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## Grameen Bank: A Revolutionary Concept

by Faizal Chaudhury

Grameen Bank is turning upside down the prevailing lending principle that the more money you have, the more deserving you are of credit. Grameen Bank began as a micro lending project nineteen years ago, formally became a bank in 1983, and has developed into one of the largest lending institutions in Bangladesh. Its loan recovery rate is an amazing 98%--compare this with the default rate of the commercial bank's 70% for agriculture loans and 83% for industrial loans (CBC Ideas Transcripts, March 5, 1991), it is easy to see that the Grameen Bank is something special, for 98% of its loans are paid in full.

Grameen Bank is the brainchild of Prof. Muhammed Yunus, and he is increasingly being looked upon as the man who brings a ray of hope to a nation where poverty is rampant. Born and raised in Chittagong, Bangladesh, Mr. Yunus grew up in a comfortable environment. He studied economics in Bangladesh, then went to the U.S. on a Fulbright Scholarship to finish his doctorate at Vanderbilt University. In 1972, he returned to teach at Chittagong University

after Bangladesh became an independent nation. "I wanted to help create a better future for Bangladesh. I tried to bring the relevant issues facing the country to the ground level in front of my students," said Mr. Yunus. But all that changed in 1974 when a devastating famine struck Bangladesh, killing more than a million people. "It gave me a big jolt," recalled Mr. Yunus. "I could not live with teaching elegant economic theories and walking around and seeing people dying. I wanted to learn from people, not from textbooks" (personal interview, January 16, 1995). So, he began investigating how he could make a difference in the lives of the poor. He discovered that many people needed small amounts of capital but were not being served by the local banks.

In 1976 Mr. Yunus made a personal loan to a woman who made bamboo stools. This loan had two elements that became a model for Grameen Bank today: it was a woman and a group of friends supported her.

So, what has Yunus and the Grameen Bank done? Something amazingly simple, but surprisingly bold. They lend to the poor, landless people without demanding that they have collateral. The loans are made to groups, usually of five people. When a person wants to borrow from the Grameen Bank, he/she has to form a group of five people. Then the Bank discusses the procedures, rules, and regulations with this group. The Bank will not give out loans to all five people at the same time. Usually, it gives out loans to two of the group members at a time, preferably the most needy two. The group will be asked to watch out that they use the money correctly so that they do not get into trouble. However, if the group cannot repay the loan, the Bank will be hesitant to deal with the group again, meaning that the rest of the group may not receive their loans. The group members

guarantee the loan and are therefore careful to whom they let in the group. Peer pressure ensures that no one defaults on his/her loan. If one person in the group cannot repay his loans, the others in the group contribute, because if one person defaults, the entire group will be ineligible for any further loans.

The question is whether a bank can survive by making such loans. "Our records say yes," Yunus responds, "that we can survive. Since 1976, we have made more than two million loans and their payment rate is a little over 98%" (personal interview). Grameen's efforts have resulted in stunning socioeconomic impact on its borrowers. Some unique aspects of this are given below:

1. Members of the loan group have to undergo training before being recognized by the bank and agree to the "Sixteen Decisions" often called the social constitution of the bank. These include matters such as birth control, education, sanitation, and a clean environment.
2. The average daily caloric intake for Grameen members is 96% of the average daily requirement, compared with 88% for nonmembers, according to a World Bank study.
3. Among Grameen members, 46% have crossed the poverty line (annual income of \$198 in Bangladesh), compared with 4% of villagers who have not participated in the program.

Mr. Robert McNamara, former president of the World Bank said, "The results have been astounding, but not nearly enough of this is going on in other developing countries."

The Grameen Model has been so successful that it has been imitated in numerous countries, including the United States. Over the years visitors from seventy one countries have learned from the Grameen Bank. When Bill Clinton was the governor of Arkansas in the 1980's, he requested Yunus to

replicate Grameen's small loans scheme in Pine Bluff, Arkansas. Also, Chicago's Women's Self-Employment Project often cited as a model community financial development institute, lends money on the same premise as the Grameen.

Grameen Bank's success has resulted in Prof. Yunus receiving numerous international awards, including the World Food Prize last year. Bill Clinton has suggested that Yunus be given the Nobel Prize also. But the real prize that Prof. Yunus desires is the eradication of poverty everywhere. Only the future will tell us if he succeeds.