amena, the majority of people in Asia, Africa and Latin America have few opportunities to escape from poverty. According to the World Bank, more than 1.3 billion people live on less than a dollar a day. Poverty has not been eradicated in the 50 years since the Universal Declaration on Human Rights asserted that each individual has a right to:

A standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right





KAREN KASMAUSKI/MARK

WEEKLY VILLAGE MEETING of Grameen Bank borrowers ends with a recitation of pledges for better living, along with a salute. The gatherings are venues in which members request, receive or repay loans, as well as relate the status of the businesses they have set up. This revolutionary bank, based in Bangladesh, now boasts 39,000 such village centers and 2.4 million borrowers, most of them women. Even though the recipients are too poor to offer collateral, the repayment rate for the loans varies between 96 and 100 percent.

to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.

Will poverty still be with us 50 years from now? My own experience suggests that it need not.

After completing my Ph.D. at Vanderbilt University, I returned to Bangladesh in 1972 to teach economics at Chittagong University. I was excited about the possibilities for my newly independent country. But in 1974 we were hit with a terrible famine. Faced with death and starvation outside my classroom, I began to question the very economic theories I was teaching. I started feeling there was a great distance between the actual life of poor and hungry people and the abstract world of economic theory.

I wanted to learn the real economics of the poor. Because Chittagong University is located in a rural area, it was easy for me to visit impoverished households in the neighboring village of Jobra. Over the course of many visits, I learned all about the lives of my struggling neighbors and much about economics that is never taught in the classroom. I was dismayed to see how the indigent in Jobra suffered because they could not come up with small amounts of working capital. Frequently they needed less than a dollar a person but could get that money only on extremely unfair terms. In most cases, people were required to sell their goods to moneylenders at prices fixed by the latter.

This daily tragedy moved me to action. With the help of my graduate students, I made a list of those who needed small amounts of money. We came up with 42 people. The total amount they needed was \$27.

I was shocked. It was nothing for us to talk about millions of dollars in the classroom, but we were ignoring the minuscule capital needs of 42 hardworking, skilled people next door. From my own pocket, I lent \$27 to those on my list.

Still, there were many others who could benefit from access to credit. I decided to approach the university's bank and try to persuade it to lend to the local poor. The branch manager said, however, that the bank could not give loans to the needy: the villagers, he argued, were not creditworthy.

I could not convince him otherwise. I met with higher officials in the banking hierarchy with similar results. Finally, I offered myself as a guarantor to get the loans.

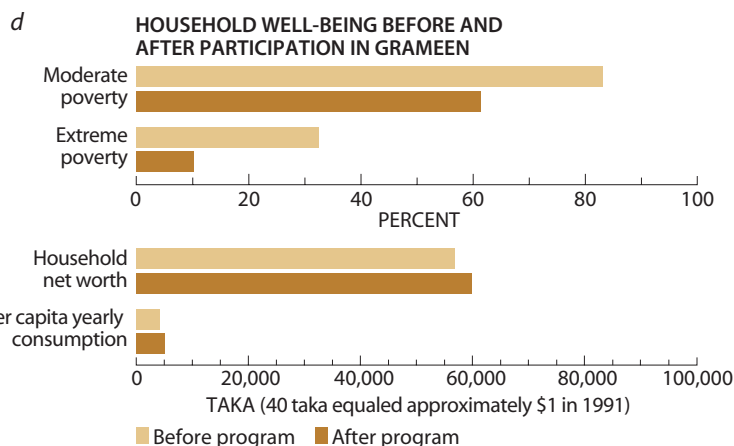
In 1976 I took a loan from the local bank and distributed the money to poverty-stricken individuals in Jobra. Without exception, the villagers paid back their loans. Confronted with this evidence, the bank still refused to grant them loans directly. And so I tried my experiment in another village, and again it was successful. I kept expanding my work, from two to five, to 20, to 50, to 100 villages, all to convince the bankers that they should be lending to the poor. Although each time we expanded to a new village the loans were repaid, the bankers still would not change their view of those who had no collateral.

Because I could not change the banks, I decided to create a separate bank for the impoverished. After a great deal of work and negotiation with the government, the Grameen Bank ("village bank" in Bengali) was established in 1983.

From the outset, Grameen was built on principles that ran counter to the conventional wisdom of banking. We sought out the very poorest borrowers, and we required no collateral. The bank rests on the strength of its borrowers. They are required to join the bank in self-formed groups of



PHOTOGRAPHS BY SALAHUDDIN AZIZEE Grameen Bank, LISA BURNETT (graphs)





five. The group members provide one another with peer support in the form of mutual assistance and advice. In addition, they allow for peer discipline by evaluating business viability and ensuring repayment. If one member fails to repay a loan, all members risk having their line of credit suspended or reduced.

The Power of Peers

Typically a new group submits loan proposals from two members, each requiring between \$25 and \$100. After these two borrowers successfully repay their first five weekly installments, the next two group members become eligible to apply for their own loans. Once they make five repayments, the final member of the group may apply. After 50 installments have been repaid, a borrower pays her interest, which is slightly above the commercial rate. The borrower is now eligible to apply for a larger loan.

