

## The Ford Foundation and the Grameen Bank

“My God, my God. All this misery in all these families all for the lack of twenty-seven dollars!”<sup>1</sup>

—Muhammad Yunus, founder of the Grameen Bank

### JOBRA, CHITTAGONG DISTRICT, BANGLADESH, 1976

Muhammad Yunus, a young professor of economics at Chittagong University, and his colleague, Professor H. I. Latifee, walked through the village of Jobra. Situated on the coastal plain just 20 miles north of the city of Chittagong, Jobra felt a million miles away from that crowded, bustling metropolis. Dilapidated mud-walled structures lined the street. Chickens flapped about, and naked children played in the dirt yards of houses. For several months Yunus and Latifee had been making frequent visits to Jobra for the purpose of meeting the poorest villagers, to talk with them informally and find out how they lived.

Just the year before, Yunus had witnessed in the streets of Chittagong the starvation deaths of thousands of refugees from a famine that had struck the Bangladeshi countryside. He had come to believe that his training in economics could not account for, much less offer a solution to, the extreme poverty all around him.

Stopping at the front yard of a crumbling, thatch-roofed hut, Yunus and Latifee spotted a young woman hunkered in the bare-dirt entranceway. Clutching a half-finished stool between her knees, she skillfully wove the stool’s seat out of bamboo strands. Approaching her cautiously—village women were very wary of strangers, male ones especially—Latifee addressed the woman. He informed her that he and his friend wanted to ask her some questions.

Warily she agreed to speak with the men. To put her at ease, Yunus asked about her children and remarked on their beauty. Then he questioned her about how her business worked.

Her name was Sufiya Begum, she offered. She explained that, at the start of each day, she borrowed the equivalent of about 22 cents from a *paikar*, or middleman, in order to purchase bamboo to make a stool out of. At the end of the day, to repay the *paikar*, she gave the middleman the finished, beautifully crafted stool she’d worked on for hours. The profit the *paikar* offered on the manufacture of the stool amounted to two cents.

Yunus asked Begum why she couldn’t eliminate the *paikar* and borrow money to purchase her raw materials directly. Then she could sell the stool herself and make a much greater profit than two cents. She replied that she would never borrow cash from the village

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<sup>1</sup> Yunus, Muhammad, with Alan Jolis. *Banker to the Poor: Micro-Lending and the Battle Against World Poverty*. New York: PublicAffairs, 1999, p. 50.

Teaching Case Writing Program Director Barry Varela prepared this teaching case under the supervision of Professor Joel Fleishman and Professor Frederick Mayer as a basis for class discussion rather than to illustrate either the effective or ineffective handling of an administrative situation. In addition to footnoted sources, information was drawn from a descriptive case written by Scott Kohler for Joel Fleishman.

moneylender, because the interest he charged was 10 percent per week; sometimes it was even higher, depending on circumstance. Villagers who resorted to the moneylender inevitably regretted it.

Yunus knew that for Begum to approach a commercial bank was unthinkable. All she needed to borrow was a few cents. Banks didn't make loans of such absurdly small amounts. And in any case, she was a woman; she lived in an isolated, rural village; she was illiterate; and she had no assets for collateral. Any one of those characteristics would have disqualified her for a bank loan.

Yunus realized that Begum made so little profit on each stool that she had never been able—and never would be able—to save enough money to bypass the *paikar* and sell stools directly at market. He recalled:

I had never heard of anyone suffering for lack of *twenty-two cents*. It seemed impossible to me, preposterous. Should I reach into my pocket and hand Sufiya the pittance she needed for capital? That would be so simple, so easy. I resisted the urge to give Sufiya the money she needed. She was not asking for charity. And giving one person twenty-two cents was not addressing the problem on any permanent basis.<sup>2</sup>

At that moment Yunus resolved to discover what could be done to help free Sufiya Begum, and the millions of other Bangladeshis like her, from the cycle of poverty in which they were trapped.

## **HENRY FORD AND THE FORD MOTOR COMPANY**

Born in Springwells Township (now Dearborn), Michigan, in 1863, industrialist and automobile manufacturer Henry Ford displayed mechanical aptitude at an early age, repairing the watches of friends and family. After working as an apprentice machinist in Detroit and a steam engine repairman for the Westinghouse company in Dearborn, Ford joined the Edison Illuminating Company as an engineer. In 1896, while working in his free time, he built his first automobile; three years later he and a group of investors founded the Detroit Automobile Company, which soon went bankrupt and was reorganized as the Henry Ford Company. In the fallout from the bankruptcy settlement, Ford lost control of the company, which ultimately reorganized under the name Cadillac. In 1903 Ford joined with 11 investors to form the Ford Motor Company, whose immediate success on the racetrack won much-needed publicity for the brand. Ford purchased a majority of stock from his associates in 1907, and thereafter the Ford family remained in control of the renamed Ford Motor Company for generations. Under the engineering and managerial leadership of its founder, Ford Motor pioneered the assembly-line method of mass production, paid higher-than-average wages, made cars affordable for middle-class consumers, and catalyzed the advent of the automobile culture in America and beyond. From 1908 to 1928, the company sold 17 million of its popular Model-T's.

In 1915, Henry Ford led a privately sponsored peace trip to Europe in a failed effort to end World War I. After the U.S. entered the war, his company became the leading producer of ambulances, airplanes, munitions, and tanks for the U.S. military. Running as a Democrat, Ford in 1918 unsuccessfully bid for the U.S. Senate. After a financial crisis in 1921, he began producing higher priced vehicles and founded subsidiaries in Europe. Opposed to trade unionism, Ford vigorously resisted organizing in his factories by the United Automobile

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<sup>2</sup> Yunus, *op. cit.*, p. 48.

Workers until 1941. His paternalistic attitude toward employees and controversial statements on political and social issues garnered significant antagonism. A staunch isolationist before World War II, Ford again converted his factories to war production after 1941. Retaining the leadership of the company within his family, Henry Ford retired in 1945 and died in 1947.

