

Analysis of grameen bank : a project of micro-credit system for poor

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Poverty is one of the biggest menace faced by the human beings. Bangladesh is one of the poorest countries of the world. It is faced with multi dimensional challenges of over population, insufficient food, unemployment and traditional based economy coupled with corrupt governance. In the early 1970s, Dr. Muhammad Yunus (Professor of Economics at the University of Chittagong) envisioned an unorthodox way of alleviating poverty by circumventing the major impediment to lending to the poorest in society. He tested this instinct in an experiment in 1976, when he lent about \$27 to 42 women in an ordinary Bangladeshi village. Just 30 years later, Grameen Bank has more than 6.61 million borrowers (97 percent of whom are women), 2,226 branches, services in over 50,000 villages and assets of more than \$6 billion. Amazingly, the bank has a 98.8% recovery rate.

The story behind the first concerted effort to make financing accessible to the world's

poorest is the stuff of folklore. Befitting the goal of poverty alleviation, the setting for this early experiment was a time of great tragedy in Bangladesh, one of the poorest countries in the world. A small country in the Indian subcontinent with a population of 130 million, a gross national product (GNP) per capita of about \$300 and a literacy rate of only 38 percent for those over 15 years of age, Bangladesh experienced drought and famine in 1974 that killed 1.5 million people. Having completed studies as a Fulbright scholar in the United States, Professor Mohammad Yunus felt increasingly frustrated at his inability to ease the sufferings of the poor of his country.

Dr. Yunus attributes the origin of his vision to a chance encounter in Jobra village with Sufia Begum, a 21-year-old woman who, desperate to support herself, had borrowed about 25 cents from moneylenders charging exorbitant interest rates approaching 10 percent per day. Ms. Begum used the money to make bamboo stools that, as a condition of the loan, she sold back to the moneylenders at a price well below market value for a profit of about 2 cents. Ms. Begum's desperate position could best be described as bonded labor. Yunus found 42 people in Jobra in the same poverty trap, and in 1976 he experimented by lending them small amounts of money at reasonable rates. Yunus lent a total of \$27, about 62 cents per borrower. To his pleasant surprise, all the borrowers repaid the loans, in the process convincing him that this success could be replicated across Bangladesh.

From these humble efforts emerged a new industry: micro-credit, the extension of small loans and other financial and business services to entrepreneurs too poor to qualify for traditional bank loans. Micro-credit has since proven to be an effective tool for alleviating poverty and, in addition to creating wealth, generating positive externalities, such as better education and improved health.

Dr. Yunus carried his success story to traditional banks and proposed that they could also make uncollateralized loans to society's poorest. In response, the banks asserted that borrowers would never sufficiently organize themselves to repay, that proceeds from such loans were too small to cover administrative costs and that female borrowers would simply hand over the funds to their husbands. Early critics argued that even if lenders avoided

these pitfalls, the last thing the poor needed was the added burden of indebtedness.

Dr. Yunus answered these challenges by founding an institution of his own, Grameen Bank, the name of which derives from gram, the Bengali word for “village.” He did so in the belief that capital is a friend of the poor and that its accumulation by the poor represents their best means of escaping the abject poverty that the welfare state and wasteful, corrupt and incompetent international aid organizations have failed to combat.

Yunus’s vision was of a bank that would address all aspects of rural life and support commercial activities ranging from manufacturing to retail, including even door-to-door sales. The bank would require no collateral and would prove once and for all as “the bank-ability of the un-bankable.” In 1983, Grameen was incorporated as a bank after the government had passed legislation allowing Grameen Bank to accept deposits.

Grameen Bank targets the poorest of the poor, with a particular emphasis on women. Women represent a suitable clientele because, given that they have less access to alternatives, such as traditional credit lines and salaries, they are more likely to be credit constrained and they have an inequitable share of power in household decision making. Lending to women also generates considerable secondary effects, including empowerment of a marginalized segment of society. At present out of the total number of borrowers (6.61 million), 97 per cent of them are women.

Each of Grameen’s 2226 branches (as of August 2006) is run by a branch manager and several center managers, who together cover an area of 15 to

22 villages. Together they learn their local area of operations intimately in order to identify and develop strong relationships with prospective clients. This effort to get close to the community is reflected in the program's operating costs.

Grameen Bank is a not-for-profit organization owned by its borrowers. Loan amounts,

which start at \$35 and average \$200, depend on the needs of the borrower and her level of credit (determined by previous borrowing and repayment record). Interest rates are kept relatively low and as close as possible to prevailing commercial rates. While these low rates squeeze the bank's profit margins, they support its primary focus on alleviating poverty rather than generating high returns. Other for profit microfinance institutions (MFI) of the Grameen Bank that have raised rates considerably in order to increase margins, provide capital for growth and attract for-profit investors continue to enjoy strong demand for their services. This suggests that rates high enough to cover the risks inherent in uncollateralized loans are not unreasonable or unbearable.

Grameen Bank maintains its own regulation system outside the purview of the Central

Bank of Bangladesh and relies heavily on social pressure among the group members to keep default rates low. The members of each lending group experience great peer pressure to meet the terms of their loans, as they know everyone in the group well enough to understand the importance they place on receiving their disbursement. Defaulting will cost a member her

reputation in the village because her failure deprives others of needed loans. The combination of support and peer pressure from the group provides borrowers with sufficient motivation to meet the terms of their loans.

Dr. Yunus has devised a typically unorthodox solution to the issue of poorest of the poor. It is true that many of his borrowers are now effectively middle-class, if one considers that many of them now have children at or graduating from a university. He decided to prove that Grameen is indeed a banker to the poor by requiring that the bank make every effort to lend to those whom he considers the poorest: beggars. He has instructed over 18, 000 employees to try and “ have at least one customer who is a beggar”. As of August 2006, Grameen Bank has 81, 000 beggar clients, all on interest free loans. At the end of the year, the bank expects to learn how many of these beggar clients have changed their status completely and become socially acceptable entrepreneurs. Through the loan-issuing process, Grameen Bank also gathers information about circumstances and reasons for borrowers' conditions.

Beginning with a simple experiment in 1976, Grameen Bank has become one of the largest enterprises in Bangladesh and has lifted millions of people out of poverty, mostly women and their families. To gauge the efficacy of the system, 6 million women have already attained loans through Grameen Bank which translates into 30 million family members. If even 5 percent of these are able to lift themselves out of poverty every year, then in Bangladesh alone one million people are lifting themselves out of poverty every year as a

result of micro-credit system. This is a remarkable social achievement by any standard.

Through Dr. Yunus's efforts and those of the bank he founded, poor people around the world, especially women, have been able to buy cows, a few chickens or the cell phone they desperately needed to get ahead. Dr. Muhammad Yunus has shown himself to be a leader who has managed to translate visions into practical action for the benefit of millions of people, not only in Bangladesh, but also in many other countries. Loans to poor people without any financial security had appeared to be an impossible idea. From modest beginnings three decades ago, Yunus has, first and foremost through Grameen Bank, developed micro-credit into an ever more important instrument in the struggle against poverty. Grameen Bank has been a source of ideas and models for the many institutions in the field of micro-credit that have sprung up around the world. On October 13, 2006, the Norwegian Nobel Committee awarded the Nobel Peace Prize for 2006, divided into two equal parts, to Dr. Muhammad Yunus and Grameen Bank for their tremendous efforts to alleviate poverty from one of the poorest countries of the world.

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