The bank does not wait for borrowers to come to the bank; it brings the bank to the people. Loan payments are made in weekly meetings consisting of six to eight groups, held in the villages where the members live. Grameen staff attend these meetings and often visit individual borrowers' homes to see how the business—whether it be raising goats or growing vegetables or hawking utensils—is faring.

Today Grameen is established in nearly 39,000 villages in Bangladesh. It lends to approximately 2.4 million borrowers, 94 percent of whom are women. Grameen reached its first \$1 billion in cumulative loans in March 1995, 18 years after it began in Jobra. It took only two more years to reach the \$2-billion mark. After 20 years of work, Grameen's average loan size now stands at \$180. The repayment rate hovers between 96 and 100 percent.

A year after joining the bank, a borrower becomes eligible to buy shares in Grameen. At present, 94 percent of the bank is owned by its borrowers. Of the 13 members of the board of directors, nine are elected from among the borrowers; the rest are government representatives, academics, myself and others.

A study carried out by Sydney R. Schuler of John Snow, Inc., a private research group, and her colleagues concluded that a Grameen loan empowers a woman by increasing her economic security and status within the family. In 1998 a study by Shahidur R. Khandker, an economist with the World Bank, and others noted that participation in Grameen also has a significant positive effect on the schooling and nutrition of children—as long as women rather than men receive the loans. (Such a tendency was clear from the early days of the bank and is one reason Grameen lends primarily to women: all too often men spend the money on themselves.) In particular, a 10 percent increase in borrowing by women resulted in the arm circumference of girls—a common measure of nutritional status—expanding by 6 percent. And for every 10 percent increase in borrowing by a member, the likelihood of her daughter being enrolled in school increased by almost 20 percent.

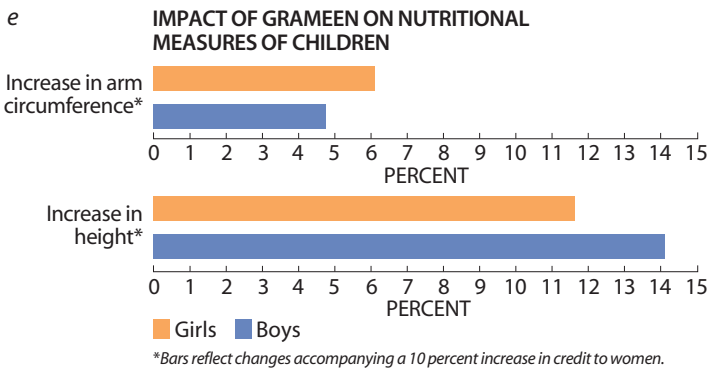
Not all the benefits derive directly from credit. When joining the bank, each member is required to memorize a list of 16 resolutions. These include commonsense items about hygiene and health—drinking clean water, growing and eating vegetables, digging and using a pit latrine, and so on—as well as social dictums such as refusing dowry and managing family size. The women usually recite the en-



LOANS RECEIVED from the bank (a) are used for a variety of small ventures, including raising chickens (b) and making the earthen pots that villagers use to store drinking water (c). The income from such a business has a significant effect on the well-being of a borrower's household (d). Before joining the bank, 83 percent of the members were moderately poor and 33 percent were extremely poor. But a fifth of the members were able to lift themselves out of poverty after participating in the bank.



SALAHUDDIN AZIZEE Grameen Bank



EMPOWERMENT OF WOMEN is one consequence of providing caregivers with capital. A woman's income—whether it be from weaving baskets (a), run-

formance. Moreover, a manager is never posted near his home. Because of such constraints—and because managers are required to have university degrees—very few of them are women. As a result, Grameen has been accused of adhering to a paternalistic pattern. We are sensitive to this argument and are trying to change the situation by finding new ways to recruit women.

Grameen has also often been criticized for being not a charity but a profit-making institution. Yet that status, I am convinced, is essential to its viability. Last year a disastrous flood washed away the homes, cattle and most other belongings of hundreds of thousands of Grameen borrowers. We did not forgive the loans, although we did issue new ones and give borrowers more time to repay. Writing off loans would banish accountability, a key factor in the bank's success.

Liberating Their Potential

The Grameen model has now been applied in 40 countries. The first replication, begun in Malaysia in 1986, currently serves 40,000 poor families; their repayment rate has consistently stayed near 100 percent. In Bolivia, microcredit has allowed women to make the transition from "food for work" programs to managing their own businesses. Within two years the majority of women in the program acquire enough credit history and financial skills to qualify for loans from mainstream banks. Similar success stories are coming in from programs in poor countries everywhere. These banks all target the most impoverished, lend to groups and usually lend primarily to women.

The Grameen Bank in Bangladesh has been economically self-sufficient since 1995. Similar institutions in other countries are slowly making their way toward self-reliance. A few small programs are also running in the U.S., such as in inner-city Chicago. Unfortunately, because labor costs are much higher in the U.S. than in developing countries—which often have a large pool of educated unemployed who can serve as managers or accountants—the operations are more expensive there. As a result, the U.S. programs have had to be heavily subsidized.

tire list at the weekly branch meetings, but the resolutions are not otherwise enforced.

