

Grameen Bank: a Successful Story

Lecture 8

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Background

- 1970s, over 70 percent of Bangladesh population were living below poverty line
- In 2021, 14 percent live below poverty line and ranked as the world's 8th population
- Dr. Muhammad Yunus
- In 1976, he founded Grameen Bank, a so-called “bank for the poor,” with just 27 USD.
- The bank provides people access to small loans without the need for collateral. Since its creation, Grameen Bank has given loans totaling over 3B USD to 7 million people.
- According to the bank, among those who received a loan, over 50% escaped from poverty. Their community-based monitoring system helped the bank reduce the costs and achieve a high repayment rate of over 90%.

Background

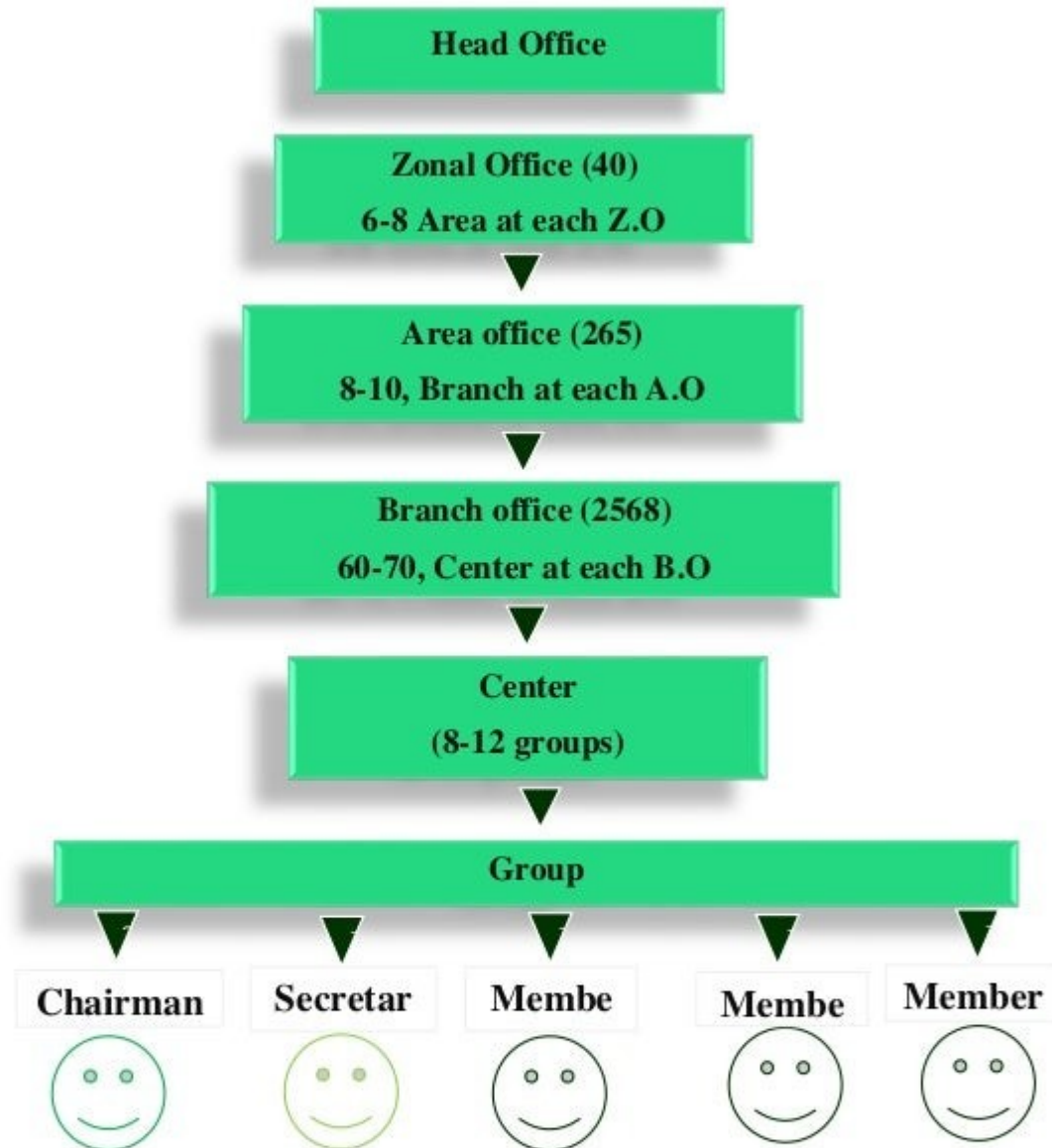
- Microfinance organization and community development bank started in Bangladesh
- Makes small loans (known as microcredit or "grameencredit") to the impoverished without requiring collateral
- *gram* which means "rural" or "village"
- the poor have skills that are under-utilized