## THE FORD FOUNDATION

Established in 1936 by Henry Ford and his son Edsel in Michigan, the Ford Foundation would become one of America's largest and most influential philanthropic institutions. According to its charter, the Foundation's purpose was "to receive and administer funds for scientific, educational and charitable purposes, all for the public welfare."<sup>3</sup> Until 1950, the Foundation engaged in local philanthropic activities, giving approximately \$1 million annually to Michigan nonprofits such as Henry Ford Hospital in Detroit and the Edison Institute of Dearborn.

After receiving the bulk of the estates of Henry Ford, his wife, and Edsel, the foundation became the largest foundation in America and engaged in broader philanthropy from its new headquarters in New York City. In 1948, the Board of Trustees convened a Study Committee of independent consultants to recommend how the Ford Foundation could "most effectively and intelligently put its resources to work for human welfare."<sup>4</sup> The Committee was chaired by H. Rowan Gaither, who later served as Ford Foundation President and board chair. Informed by "data from hundreds of interviews and conferences and from thousands of pages of written materials,"<sup>5</sup> the Committee produced its 1949 "Report of the Study for the Ford Foundation on Policy and Program," known as the Gaither Report. It defined the term *human welfare*, examined the major problems besetting humanity, and proposed programs for addressing the problems. The Committee concluded that "the real hope for the advancement of human welfare lies in the reaffirmation in practice of democratic principles."<sup>6</sup> Consequently, it outlined five program areas:

- The Establishment of Peace: Activities that promise significant contributions to world peace and to the establishment of a world order of law and justice.
- The Strengthening of Democracy: Activities designed to secure greater allegiance to the basic principles of freedom and democracy in the solution of the insistent problems of an ever-changing society.
- The Strengthening of the Economy: Activities designed to advance the economic well-being of people everywhere and to improve economic institutions for the better realization of democratic goals.
- Education in a Democratic Society: Activities to strengthen, expand, and improve educational facilities and methods to enable individuals more fully to realize their intellectual, civic, and spiritual potentialities; to promote greater equality of educational opportunity; and to conserve and increase knowledge and enrich our culture.

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<sup>3</sup> Ford Foundation, "Articles of Incorporation." Detroit, MI: Ford Foundation, 1936, p. 1. Retrieved from <http://www.fordfound.org/about/docs/charter.pdf>.

<sup>4</sup> Ford Foundation, "Report of the Study for the Ford Foundation on Policy and Program." Detroit, MI: Ford Foundation, 1949, p. 10 Retrieved from <http://www.fordfound.org/elibrary/documents/0113/normal/low/0113norm-low.pdf>.

<sup>5</sup> Ford Foundation, op. cit., p. 13.

<sup>6</sup> Ford Foundation, op. cit., p. 14.

- Individual Behavior and Human Relations: Activities designed to increase knowledge of factors that influence or determine human conduct and to extend such knowledge for the maximum benefit of individuals and of society.<sup>7</sup>

Lastly, the Committee defined “the organization and operating procedures most appropriate for programs of the kind proposed and for a modern foundation with resources as large as those of the Ford Foundation.”<sup>8</sup>

Approved by the Board, the plan “signaled the transformation of the Foundation from a local philanthropy to one of national and international scope.”<sup>9</sup> In 1951, Ford made \$30 million in grants (equivalent to \$228 million in 2005 dollars). In the 1960s, Ford alone held one-third of all the assets owned by the top 33 foundations.<sup>10</sup> By the late 1970’s, the Ford Foundation was the largest foundation in the United States. In 1979, grants totaled \$102 million with assets of \$2.3 billion (in 2005 dollars, equivalent to \$277 million in grants and assets of \$6.3 billion).<sup>11</sup>

As the Foundation itself later wrote, its guiding objectives were “so broad and comprehensive that virtually everything the Foundation has done in the ensuing years can be rationalized as flowing from the original blueprint.” In 1962, the Foundation’s objectives were re-articulated, but were “still so comprehensive (and contained a loophole to the effect that the list was ‘illustrative’) that they provided a shelter for all that we have done since and for virtually anything else we might have wanted to do.” Beyond these general goals, the Ford Foundation described four major overlapping influences that shaped its choices during its first 25 years as a national and international philanthropy: “(1) the interests of individuals, ranging from trustees to staff . . . to influential outsiders; (2) the force of external events; (3) substantial increases and . . . decreases in the Foundation’s resources; and (4) the evolution of ongoing Foundation activities.”<sup>12</sup>

### Program-Related Investments

In 1968 Ford initiated a policy of each year investing a portion of the Foundation’s endowment in Program-Related Investments (PRIs). Ford’s *Annual Report 1968* explained:

In a major departure from past policy, the Foundation this year began using part of its investment portfolio directly for social purposes. In the past, the Foundation has worked mainly through outright grants to nonprofit institutions. It will now also devote a part of its investment portfolio (through such devices as guarantees, stock purchases, and loans) to assist organizations, profit-making as well as nonprofit if necessary, working toward solution of social and economic problems of national concern. The purpose of these actions, termed Program-Related Investments, is twofold:

- first, to afford the Foundation a new set of instruments for responding flexibly to important needs; the investments, therefore, will be assessed in terms of their promise for advancing the public well-being, despite their higher risk and lower yield in conventional market terms;

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<sup>7</sup> Ford Foundation, op. cit., pp. 52-99.

<sup>8</sup> Ford Foundation, op. cit., p. 15.

<sup>9</sup> Magat, Richard, *Ford Foundation at Work: Philanthropic Choices, Methods, and Styles*. New York: Ford Foundation, 1979, p. 18.

<sup>10</sup> Domhoff, G. William, “The Ford Foundation in the Inner City: Forging an Alliance with Neighborhood Activists.” Retrieved from [http://sociology.ucsc.edu/whorulesamerica/power/ford\\_foundation.html](http://sociology.ucsc.edu/whorulesamerica/power/ford_foundation.html).

