

Social and Economic Development Through Microcredit



**The Experience of Grameen Bank
Bangladesh**

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Origin of Grameen Bank

The rural landless people who are desperately in need of credit generally remain outside the orbit of the banking system. Dr. Muhammad Yunus, Professor of Economics, Chittagong University, launched an action-research program in 1976 with the following objectives:

- I. To extend the banking facilities to the poor men and women.
- II. To eliminate the exploitation of the moneylenders.
- III. To create opportunities for self-employment for the vast unutilised and underutilized manpower resource.
- IV. To bring the disadvantaged people within the folds of some organisational format which they can understand and operate, and can find socio-political and economic strength in it through mutual support.
- V. To reverse the age-old vicious circle of "low income, low savings, low investment, low income" into an expanding system of "low income, credit, investment, more income, more credit, more investment, more income".

Grameen Bank : Owned by the Poor

- The government provided 60% of the initial paid up share capital of the bank, while the 40% was the borrowers of the bank.
- In July 1986, the government proportion in the paid up share capital was reduced to 25%, while 75% were to be subscribed by the GB borrowers.
- At present GB borrowers own 94% of the total equity of the bank, remaining 6% is owned by the government.
- Now GB is an independent financial institution which owned by the poor borrowers of the bank who are mostly women and it works exclusively for them.

The mission of the Grameen Bank (GB) is to alleviate poverty from the lives of the poor people.

Why GB priority to the women (1)

- Politically, socially and economically women's are deprived in our society. Women go through the worst part of poverty. If being poor is tough, being a poor woman is toughest. When is given little opportunity, she struggles extra hard to get out of it.
- Being a poor woman, she is totally insecure. She is insecure in her husband's house, because the husband can throw her out any time he wishes.
- If a women abandoned by their husband in case of any famine and disaster situation - it is the women (mother) who takes care of their children until death. She collects vegetables, green leaves to feed her children.

Why GB priority to the women (2)

- GB noticed when money going through a woman in a household brought more benefits to the household than money entering the household through a man.
- A woman when she brings in some income, the immediate beneficiary of the income is the child. Children get the top priority from the mother. She wants to buy a few utensils; she wants to improve the living conditions. But a man has different set of priorities that do not give the family a top position; not immediately looking after the things that a women does.
- These situations asked why should we then approach the household through men? Why don't we approach it through women? Children are getting benefit from their mother. Children represent the future. By addressing the mother we will be building a better future.

Why are the micro financial services suitable for the poor?

Micro finance is a powerful tool for achieving the objectives of empowering the poor and alleviating poverty. Micro finance program is to provide the poor with easy access to credit, to be utilized for productive and daily earning purposes. Micro credit is a very important too for poverty alleviation.

- ❖ Micro credit reduces money lender exploitation
- ❖ Micro credit creates self employment and employment creation
- ❖ It leads to increased purchasing power and consumption capacity
- ❖ Micro savings creates one's own capital
- ❖ Micro credit contributes to women's empowerment
- ❖ It leads to increase permanent and moveable assets.

Main Features of GB (1)

- GB provides loan without collateral. It based on trust. There is no legal instrument between the lender and the borrowers in the GB methodology.
- It does not wish to take any borrowers to court law in case of non-repayment.
- In order to obtain loan from the GB, a borrower belong to a five members group. But there is no form of joint liabilities.
- GB provides service at doorstep of the borrower based on the principle that 'people should not come to the bank, bank should go the people'.

Main Features of GB (2)

- Loans can be received in a continuous sequence.
- GB loans are to be paid back in installments by weekly.
- Loan repayment schedule is fixed consulting with the concerned member.
- Loan repayment schedule is flexible. The borrowers have the flexibility to repay more in pick season and less in dull season. She has the freedom to choice her installment within the loan period.
- GB allows a loan of any duration such as 3 months, 6 months, to more than one year.