Grameen Bank as a value creator

- Grameen Bank is founded on the principle that loans are better than charity to interrupt poverty
- It maintains the belief that people have endless potential, and unleashing their creativity and initiative that helps them end poverty
- Grameen has offered credit to classes of people formerly underserved: the poor, women, illiterate, and unemployed people
- Grameen's objective has been to promote financial independence among the poor.
- GB encourages all borrowers to become savers so that their local capital can be converted into new loans to others

Organization Structure:



- It targets **the poorest of the poor**, with a particular **emphasis on women**, who receive 95 percent of the bank's loans.
- Women traditionally had less access to financial alternatives of ordinary credit lines and incomes.
- They were seen to have an inequitable share of power in household decision making.
- Grameen Bank is best known for its system of solidarity lending.
- The Bank also incorporates a set of values embodied in Bangladesh by the Sixteen Decisions

We shall follow and advance the four principles of Grameen Bank

1. Discipline, Unity, Courage and Hard work – in all walks of our lives



2. Prosperity we shall bring to our families



3. We shall grow vegetables all the year round. We shall eat plenty of them and sell the surplus.



4. During the plantation seasons, we shall plant as many seedlings as possible



5. We shall plan to keep our families small. We shall minimize our expenditures. We shall look after our health



6. We shall educate our children and ensure that they can earn to pay for their education



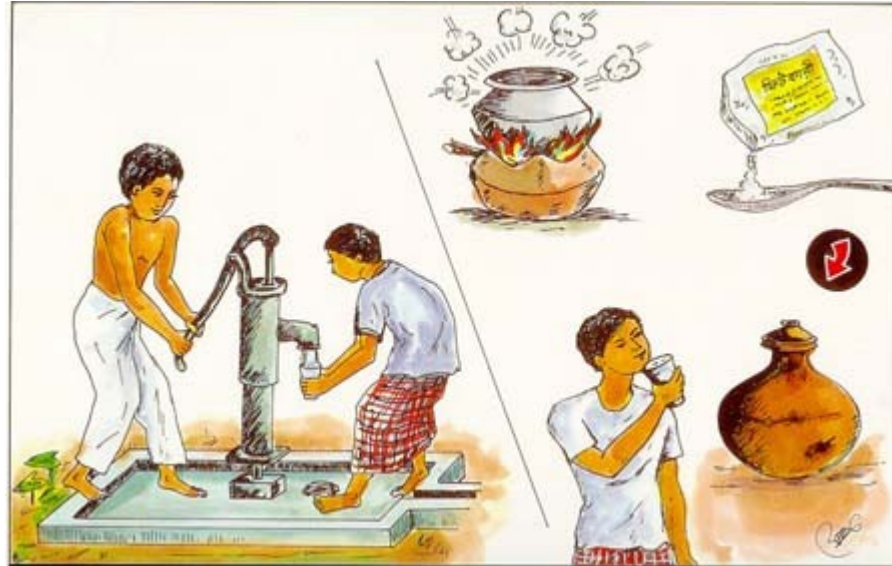
7. We shall always keep our children and the environment clean