<sup>11</sup> Ford Foundation, *Ford Foundation Annual Report 1979*. New York: Ford Foundation, 1979, p. 63. Retrieved from <http://www.fordfound.org/elibrary/documents/1979/suppress/low/1979supp-low.pdf>.

<sup>12</sup> Magat, op. cit., pp. 21-28.

- second, to experiment and collaborate with major sources of credit—private and governmental—in expanding and using new means to finance socially important ventures.<sup>13</sup>

Fourteen years later, Ford's *Annual Report 1982* took stock of the Foundation's Program-Related Investments:

PRIs are loans, guarantees of loans, or equity investments in projects that promote the economic development of low-income communities, housing opportunities for minority families, and jobs for the unskilled. Unlike grants, PRIs must be repaid so the funds can be reinvested in other activities.

Because PRIs are funded from the Foundation's endowment rather than from endowment earnings, the Foundation adds to the overall resources it has available for program activities. PRIs are often combined with funds from banks and insurance companies, industrial corporations, and federal and state governments that also invest on a concessional basis in projects serving social purposes."

In evaluating PRI applications, the Foundation first determines whether the project serves a charitable purpose related to its program objectives. Other criteria are then applied, including the organization's management capability, the economic feasibility of the project, and the availability of other financing. The average maturity of a PRI is five years, and most investments are in the \$250,000 to \$1 million range.<sup>14</sup>

### **Other Strategies at the Ford Foundation**

In a retrospective of the Ford's first 25 years of national and international activities, Ford officer Richard Magat outlined the various strategic approaches the foundation employed, which included:

- Building and improving institutions
- Generating and disseminating knowledge and information
- Developing individual talents
- Stimulating support from other sources
- Providing an independent contribution to public policy

Magat went on to describe the Foundation's history of flexible and varied approaches to addressing problems of human welfare:

The amount of money we pit against problems through straightforward grants is not necessarily the best measure of our effort. An informal conference that we assemble or a report that we commission can yield as much as a grant. The same may be said of individual consultations with government officials or of a joint venture with other foundations or international organizations. Occasionally, we use a new tool (e.g. program-related investment) or assume a novel role, but we also continue to employ long-established means, such as the creation of new institutions. Our efforts toward a particular objective also may be seen as a spectrum—from grants to individuals to

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<sup>13</sup> Ford Foundation, *Ford Foundation Annual Report 1968*. New York: Ford Foundation, 1968, p. 3. Retrieved from <http://www.fordfound.org/elibrary/documents/1968/suppress/low/1968supp-low.pdf>

<sup>14</sup> Ford Foundation, *Ford Foundation Annual Report 1982*. New York: Ford Foundation, 1982, p. 46. Retrieved from <http://www.fordfound.org/elibrary/documents/1982/normal/low/1982norm-low.pdf>.

institutional support, or from support of fundamental research to more operational activities, such as joint funding with public agencies or establishing organizations plainly committed to influencing public policy. It is difficult to state flatly that one strategy or mode of operation works better than another. Thus, it sometimes seems wiser to help an existing institution overcome its weaknesses than to mint a new one, but at other times it seems best to do the reverse. Also, the choice may be dictated by the stage of an effort.

The way we do business also includes such internal activities and mechanisms as monitoring, technical assistance, evaluation, staff research, and use of consultants, advisory panels, task forces, and coordinating committees. A whole network of strategies, procedures, and instruments has grown in response to the enormous problem of selection faced by a grant-giving agency with a broad charter.<sup>15</sup>

In the 1970s and 1980s, the Foundation would strive to improve human welfare among the very poorest in one of the most troubled areas of the world: Bangladesh.

### **BANGLADESH IN THE 1970S**

In 1947, with the end of British rule and the partition of India, the Indian province of Bengal was itself partitioned, with the western, Hindu-majority part remaining part of India, and the eastern, Muslim-majority section joining Pakistan as the province of East Bengal (later called East Pakistan). Separated from West Pakistan by a thousand miles, East Pakistan was dominated and neglected by a national government that was based in West Pakistan. Still, the uneasy union persisted for more than two decades.

Poor government response to a disastrous 1970 cyclone (i.e., a hurricane located in the Indian Ocean) that killed an estimated 500,000 people exacerbated longstanding Bengali discontent with the central authorities. In March 1971 a Bengali faction of the Pakistani army revolted, declaring East Pakistan's independence and naming the new nation Bangladesh ("Country of Bengal"). There followed an eight-month civil war, culminating in India's intervention on the side of the Bengali rebels. The two-week Indo-Pakistani War, of December 1971, ended in decisive victory for the Indo-Bengali alliance, as Bangladesh won full independence from Pakistan.

The Indo-Pakistani War crippled Bangladesh's economy. No one knows how many Bengalis were killed during the war, but estimates range from a low of 300,000 to a high of 10 times that number; the median estimate is approximately 1 million. Millions more fled the fighting, becoming temporary refugees in neighboring India. Thousands of homes were destroyed, countless roads, bridges, and railway lines were damaged, and the agricultural and manufacturing sectors were devastated. Decreased production, combined with a glut in the money supply, drove down real wages of agricultural workers by 24 percent and industrial workers by 48 percent between 1970 and 1973.<sup>16</sup>

The double blows—cyclone and war—of 1970 and 1971 were followed by a severe monsoon season in the late summer of 1974. Runoff from the Himalayas flooded two thirds of Bangladesh and destroyed an estimated 80 percent of the fall harvest,<sup>17</sup> devastating an already reeling economy. By the end of the summer, famine stalked the countryside. The Bangladeshi prime minister blamed the famine on "sharks, hoarders, smugglers, profiteers and black-

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<sup>15</sup> Magat, *op. cit.*, pp. 21-22.

