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# Grameen Bank

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**Apirak Kanchanakongkha**

[k\\_Apirak@hotmail.com](mailto:k_Apirak@hotmail.com)

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# Grameen Bank



Dr. Muhammad Yunus, Founder



Head Office, Dhaka,  
Bangladesh





- The **Grameen Bank** (Bengali: গ্রামীণ  
বাংক) is a microfinance organization  
and community development bank  
started in Bangladesh that makes  
small loans (known as microcredit or  
"grameencredit") to the impoverished  
without requiring collateral. The name  
Grameen is derived from the word  
*gram* which means "rural" or "village"  
in the Bengali language.<sup>1</sup>
- The system of this bank is based on  
the idea that the poor have skills that  
are under-utilized

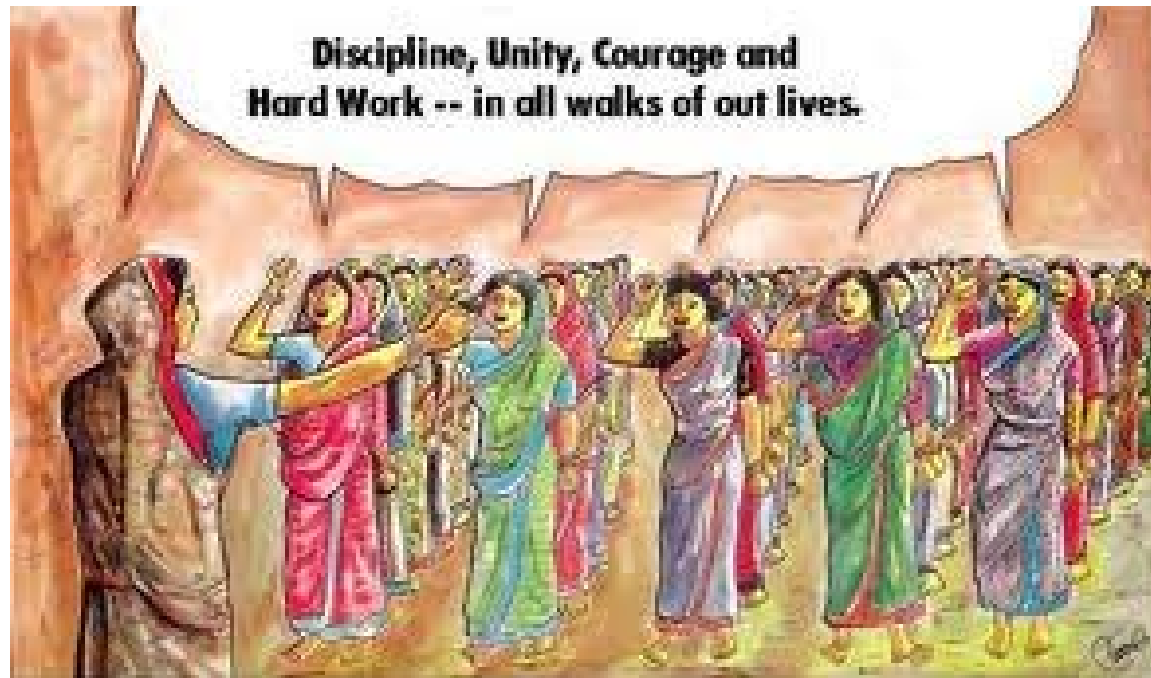
- A group-based credit approach is applied which utilizes the [peer-pressure](#) within the group to ensure the borrowers follow through and use caution in conducting their financial affairs with strict discipline, ensuring repayment eventually and allowing the borrowers to develop good credit standing.
- The bank also accepts deposits, provides other services, and runs several development-oriented businesses including fabric, telephone and energy companies. Another distinctive feature of the bank's credit program is that the overwhelming majority (98%) of its borrowers are women.