Economic activities

- GB loan had been disbursed for different income generating activities.
- Since inception of the bank members took loan over 500 different economic activities like rearing cow, cow fattening, live stocks, running grocery shops, tailoring, growing vegetables, renting in land to cultivate crops, leasing in pond to cultivate fishes.
- Some are selling telephone service to rural people.
- The activities can be grouped under seven broad categories/sectors:
 - a) Processing and Manufacturing
 - b) Agriculture and forestry
 - c) Livestock and Fisheries
 - d) Services
 - e) Trading
 - f) Peddling
 - g) Shop keeping

Loan insurance program:

Incase of death of a borrower outstanding loan and interest are paid off under this insurance programme. This is very attractive programme for the Grameen Bank borrowers. They always think what will happen in their here after life if they fail to repay their loan before their death and if their family members do not repay their loan after their death. To address this problem Grameen has introduced this loan insurance programme. Grameen borrowers are happy for introducing this programme

Life insurance program:

Each family of a deceased borrower of Grameen Bank receives Tk 1500 from life insurance programme. A total of 95016 borrowers died so far in Grameen Bank. Their families collectively received a total amount of US\$ 3.81 million. Borrowers are not required to pay any premium for this life insurance. Borrowers come under this insurance coverage by being a share holders of the bank.

Loan Programs of GB

General credit (Basic loan, Flexible loan in disaster situation) program gathers momentum and the borrowers becomes familiar with credit discipline, other loan program are introduced to meet growing social and economic development needs of the client and her family. The loan programs of GB are:

- Basic loan (Micro-credit Highway)
- Flexi-Loan (in disaster situation)
- Micro Enterprise loan (Special Investment)
- House loan
- Higher Education loan for member's children
- Scholarship program for member's children
- Struggling (Beggars) member program

Basic Loan: Over 500 activities

- All borrowers will start with a basic loan. Most of the borrowers will continue with this basic loan, cycle after cycle, without any difficulty, and meet all their credit needs in the most satisfactory manner.
- The prime loan product of GB is the “Basic Loan” (Micro-credit Highway).



Micro Enterprise Loans (Special Investment)



- Many borrowers are moving ahead in businesses faster than others for many favourable reasons, such as, proximity to the market, presence of experienced male members in the family, etc.
- GB provides larger loans, called micro-enterprise loans, for these fast moving members.

Housing for the Poor - A Vital Investment : 647,130 houses built



- Shelter is one of the basic requirements for a person to organize his/her thoughts, discipline for action.
- Not a luxury frill but a source of inspiration.
- Protection from weather and disease.
- Provides space and privacy
- Preceded by incremental material development.
- Vital investment for the poor.
- As a work place or factory.

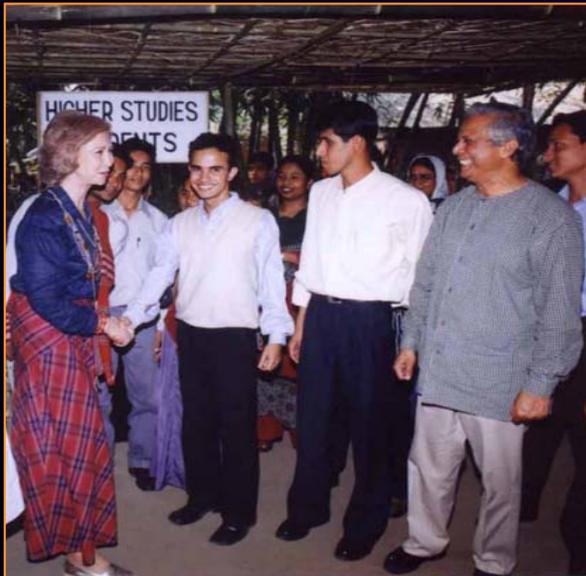
Higher Education Loan : 17,700 Recipients

- GB introduced Higher Education Loan program to provide an opportunity for talented children of its borrowers.
- Loans are given covering tuition, maintenance, and other school expenses.



Ms. Nurunnahar is the first female Doctor (MBBS) through GB Higher Education Loan.