<sup>16</sup> Asiatic Society of Bangladesh, "Famine." Retrieved from [http://banglapedia.search.com.bd/HT/F\\_0015.htm](http://banglapedia.search.com.bd/HT/F_0015.htm).

<sup>17</sup> Rangan, Kasturi, "Subsiding Floods Leave Dacca Desperate for Aid." *New York Times*, August 18, 1974, p. 3.

marketers [who] were trading on human miseries,”<sup>18</sup> but the truth was more complicated. Green Revolution improvements (in seeds, fertilizers, and other technologies) in the spring and early-summer crops more than offset the effects of late-summer flooding; despite the loss of fall crops due to the unusually heavy monsoon, 1974 turned out to be a year of peak food availability. Nevertheless, the destruction of the fall crop left the rural laboring class temporarily unemployed. Because many landless workers had no savings to fall back on (and because the inflation of the preceding several years had driven down real wages), when the floods brought unemployment, the rural poor starved for lack of money to buy food. Indeed, the starvation began before the destroyed harvest was even due. Thus the 1974-75 Bangladeshi famine was caused not by a general food shortage but in major part by the victims’ inability to buy readily available food.<sup>19</sup>

As rural laborers starved, refugee camps swelled, becoming incubators of typhoid and cholera. Millions of destitute Bangladeshis flocked to the capital, Dhaka, and to other cities, where government-administered “gruel kitchens” offered meager daily servings of four ounces of rice and lentils. As with the Indo-Pakistani War, no one knows how many Bangladeshis died in the 1974-75 famine. The official government estimate was 26,000; other observers put the number at closer to a million.<sup>20</sup>

While acute crises such as cyclones, wars, floods, and famines afflicted Bangladesh periodically, even in stable times the nation suffered “endemic deprivation,” a chronic condition characterized by Nobel laureate Amartya Sen as “a more persistent phenomenon [that forces] people to live regularly and ceaselessly in a state of undernourishment, disease and weakness.”<sup>21</sup> Yet despite perennial hardship punctuated by natural or human-caused catastrophe, by the mid 1970s Bangladesh supported a rapidly increasing population of approximately 80 million. With a land area smaller than that of Florida, Bangladesh was the most densely populated nation on Earth and one of its poorest.

It was to this desperately crowded and impoverished place that Muhammad Yunus, fresh from an academic appointment in Tennessee, returned in 1975.

## MUHAMMAD YUNUS

Muhammad Yunus was born into a devoutly Muslim family in 1940 near the port city of Chittagong, in the province of Bengal in what was then British India. His father’s family owned farmland outside Chittagong, while his mother’s family were merchants and traders. Rather than supervise the family farm, Yunus’s father opened a jewelry store, which grew into a successful jewelry-manufacturing shop. Muhammad Yunus enjoyed a comfortable upbringing and cosmopolitan education, attending secondary school with the sons of government officials. After earning an undergraduate degree in economics at Chittagong University, he taught at a college there for four years, meanwhile starting up a successful packaging and printing plant that grew to have 100 employees and turn a tidy profit.

Accepting a Fulbright Scholarship in 1965, Yunus spent a summer on the campus of the University of Colorado in Boulder, where he was unsettled by the faculty and students’ informal manners. He later recalled:

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<sup>18</sup> Rahman, Mujibur, *Bangladesh Observer*, September 23, 1974. Quoted in Martin Ravallion, “The Performance of Rice Markets in Bangladesh During the 1974 Famine.” *Economic Journal*, 95 (March 1985), p. 15.

<sup>19</sup> Sen, Amartya, “Public Action to Remedy Hunger.” London, UK: The Arturo Tanco Memorial Lecture, August 2, 1990. Retrieved from <http://www.thp.org/reports/sen/sen890.htm>.

<sup>20</sup> Asiatic Society of Bangladesh, op. cit.

<sup>21</sup> Sen, op. cit.

The campus was alive with rock music. Girls would sit on the lawn with their shoes off, sunning themselves and laughing. I was so nervous, I tried not even to look at them. But I still loved to sit in the Student Center, watching the students come and go, chatting, flirting, eating, wearing their crazy clothes. The youth of the United States looked so strong and healthy and full of vitality.<sup>22</sup>

In the fall Yunus enrolled the graduate program in economic development at Vanderbilt University, where he recovered from his shock enough to court and eventually marry an American who was doing graduate work in Russian literature. In 1970 Yunus accepted a position teaching economics at Middle Tennessee State University, in Murfreesboro, 35 miles southeast of Nashville. When civil war broke out in East Pakistan, he helped form the Bangladesh Citizens' Committee, which sought public support in America for the cause of Bangladesh and raise funds for the struggle. When Bangladesh won its independence from Pakistan in late 1971, Yunus felt obliged to return to his homeland to help his country recover from the devastation of war.

After a brief and frustrating stint on the government's Planning Commission, Yunus accepted an appointment as the head of the economics department at Chittagong University. It was there that he first garnered the attention of the Ford Foundation's new Bangladesh field office.

### **Early Ford Foundation Support of Yunus**

A graduate of Princeton University with a master's from Johns Hopkins in public health administration and an M.D. from Harvard, Dr. Lincoln Chen had been performing cholera research for the U.S. National Institutes of Health and was involved in cyclone relief in East Pakistan when the 1971 war caused him to be evacuated from the country. After the war ended, the Ford Foundation established a small Bangladesh field office with an independent budget under the leadership of George Zeidenstein, a former country director of the Peace Corps in Nepal.

In July 1973, Chen returned to Bangladesh and, along with Zeidenstein and a young economist named Stephen Biggs, formed the Ford Foundation office in Dhaka. Chen knew Yunus slightly from his graduate work at Vanderbilt, and several months after Chen arrived in Dhaka, Yunus invited him to Chittagong for a visit.