- The origin of Grameen Bank can be traced back to 1976 when Professor [Muhammad Yunus](#), a [Fulbright scholar](#) at [Vanderbilt University](#) and Professor at [University of Chittagong](#), launched a [research project](#) to examine the possibility of designing a credit delivery system to provide banking services targeted to the rural poor.
- In October 1983, the Grameen Bank Project was transformed into an independent bank by government legislation. The organization and its founder, Muhammad Yunus, were jointly awarded the [Nobel Peace Prize](#) in 2006;



- the organization's Low-cost Housing Program won a [World Habitat Award](#) in 1998. In 2011, the founder [Muhammad Yunus](#) was sacked from the Grameen Bank.



# History

- [Muhammad Yunus](#), the bank's founder, earned a doctorate in [economics](#) from [Vanderbilt University](#) in the United States. He was inspired during the terrible [Bangladesh famine of 1974](#) to make a small loan of US\$27.00 to a group of 42 families so that they could create small items for sale without the burdens of [predatory lending](#).<sup>[7]</sup> Yunus believed that making such loans available to a wide population would have a positive impact on the rampant rural poverty in Bangladesh.





- The Grameen Bank (literally, "Bank of the Villages", in [Bengali](#)) is the outgrowth of Yunus' ideas. The bank began as a research project by Yunus and the Rural Economics Project at Bangladesh's [University of Chittagong](#) to test his method for providing credit and banking services to the rural poor.
- In 1976, the village of Jobra and other villages surrounding the University of Chittagong became the first areas eligible for service from Grameen Bank.



- Bankers [Ron Grzywinski](#) and [Mary Houghton](#) of [ShoreBank](#), a community development bank in [Chicago](#), helped Yunus with the official incorporation of the bank under a grant from the [Ford Foundation](#).
- The bank's repayment rate was hit following the 1998 flood of Bangladesh before recovering again in subsequent years. By the beginning of 2005, the bank had loaned over USD 4.7 billion and by the end of 2008, USD 7.6 billion to the poor.



- The Bank today continues to expand across the nation and still provides small loans to the rural poor. By 2006, Grameen Bank branches numbered over 2,100. Its success has inspired similar projects in more than 40 countries around the world and has made World Bank to take an initiative to finance Grameen-type schemes.
- The bank gets its funding from different sources, and the main contributors have shifted over time.



- In the initial years, donor agencies used to provide the bulk of capital at very cheap rates. In the mid-1990s, the bank started to get most of its funding from the central bank of Bangladesh. More recently, Grameen has started bond sales as a source of finance.
- The bonds are implicitly subsidized as they are guaranteed by the Government of Bangladesh and still they are sold above the bank rate.



## Application of microcredit

- Grameen believes that charity is not an answer to poverty. It only helps poverty to continue as it creates dependency and takes away individual's initiative to break through the cycle of poverty, whereas loans offer people the opportunity to take initiatives in business or agriculture, providing earnings and enabling them to pay off the debt.
- Grameen regards all human beings, including the poorest, as endowed with endless potential, and that unleashing the creativity in each individual should be the answer to poverty.



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## Application of microcredit (Continue#1)

- Grameen has offered credit to many poor, women, illiterate and unemployed people. It created access to credit on reasonable terms such as the group lending system and weekly-installment payment with reasonably long term of loans, enabling the poor to build on their existing skill to earn a better income in each cycle of loans.
- Grameen's objective has been to promote financial independence among the poor. Yunus encourages all borrowers to eventually become savers so that their local capital can be converted into new loans.



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## Application of microcredit (Continue#2)

- Since 1995, Grameen has funded 90 percent of its loans with interest income and deposits collected, hence aligning the interests of its new borrowers and depositor-shareholders. Hence, Grameen distinguishes itself from such institutions by converting deposits made in villages into loans for the more needy in the villages.
- It targets the poorest of the poor, with a particular emphasis on women, who receive 95 percent of the bank's loans. Women represent a suitable clientele because,



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## Application of microcredit (Continue#3)

- given that they have less access to alternatives, such as traditional credit lines and incomes, 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.
- This is especially crucial as Yunus claims that in 2004, women still have difficulty getting loans as it represented less than 1 percent of borrowers from commercial banks.