Higher Education Loan: May, 2007



- Bachelor of Honors : 15,413
- Masters Degree : 1011
- MBBS : 200
- Bachelor of Engineering : 426
- Bachelor of Agriculture : 250
- Masters of Agriculture : 88
- BBA : 255
- MBA : 36

Scholarship Program of Grameen Bank

- ❑ In order to facilitate better educational opportunities for the children of GB members, Grameen Bank launched a scholarship program for the talented students in 1999.
- ❑ Scholarships are given to the children of GB members, with priority on girl children. At least 50% must go to girls and the remaining 50% to boys & girls.
- ❑ Over 27,000 children, at various levels of school education, receive these scholarships from this year.
- ❑ Around 48,000 students from various levels (primary to higher secondary) got scholarships under this program.



GB scholarship recipients of different zones



GB Struggling (Beggars) Member's Program

Over 94 thousand Beggars Joined, 9300 given up begging



- Existing rules of GB do not apply.
- Not required to form group and attend the weekly meetings.
- All loans are collateral-free.
- No interest charged.
- The repayment schedule is flexible.
- Loans can be for very long term.
- Repayment installments very small.
- Can save with GB if they wish.
- Covered under life and loan insurance without premium.
- Members are not required to give up begging.

GB Passed Over Three Decades (1976-2006)

- Journey from one village to 79 thousands villages.
- From 42 poorest borrowers in 1976 to 7.3 million borrowers.
- Women borrowers : 97%
- No of branches : 2459 (operated in whole country)
- From first disbursement of Tk. 856 (US\$ 27) to cumulative disbursement US\$ 6.5 billion.
- Monthly disbursement : US \$ 66.0 million
- Cumulative repaid amount: US\$ 5.58 billion.
- Recovery rate : 98.60%
- The outstanding amount: US\$ 490.47 million.
- Balance of deposits: US\$ 686.26 million

The sixteen decisions: Social Development Program

- Grameen system encourages the borrowers to adopt some goals in social, educational and health areas. These are known as "Sixteen Decisions" (no dowry, education for children, sanitary latrine, planting trees, eating vegetables to combat night-blindness among children, arranging clean drinking water, etc.) Conventional banks do not see this as their business.
- Since 1984, "Sixteen Decisions" became integral part of Grameen Bank.
- Borrowers are required to make continuous strides to implement these decisions.

1. We shall follow and advance the four principles of Grameen Bank-discipline, unity, courage and hard work-in all walks of our lives.

2. We shall bring prosperity to our families.



3. We shall not live in dilapidated houses. We shall repair our houses and work towards constructing new houses at the earliest.