Chen recalled of the visit, "Yunus was interested in creating ways for the university to reach out to the poor. He wanted to take university-owned land that was being used to grow grass and use the land for agriculture. He was very concerned about how poor people became caught in the usurious credit squeeze. I thought he had good ideas and that Ford should finance him."<sup>23</sup>

When Chen returned to Dhaka, he handed the Yunus portfolio over to his colleagues. Zeidenstein believed Yunus's work was worthy of support, and Ford awarded Yunus a grant of \$12,000 to support field research in the Bangladeshi countryside. The money enabled him and his assistants to spend time among the villagers of Jobra and learn how they lived and worked.

In a speech before the Commonwealth Secretariat in 2003, Yunus recalled his motivation for conducting research into the lives of the very poor:

I became involved in the poverty issue not as a policymaker or a researcher. I became involved because poverty was all around me. I could not turn my eyes away from it. In

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<sup>22</sup> Yunus, *op. cit.*, p. 17.

<sup>23</sup> Interview with Dr. Lincoln Chen, September 2006.

1974, I found it difficult to teach elegant theories of economics in the classroom in the backdrop of a terrible famine in Bangladesh. Suddenly I felt the emptiness of those theories in the face of crushing hunger and poverty.<sup>24</sup>

Yunus initially believed the effects of famine could be mitigated by increasing Bangladesh's crop yield. (It would be several years before Amartya Sen would argue that the famine was caused primarily by the poor's lack of money and not by a general shortage of food.) Yunus had noticed that a tract of land outside Jobra was farmed during the rainy summer but lay fallow during the dry winter, despite the presence of a tube well. In the winter of 1975, he organized an agricultural winter cooperative through which landowners contributed land; sharecroppers contributed labor; and he contributed money for fertilizer, seeds, and other expenses. The partners—landowners, sharecroppers, and Yunus—agreed to split the profits evenly. The cooperative was a success.

While working on the cooperative project, Yunus observed the terrible conditions under which day laborers hired to separate the grain from the straw worked. Yunus later recalled his thoughts upon first seeing this task performed:

This mindless, boring work was offered to the cheapest day laborers: destitute women who would otherwise be reduced to begging. For hours on end these poor women would separate the rice with their feet, holding themselves upright by gripping the tiny ledges on the wall in front of them. . . . What a terrible life—to earn forty cents investing the weight of your body and the tiresome motion of your bare feet for ten hours a day! These women, many of them widowed, divorced, or abandoned with children to feed, were too poor even to be sharecroppers. They were landless and assetless and without any hope. They were the poorest of the poor. . . .

The more I studied Jobra's poverty, the more I realized how important it was to differentiate between the really poor and the marginal farmers. . . .<sup>25</sup>

With that distinction in mind, Yunus set about searching for ways to alleviate the suffering of the "really poor."

### **The Villagers of Jobra**

In 1976, when Yunus met Sufiya Begum and heard her story, he realized immediately that what she and others like her could use more than anything else was capital. They needed a source of credit that would charge a less usurious rate than that of the village moneylender. Yunus decided that he would create such a source. He and his assistants returned to Jobra village and prepared a list of 42 individuals who had expressed a desire to take out very small loans. Back at the university, Yunus and his assistants added up the loan requests. The 42 loans totaled only 27 dollars. Yunus pulled the cash from his pocket and told one of his assistants to distribute the money; no interest would be charged, and the villagers could pay back the money when they were able.

Yunus's economic training had not prepared him to deal with the problems of people whose lives could be transformed by the loan of less than a dollar. Still, his training did help him recognize a deep flaw in the lending market. After only a few days' effort, in a single village, he

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<sup>24</sup> Yunus, Muhammad, "Halving Poverty by 2015: We Can Actually Make It Happen." Commonwealth Lecture 2003, London, March 11, 2003. Retrieved from [http://www.thecommonwealth.org/document/34293/35178/152062/37474/commonwealth\\_lecture\\_2003.htm](http://www.thecommonwealth.org/document/34293/35178/152062/37474/commonwealth_lecture_2003.htm).

<sup>25</sup> Yunus, *Banker to the Poor*, op. cit., p. 40.

had located 42 individuals who were interested in borrowing small amounts of money. Who knew how large the untapped market for microloans might be?

Having made his first loan out-of-pocket, Yunus went to the local branch of the Janata Bank, a government-run institution, to arrange a small-scale lending program for the poor villagers of Jobra. To his frustration, the branch loan officer turned him down, citing the low amounts of the prospective loans. The loan officer explained that, even if every loan were repaid in full, administrative costs would cause the bank to lose money. The loan officer further cited as impediments the villagers' inability to sign documents (most villagers were illiterate) and their lack of collateral. Yunus argued that, since the villagers' scant income depended on their paying back loans, their very lives served as collateral. The branch loan officer would have none of it. Yunus appealed to the bank's regional office, which referred him to the head office in Dhaka. After six months' negotiations, the Janata Bank approved a lending program on condition that Yunus administer it, and that he personally sign for and guarantee each loan. The first microcredit program was born.

### YUNUS AND MICROCREDIT—EARLY YEARS

"I did not know anything about how to run a bank for the poor, so I had to learn from scratch,"<sup>26</sup> Yunus recalled in his 1998 memoir, *Banker to the Poor*. In its earliest years, Yunus's lending program formulated the following policies:

- Loans must be used to generate income.
- To reduce the impact of loan payments, they would be made daily and in very small amounts.
- To simplify accounting, all loans were arranged to be fully repaid after one year.
- To foster peer pressure and support, each borrower must belong to a group of usually five fellow borrowers in similar economic and social circumstances.
- Borrowers must undergo seven days of training in bank procedures and pass an oral examination.
- Groups were held jointly responsible for the payments of all members.

Group pressure, as well as the rigorous training program, ensured that only those villagers who were serious about repaying money applied to the bank. Yunus described the reaction of a typical borrower to a loan's approval:

When she finally receives the twenty-five dollars, she is trembling. The money burns her fingers. Tears roll down her face. She has never seen so much money in her life. . . .