Even so, Schuler's study revealed that women use contraception more consistently after joining the bank. Curiously, it appears that women who live in villages where Grameen operates, but who are not themselves members, are also more likely to adopt contraception. The population growth rate in Bangladesh has fallen dramatically in the past two decades, and it is possible that Grameen's influence has accelerated the trend.

In a typical year 5 percent of Grameen borrowers—representing 125,000 families—rise above the poverty level. Khandker concluded that among these borrowers extreme poverty (defined by consumption of less than 80 percent of the minimum requirement stipulated by the Food and Agriculture Organization of the United Nations) declined by more than 70 percent within five years of their joining the bank.

To be sure, making a microcredit program work well—so that it meets its social goals and also stays economically sound—is not easy. We try to ensure that the bank serves the poorest: only those living at less than half the poverty line are eligible for loans. Mixing poor participants with those who are better off would lead to the latter dominating the groups. In practice, however, it can be hard to include the most abjectly poor, who might be excluded by their peers when the borrowing groups are being formed. And despite our best efforts, it does sometimes happen that the money lent to a woman is appropriated by her husband.

Given its size and spread, the Grameen Bank has had to evolve ways to monitor the performance of its branch managers and to guarantee honesty and transparency. A manager is not allowed to remain in the same village for long, for fear that he may develop local connections that impede his per-



ning a village store (b), crafting handloom textiles (c) or providing phone service to her neighbors (d)—enhances her status within her family, gives her more control over her fertility and

allows her to take better care of her children (e). Women are also more conscientious about repaying the loans. For all these reasons, microcredit programs lend primarily to women.

In all, about 22 million poor people around the world now have access to small loans. Microcredit Summit, an institution based in Washington, D.C., serves as a resource center for the various regional microcredit institutions and organizes yearly conferences. Last year the attendees pledged to provide 100 million of the world's poorest families, especially their women, with credit by the year 2005. The campaign has grown to include more than 2,000 organizations, ranging from banks to religious institutions to nongovernmental organizations to United Nations agencies.

The standard scenario for economic development in a poor country calls for industrialization via investment. In this "top-down" view, creating opportunities for employment is the only way to end poverty. But for much of the developing world, increased employment exacerbates migration from the countryside to the cities and creates low-paying jobs in miserable conditions. I firmly believe that, instead, the eradication of poverty starts with people being able to control their own fates. It is not by creating jobs that we will save the poor but rather by providing them with the opportunity to realize their potential. Time and time again I have seen that the poor are poor not because they are lazy or untrained or illiterate but because they cannot keep the genuine returns on their labor.

Self-employment may be the only solution for such people, whom our economies refuse to hire and our taxpayers will not support. Microcredit views each person as a potential entrepreneur and turns on the tiny economic engines of a reject-

ed portion of society. Once a large number of these engines start working, the stage can be set for enormous socioeconomic change.

Applying this philosophy, Grameen has established more than a dozen enterprises, often in partnership with other entrepreneurs. By assisting microborrowers and microsavers to take ownership of large enterprises and even infrastructure companies, we are trying to speed the process of overcoming poverty. Grameen Phone, for instance, is a cellular telephone company that aims to serve urban and rural Bangladesh. After a pilot study in 65 villages, Grameen Phone has taken a loan to extend its activities to all villages in which the bank is active. Some 50,000 women, many of whom have never seen a telephone or even an electric light, will become the providers of telephone service in their villages. Ultimately, they will become the owners of the company itself by buying its shares. Our latest innovation, Grameen Investments, allows U.S. individuals to support companies such as Grameen Phone while receiving interest on their investment. This is a significant step toward putting commercial funds to work to end poverty.

I believe it is the responsibility of any civilized society to ensure human dignity to all members and to offer each individual the best opportunity to reveal his or her creativity. Let us remember that poverty is not created by the poor but by the institutions and policies that we, the better off, have established. We can solve the problem not by means of the old concepts but by adopting radically new ones.

The Author

MUHAMMAD YUNUS, the founder and managing director of the Grameen Bank, was born in Bangladesh. He obtained a Ph.D. in economics from Vanderbilt University in 1970 and soon after returned to his home country to teach at Chittagong University. In 1976 he started the Grameen project, to which he has devoted all his time for the past decade. He has served on many advisory committees: for the government of Bangladesh, the United Nations, and other bodies concerned with poverty, women and health. He has received the World Food Prize, the Ramon Magsaysay Award, the Humanitarian Award, the Man for Peace Award and numerous other distinctions as well as six honorary degrees.

Further Reading

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- GIVE US CREDIT. Alex Counts. Times Books (Random House), 1996.
- FIGHTING POVERTY WITH MICROCREDIT: EXPERIENCE IN BANGLADESH. Shahidur R. Khandker. Oxford University Press, 1998.
- Grameen Bank site is available at www.grameenfoundation.org on the World Wide Web.