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



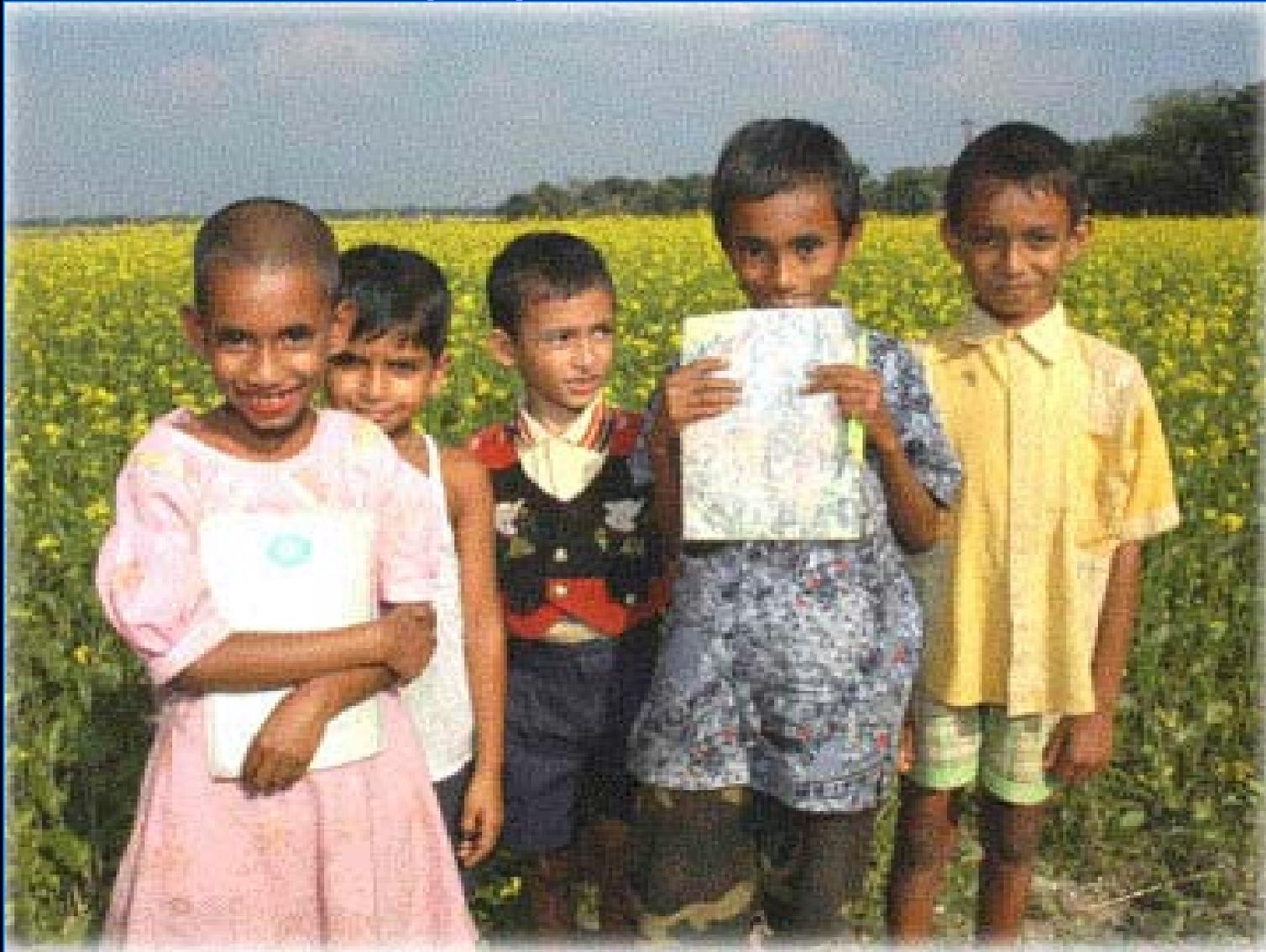
5. During the plantation seasons, We shall plant as many seedlings as possible.