. . . . All her life she has been told that she is no good, that she brings only misery to her family, and that they cannot afford to pay her dowry. . . . To her family she has been nothing but another mouth to feed, another dowry to pay. But today, for the first time in her life, an institution has trusted her with a great sum of money. She promises that she will never let down the institution or herself. She will struggle to make sure that every penny is paid back.<sup>27</sup>

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<sup>26</sup> Yunus, op. cit., p. 61.

<sup>27</sup> Yunus, op. cit., pp. 64-65.

Indeed, nearly every penny was paid back. Historically, the repayment rate on microloans has been greater than 98 percent,<sup>28</sup> far higher than that on conventional loans.

The established Bangladeshi banking system was run by men and for men; prior to the founding of Yunus's lending program, women made up less than one percent of all borrowers.<sup>29</sup> Having lived in the United States and witnessed firsthand the relative freedom of American women, Yunus supported on general principle the social empowerment of women. Thus from the outset he made a conscious effort to ensure that women enjoyed access to microlending programs. Soon he discovered a second reason for encouraging women to take out loans: women were a more efficient engine of social change than were men. He wrote:

Women experience hunger and poverty more intensely than men. If one of the family members has to starve, it is an unwritten law that it will be the mother. . . . Though they cannot read or write and have rarely been allowed to step out of their homes alone, poor women see further and are willing to work harder to lift themselves and their families out of poverty. . . . When a destitute mother starts earning an income, her dreams of success invariably center around her children. Her second priority is the household. . . . When a destitute father earns extra income, he focuses more attention on himself. Thus money entering a household through a woman brings more benefits to the family as a whole.<sup>30</sup>

Yunus's efforts to include women proved successful, as the percentage of loans to women increased steadily over time, from 24 percent of cumulative loans in 1978 to 46 percent in 1983 to 94 percent in 1992 to 96 percent in 2005. (See Exhibit A for statistics regarding the growth of the Grameen Bank.)

Having used his first Ford grant to underwrite research in the countryside, in 1977 Yunus asked the Foundation for further support. Among the Ford officers in Bangladesh at that time was William P. "Bill" Fuller. Fuller had been with Ford since 1971, first in the Thailand office and then in Bangladesh. At a Global Philanthropy Forum conference at Stanford University in 2003 at which Yunus and Fuller discussed the origins and early days of Grameen, Fuller recalled:

[Yunus] inquired about the possibility of testing the notion of making small loans, to landless borrowers to see if they would become good, responsible borrowers; and at the same time, testing [further] the idea that women could be credit supervisors in male dominated Bangladesh. That idea was very different from the original rural studies program at Chittagong University. . . . [T]here was something that was absolutely inspiring about Yunus and, also, he gave us great confidence.

As you know in philanthropy you bet on leaders. And sometimes, you bet more on people than you do on institutions.<sup>31</sup>

Another grant for \$12,000 was approved, and Yunus's microcredit program moved forward. As Yunus refined his methods over the course of the first year, some of the original policies were revised and some new ones were instituted:

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<sup>28</sup> Yunus, *op. cit.*, p. 58.

<sup>29</sup> Yunus, *op. cit.*, p. 71.

<sup>30</sup> Yunus, *op. cit.*, p. 72.

<sup>31</sup> Global Philanthropy Forum, *Conference on Borderless Giving*. Transcript of sessions from the 2<sup>nd</sup> annual Conference on Borderless Giving, Stanford University, June 5-6, 2003, p. 51. Retrieved from [http://www.philanthropyforum.org/conference/2003/GPF\\_2003\\_Transcription.pdf](http://www.philanthropyforum.org/conference/2003/GPF_2003_Transcription.pdf)

- Weekly payments replaced daily payments.
- A standard yearly interest rate of 20 percent was established.
- As a hedge against the periodic disasters that afflicted Bangladeshi society, groups were required to set aside five percent of loans as a reserve fund, from which members could borrow interest-free during hard times.
- To further foster peer pressure and support, groups were encouraged to form “centers” of up to eight groups.
- To reduce mismanagement and prevent corruption, microcredit centers were required to hold weekly open meetings that all borrowers could attend.

Yunus chose to set a relatively high interest rate in order to offset administrative costs. One thing the Janata Bank loan officer had been correct about was that banks would inevitably lose money lending out very small amounts at standard interest rates. Even with its lean operation staffed by dedicated student volunteers, Yunus’s microcredit program had expenses, and because the amounts of individual loans were so low, those expenses represented a considerable percentage of the value of each loan amount. Had Yunus charged a lower interest rate, the program would have operated on a loss and been forced to seek outside subsidies. Yunus believed that reliance on subsidies would, in the long run, inhibit the growth of microcredit. He envisioned a permanent, self-sustaining institution that would serve ever greater numbers of the poor. In order to achieve that vision, he accepted the necessity of charging relatively high interest on loans. The 20 percent annual figure was still many times lower than that offered by village moneylenders.

Of Ford’s additional \$12,000 grant to Yunus, which departed from the original rural economics program and focused on supporting field research related to the microlending program, Fuller mused:

Two philanthropy lessons from this experience: First, the obvious lesson that a small grant at the right time with the right person can, in fact, make a difference. But second, in the philanthropy business, never be trapped or blinded by your own goals or objectives, by your letters of agreement, or by the original benchmarks of program success that you set up. These are simply guideposts. Always keep an eye out for the unexpected, which can be a terrific source of creativity and opportunity.<sup>32</sup>

Ford program officer Stephen Biggs, who worked in the Bangladesh office for three years from 1974 to 1976, recalled:

I was half time a programme officer and half time a programme specialist. This distinction was important as I and my colleague Lincoln Chen were expected by the representative, George Zeidenstein, to act not only as programme officers responsible for a grant portfolio, but also as academic professionals in our own areas of expertise. . . .