8. We shall build and use pit-latrines



9. We shall drink water from tubewells. If it is not available, we shall boil water or use alum



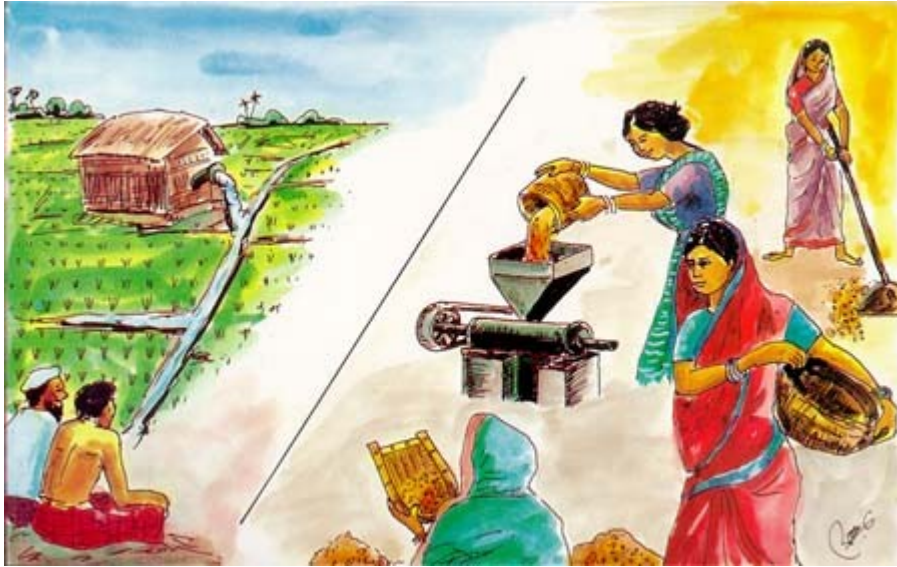
10. We shall not take any dowry at our sons' weddings, neither shall we give any dowry at our daughters wedding. We shall keep our centre free from the curse of dowry. We shall not practice child marriage



11. We shall not inflict any injustice on anyone, neither shall we allow anyone to do so



12. We shall collectively undertake bigger investments for higher incomes.



13. We shall always be ready to help each other. If anyone is in difficulty, we shall all help him or her



14. If we come to know of any breach of discipline in any centre, we shall all go there and help restore discipline



15. We shall take part in all social activities collectively.



Micro-Credit Strategy

- Charity is not an answer to poverty
- It creates dependency and takes away individual's initiative to break through the cycle of poverty
- Loans offer people the opportunity to take initiatives in business or agriculture
- Human beings, including the poorest has endless potential
- Offered credit to many poor, women, illiterate and unemployed people
- Access to credit on reasonable terms such as the group lending system and weekly-installment payment

Micro-Credit Strategy

- Objective: To promote financial independence among the poor
- Encourages all borrowers to eventually become savers
- The bank also set a new goal: Making each of its branches free of poverty, as defined by benchmarks such as having adequate food and access to clean water and latrines
- Known for “Solidarity Lending” (over 43 countries)
 - each borrower must belong to a five-member group
 - not required to give any guarantee for a loan to its member
 - repayment responsibility solely rests on the individual borrower
 - no form of joint liability
- Incorporates a set of values embodied in Bangladesh by the [Sixteen Decisions](#)