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



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



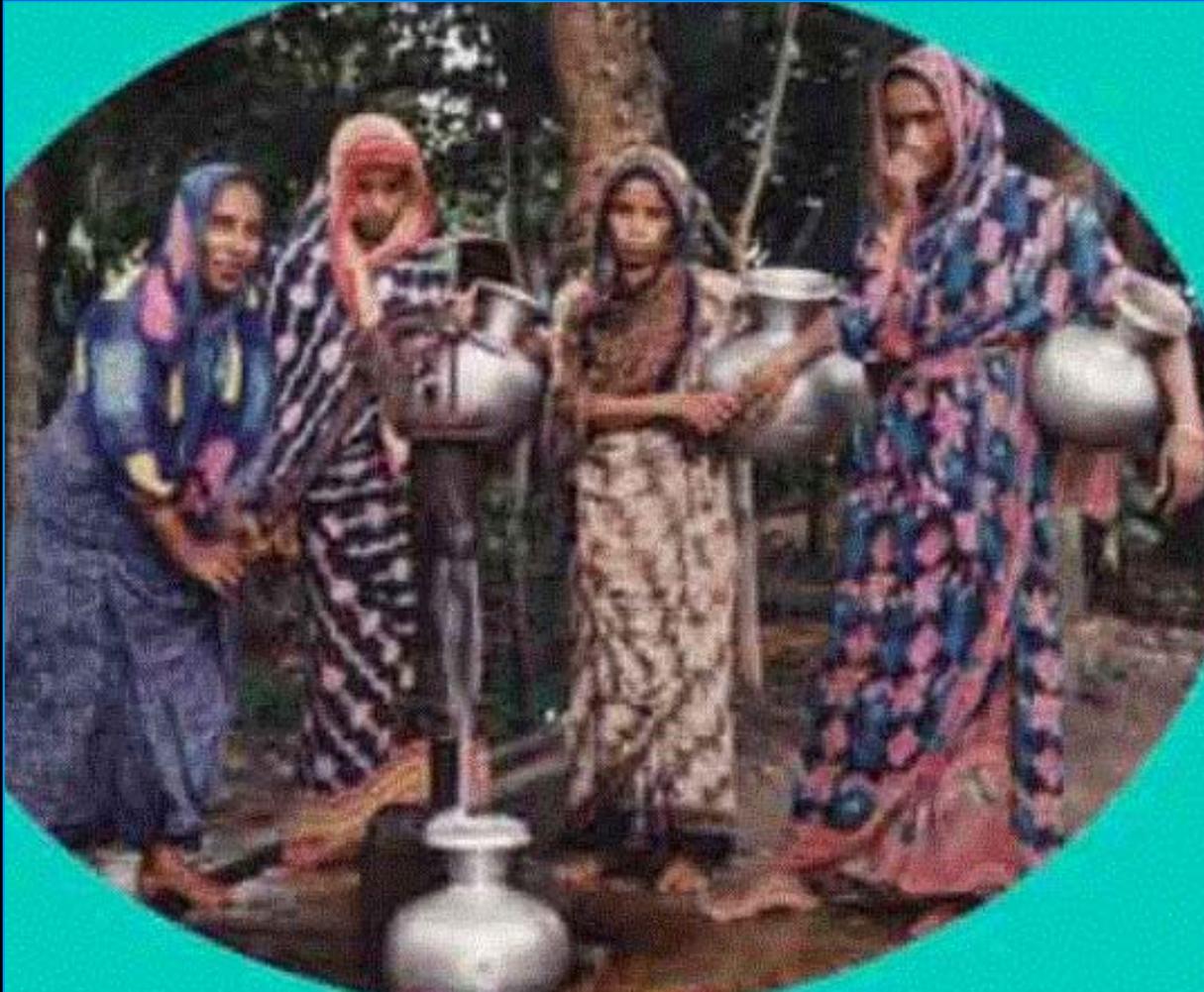
8. We shall always keep our children and the environment clean.



9. We shall build & use proper latrines.



10. We shall boil water before drinking or use alum to purify it. We shall use pitcher filter to remove arsenic.



11. We shall not take any dowry at our son's weddings, nor shall we give any dowry at our daughters wedding. We shall keep our center free form the curse of dowry. We shall not practice child marriage.



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



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



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



15. If we come to know of any breach of discipline in any center, We shall all go there and help restore discipline.

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



The Grameen Impact (1)

- There is substantial evidence that GB's poverty alleviation strategy through its credit operations have very quickly produced a positive impact on the lives of the poor in terms of higher income and empowerment of the poor rural women.
- GB's impact on the socio-economic aspects has been extensively documented by the evaluation studies undertaken by the BIDS (Bangladesh Institute of Development Studies), individual researchers from home and abroad, external aid agencies and multilateral agencies like the World Bank.
- We may sum up the GB impacts by the following ways:
 - Impact on targeting
 - Capital accumulation
 - Impact on employment

The Grameen Impact (2)

- Ability to withstand disasters.
- Impact on rural wage structure.
- Impact on positive income & assets.
- Impact on ecology.
- Impact on housing loan & family size.
- Impact on socio-cultural status.
- Women's participation and economic potentialities.
- Impact on poverty situation.
- Women's participation - situation wise and performance wise deserve.
- Women's are much more particular and responsive.
- Poor women are bankable.
- Women empowered in family and different social part.
- Better customers and owners than richer counterparts.
- Future generation reaching to better lives.
- Hard core poor are also bankable.

Conclusion

Over 3 decades of experience GB proved that the poor women are bankable and can be even better customers than their richer counterparts. The only preparation needed to bring them with in a viable bankable fold is an appropriate credit delivery and recovery mechanism.

Micro-credit is a very effective instrument to empower the poor, especially women. It is cost-effective and sustainable. It is a system based on mutual trust and co-operation. It creates self-employment for the poorest, particularly poor women. It creates opportunities for the poor to move out of poverty. It established the advocacy of Nobel Laureate Professor Muhammad Yunus - *'credit as a human right'*.

**Thanks for Your
Kind Attention**