For me the most important support the [Ford Foundation] gave to Yunus and many others was moral support for the work they were doing. Yes, the FF was able to make grants and this was important. However, it was our recognition of the deep commitment and perseverance of Yunus and others to shaping the social changes taking place that was important. . . .

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<sup>32</sup> Global Philanthropy Forum, op. cit., p. 51.

. . . [George Zeidenstein] created a culture of support for Bangladeshis who were being institutionally innovative in addressing poverty and gender issues. Lincoln Chen and I were expected to be professional in our academic fields, as well as programme officers. Consequently my discussions with Yunus were as much on a professional basis as on a grant making basis. . . .

Perhaps another reason for the FF office always being supportive was because of Yunus' concerns for the problems faced by poor rural women. This was an area where the FF Dhaka office in the early 1970s had introduced a strong policy to support the work of Bangladeshis who were active in addressing gender issues. At the time few other donors and NGOs were concerned with gender issues in such a pro active way. . . .

At the time I did not realise what a privilege it was to work with Yunus, Abed, LR Khan, Khalid Shams, Sattar Mandel, Syeduzzam, Sufi M. Ahmed, Shareen Haque and Mrs. Abdullah, Rahman Sobhan and many other innovative Bangladeshis. Nor how lucky I was to have George Zeidenstein as the FF representative.<sup>33</sup>

In 1977 the Bangladesh Krishi Bank (BKB), acknowledging the success of the Janata Bank's pilot microcredit program, agreed to lend Yunus a million taka (about \$70,000<sup>34</sup>) to expand his lending operation. As a condition of the loan, Yunus agreed to make the program legally a branch of BKB. He no longer had to sign for each loan (as he had had to do under the Janata program), and three of his students found employment as microloan officers.

Two years later Yunus took a leave of absence from Chittagong University in order to devote himself full-time to promoting microcredit. The program quickly grew to operate two dozen branches lending money to start up thousands of entrepreneurs (see Exhibit A), from perfume makers to weavers to rope makers to street food vendors.

In 1981 Yunus approached the government's Central Bank for a loan to further expand the microcredit program. The Central Bank assessed the program and concluded, to Yunus's surprise and indignation, that its effectiveness was due mainly to the dedication of Yunus and his staff. The Central Bank pointed out that all of the program's 24 branches were located in the vicinity of Chittagong, and all were known personally to Yunus. Loan repayment rates were so high, the Central Bank assessors believed, because borrowers respected Yunus and did not want to disappoint him. The assessors did not believe that the microcredit model could be scaled up nationally, with branches completely independent of Yunus's influence.

To prove that the Central Bank's skepticism was unwarranted, Yunus drew up a five-year expansion plan that included numerous new branches scattered all over the country such that he could not possibly be involved with each one. He told the Central Bank assessors that he would raise the money for expansion himself.

## **THE GRAMEEN BANK AND A FORD FOUNDATION PRI**

Reflecting the program areas established in the 1949 "Report of the Study for the Ford Foundation on Policy and Program," as well as the strategic approaches outlined by Magat in his 1979 study, the Foundation's grantmaking activities in Bangladesh in the late 1970s and early 1980s were divided among the following categories:

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<sup>33</sup> Biggs, Stephen, personal correspondence, January 5, 2007.

<sup>34</sup> Dollar amount calculated using information available at "International Economics: Historical Exchange Rate Regime of Asian Countries," Chinese University of Hong Kong, 2000. Retrieved from [http://intl.econ.cuhk.edu.hk/exchange\\_rate\\_regime/index.php?cid=29](http://intl.econ.cuhk.edu.hk/exchange_rate_regime/index.php?cid=29)

Agriculture and rural development  
Development planning and management  
Education and research  
International relations and world problems  
Population studies, reproductive sciences, and health problems

Ford's *Annual Report 1980* summarized some of the activities the Foundation supported in Bangladesh during the period of the late 1970s:

The Foundation . . . aided water resource development projects in Bangladesh. . . . With continual sunshine and the absence of floods and storms, the six-month dry season in Bangladesh could be the most productive time of the year. Some 3 million acres of cropland are now irrigated, and estimates indicate that the number could be increased to between 10 and 15 million. This year the Foundation set aside \$245,000 to support Bangladeshi research, training, and policy formation for improved agricultural water use.<sup>35</sup>

In 1981 the Foundation's grantmaking activities were much the same as in the previous year. (See Exhibit B for Ford's grant projects in Bangladesh and their funding amounts for 1981). But in addition to its conventional grantmaking, in 1981 the Foundation made strategic use of another tool at its disposal—the Program-Related Investment. Fuller recalled:

During the stage when Yunus was trying to rope in the state commercial banks to support the Grameen program, we actually scratched our heads at Ford and wondered whether the state commercial banks could be induced to participate in the program. So we proposed a loan guarantee so losses could be split with the commercial bank up to a certain level and over a specific period of time. And, in fact, Ford eventually agreed to do that. . . . By leveraging the banking system at that time, we were able to get many more resources into the system than we would have been able to do as a regular donor organization.<sup>36</sup>

The \$616,000 Ford extended to Yunus was structured as a PRI “recoverable grant” (i.e., loan) with a life of three and half years. Under the terms of the grant, Yunus enjoyed declining access to the funds over time, with any monies not needed to cover defaulted loans returned to Ford at the end of the loan's term. In late 1981 Yunus deposited the money from Ford in a London bank, where it could be drawn upon if needed.

With the Ford Foundation having demonstrated faith that it would not lose money by investing in microcredit, Yunus successfully approached other entities for support. The International Fund for Agricultural Development (IFAD), a United Nations agency based in Rome, agreed to lend Yunus \$3.4 million. With Ford and IFAD behind him, Yunus was able to persuade the Bangladesh Central Bank, despite its misgivings, to support expansion of microcredit in the amount of a loan matching IFAD's \$3.4 million.<sup>37</sup>

In Yunus's microlending program Ford saw a chance to strengthen a financial institution that had reached a critical stage in its growth. When commercial banks and other NGOs hesitated, Ford stepped forward. A conventional grant would have been less likely to spur other entities—NGOs and banks—to invest in a microcredit program. Like Sufiya Begum,

<sup>35</sup> Ford Foundation, *Ford Foundation Annual Report 1980*. New York: Ford Foundation, 1980, p. 21. Retrieved from <http://www.fordfound.org/elibrary/documents/1980/normal/low/1980norm-low.pdf>.