Loan process

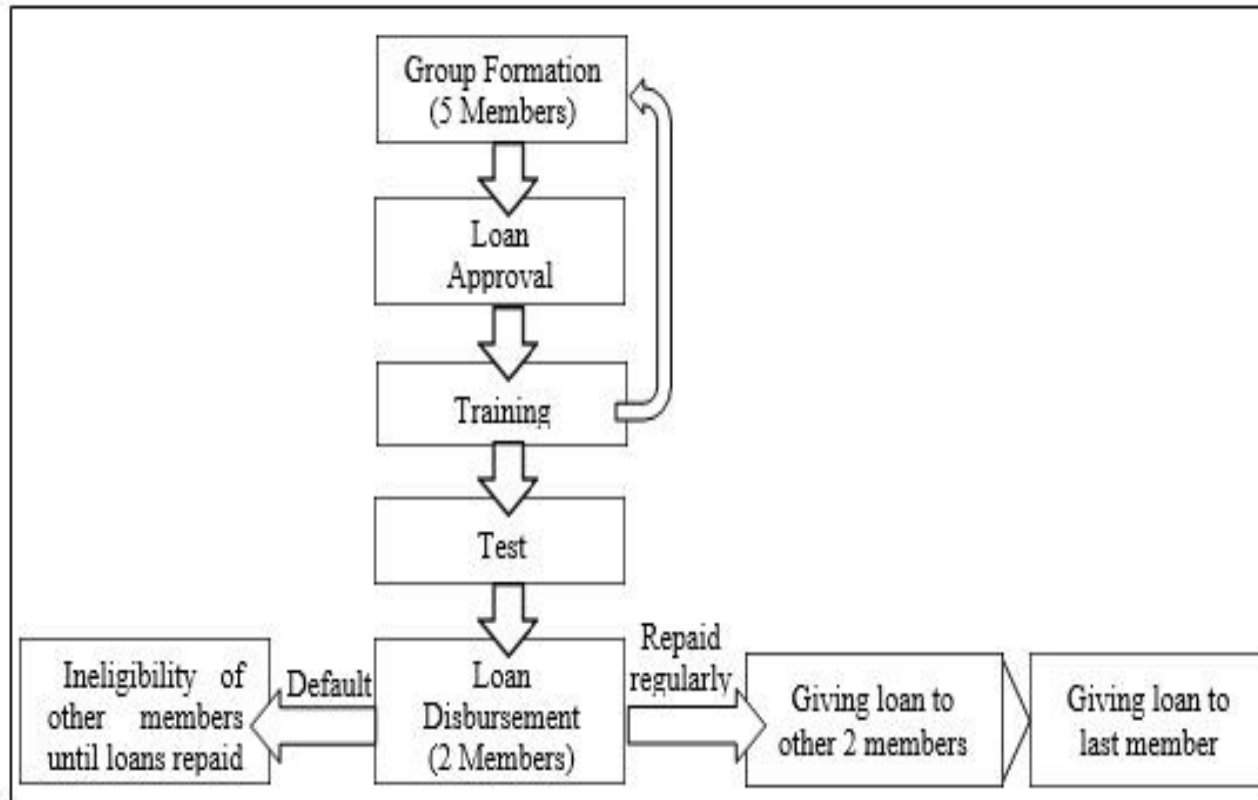


Figure-01: Loan distribution system of Grameen Bank

Micro-Credit Strategy

- No legal instrument (no written contract) between Grameen Bank and its borrowers
- High payback rates—over 98 percent
- More than half of its borrowers in Bangladesh (close to 50 million) have risen out of acute poverty



Micro-Credit Programs

Village Phone Program

- women entrepreneurs can start a business providing wireless payphone service in rural areas of Bangladesh
- 2004 Petersburg Prize worth of EUR100,000



Micro-Credit Programs

Struggling Members Program

- 2003, started a new program exclusively targeted the beggars of Bangladesh
- distributing small loans to beggars
- existing rules of banking are not applied, the loans are completely interest-free, the repayment period can be arbitrarily long
- e.g. Beggar taking a small loan of around 100 taka (about US \$1.50) can pay only 2.00 taka (about 3.4 US cents) per week. the borrower is covered under life insurance free of cost.

Operational Statistics

- Borrowers own 94%, and the remaining 6% is owned by the Government of Bangladesh
- Grown significantly between 2003-2007
 - October 2007, the total borrowers of the bank number 7.34 million, and 97% of those are women
 - 2003, the bank had only 3.12 million members
- The bank has distributed Tk 347.75 billion (USD 6.55 billion) in loans
- Tk 313.11 billion (USD 5.87 billion) has been repaid
- Loan recovery rate of 98.35%, up from the 95% recovery rate claimed in 1998

Nobel Peace Prize

- October 13, 2006 ~ The Nobel Committee awarded Grameen Bank and its founder, Muhammad Yunus, the 2006 Nobel Peace Prize, for their efforts to create economic and social development from below.

"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."

- Only business corporation to have won a Nobel Prize



Related Ventures

- Grameen Family of Enterprises:
 - Grameen Trust, Grameen Fund, Grameen Communications, Grameen Shakti (Grameen Energy), Grameen Telecom, Grameen Shikkha (Grameen Education), Grameen Motsho (Grameen Fisheries), Grameen Baybosa Bikash (Grameen Business Development), Grameen Phone, Grameen Software Limited, Grameen CyberNet Limited, Grameen Knitwear Limited
- July 11, 2005 the Grameen Mutual Fund One (GMFO), listed as an Initial Public Offering
- GMFO will allow the over four million Grameen bank members, as well as non-members, to buy into Bangladesh's capital markets
- Grameen Foundation
 - Share the Grameen philosophy and accelerate the impact of microfinance on the world's poorest people
 - Asia Pacific, America, Africa