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## Application of microcredit (Continue#4)

- The interest rates charged by microfinance institutes including Grameen Bank is high compared to that of traditional banks; Grameen's interest (reducing balance basis) on its main credit product is about 20%.
- Down the years, Grameen has also diversified the types of loans it makes. Among its new interests, hand-powered wells and loans to support the enterprises of Grameen members' immediate relatives.
- There were also seasonal agricultural loans and lease-to-own agreements for equipment and livestock.



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## Application of microcredit (Continue#5)

- The bank also set a new goal for itself: making each of its branches free of poverty, as defined by benchmarks such as having adequate food and access to clean water and latrines.
- 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*.
- At every branch of Grameen Bank the borrowers recite these Decisions and vow to follow them. As a result of the Sixteen Decisions,



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## Application of microcredit (Continue#6)

- Grameen borrowers have been encouraged to adopt positive social habits. One such habit includes educating children by sending them to school.
- Since the Grameen Bank embraced the Sixteen Decisions, almost all Grameen borrowers have their school-age children enrolled in regular classes. This in turn helps bring about social change, and educate the next generation.
- Solidarity lending is a cornerstone of microcredit and the system is now at work in over 43 countries.

## 16 Decisions (I)

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. Prosperity we shall bring 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 they can earn to pay for their education.
8. We shall always keep our children and the environment clean.

## 16 Decisions (II)

9. We shall build and use pit-latrines.

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

11. We shall not take any dowry at our sons' weddings, neither shall we give any dowry at our daughter's wedding. We shall keep our centre free from 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 centre, we shall all go there and help restore discipline.

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



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## Application of microcredit (Continue#7)

- Although each borrower must belong to a five-member group, the group is not required to give any guarantee for a loan to its member. Repayment responsibility solely rests on the individual borrower, while the group and the centre oversee that everyone behaves in a responsible way and none gets into a repayment problem.
- There is no form of joint liability, i.e. group members are not obliged to pay on behalf of a defaulting member. However, in practice the group members often contribute the defaulted amount with -



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## Application of microcredit (Continue#8)

- an intention of collecting the money from the defaulted member at a later time.
- Such behavior is facilitated by Grameen's policy of not extending any further credit to a group in which a member defaults.
- There is no legal instrument (no written contract) between Grameen Bank and its borrowers, the system works based on trust. To supplement the lending, Grameen Bank also requires the borrowing members to save very small amounts regularly in a number of funds like emergency fund, group fund etc.



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## Application of microcredit (Continue#9)

- These savings help serve as an insurance against contingencies.
- In a country in which few women may take out loans from large commercial banks, Grameen has focused on women borrowers as 97% of its members are women.
- While a [World Bank](#) study has concluded that women's access to microcredit empowers them through greater access to resources and control over decision making, some other economists argue that the relationship between microcredit and women-empowerment is less straightforward.





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## Application of microcredit (Continue#10)

- In other areas, Grameen's track record has also been notable, with very high payback rates—over 98 percent. However, according to the Wall Street Journal, a fifth of the bank's loans were more than a year overdue in 2001.
- Grameen claims that more than half of its borrowers in Bangladesh (close to 50 million) have risen out of acute poverty thanks to their loan, as measured by such standards as having all children of school age in school, all household members eating three meals a day, a sanitary toilet, a rainproof house, clean drinking water and the ability to repay a 300 [taka](#)-a-week (around 4 USD) loan.

# Sources



- *From* [en.wikipedia.org/wiki/Grameen\\_Bank](https://en.wikipedia.org/wiki/Grameen_Bank)
- *From* Grameen Bank official site.