<sup>36</sup> Global Philanthropy Forum, op. cit., p. 53.

<sup>37</sup> Yunus, op. cit., p. 113.

Muhammad Yunus needed a loan more than he needed a gift. The Ford Foundation had an ideal means in place—its portfolio of Program-Related Investments—through which to make the loan.

In his address before the Commonwealth Secretariat, Yunus outlined the tremendous growth in microcredit institutions fueled by the economic potential of the very poor. He followed by saying, “Now, the obvious question that anybody will ask: if poor people can achieve all this through their own efforts within a market environment, why isn’t the world doing more of this?”<sup>38</sup> He then put his finger on the market failure that had hindered his efforts in 1981:

. . . [T]he biggest problem for expanding [microcredit’s] outreach is not the lack of capacity, but strangely, the lack of availability of donor money to help microcredit programmes get through the initial years until they reach the break-even level. Beyond that level, these programmes can expand their outreach with loans from the market or from the deposits.<sup>39</sup>

Ford’s PRI “recoverable grant” was instrumental in helping Yunus’s microlending program through those critical early years.

### **Expansion and Independence**

With the infusion of funds in 1981 from Ford, IFAD, and the Bangladesh Central Bank, Yunus was able to expand his program’s operations, from 24 branches in 1981 to 152 branches in 1984. Annual loan disbursement increased from 33.53 million taka (about \$1.7 million) in 1981 to 304.36 million taka (about \$11.7 million<sup>40</sup>) in 1984. (See Exhibit A.)

Microcredit in Bangladesh was growing into a significant economic and cultural force, working not only to improve the economic situation of the poor but to address broader social problems as well, especially those encountered by women and children. Starting in 1980, the program held biannual workshops, where center leaders would gather to discuss challenges and achievements. Successive “decision” resolutions, constituting a sort of evolving microlending credo, were adopted at national conferences, culminating in the “Sixteen Decisions” document resolved upon in 1984. The “Sixteen Decisions,” commonly recited by Bangladeshi microborrowers, serve as reminders of the movement’s ideals and promote social as well as economic changes. (See Exhibit C.)

The Ford Foundation’s PRI grant from 1981 lay untouched in London for three and a half years. At the end of that time, Yunus successfully repaid Ford the full \$616,000.

Though Yunus’s microcredit program was expanding and taking on a broader cultural role, it nevertheless faced uncertainty. Under the terms of the 1981 Bangladesh Central Bank loan, the government had come into ownership of a majority of the program’s stock. Though the program operated with a high degree of autonomy, it was vulnerable to bureaucratic meddling, and Yunus believed that the future of microcredit depended on the program’s gaining its independence. For several years he engaged in a series of legal and bureaucratic maneuvers in an effort to secure the program’s independence. In 1983, under a new law passed expressly for the purpose, Yunus’s lending program was reclassified as an independent bank. The new institution was named the Grameen Bank, *grameen* being the Bengal word for “rural.”

The Central Bank owned a majority of Grameen stock until 1985, when Yunus succeeded in having 75 percent of Grameen shares assigned to the borrowers, with the government

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<sup>38</sup> Yunus, “Halving Poverty,” op. cit.

<sup>39</sup> Yunus, op. cit.

<sup>40</sup> Dollar amount calculated using information available at “International Economics: Historical Exchange Rate Regime of Asian Countries,” op. cit.

retaining the remainder.<sup>41</sup> Yet the Grameen Bank was still not in the clear. Yunus himself, as managing director, remained technically a government appointee and subject to replacement; he feared that a hostile government might someday appoint as head of the Bank a person who would dismantle it. This precarious state of affairs persisted till the next year, when the Bank's governing structure was reorganized; henceforth the managing director was elected by the board of directors rather than appointed by the government.<sup>42</sup> The Bank's board of directors, for its part, was hardly typical of the ruling bodies of financial institutions. As Yunus put it in his memoir, "[N]ine of the thirteen members of our board of directors, representatives of the borrowers, are usually illiterate."<sup>43</sup> Yunus believed the borrowers on the board could be relied upon to be true to the Bank's mission and continue to advance the interests of the poor.

### **Ford's Continuing Support**

As the Grameen Bank grew, the Ford Foundation continued to provide support in the form of both conventional grants and PRIs. In 1984 the Foundation awarded Grameen \$433,650,<sup>44</sup> describing the use of the money as follows:

In Bangladesh, the Foundation provided additional funds to the Grameen Bank for a project that has made some 64,000 unsecured loans to landless individuals and groups for small-scale manufacturing, commercial, and agricultural activities. The bank is now expanding the project to several more districts of the country. The grant will enable the bank to experiment with loans to group-owned enterprises with high earning potential, such as ice factories, tree nurseries, and rice mills.<sup>45</sup>

The next year the Foundation awarded Grameen \$563,000.<sup>46</sup>

Meanwhile, additional changes were occurring in the way Grameen did business. Millions of Bangladeshi craftspeople worked in the home; because of religious and cultural norms that discouraged women from being seen in public, they were especially likely to work out of their houses. Many Bangladeshis were so poor that they literally had no roof over their heads, and the summer rains caused not only physical misery but a plunge in income-generating activity. Recognizing that improving the housing stock of the poor would also increase their ability to earn a living, Grameen in 1985 introduced a housing-loan program. (The loans were initially classified as "factory loans" in order to circumvent banking regulations that prohibited Grameen from offering home loans.) In the ensuing years, hundreds of thousands of Bangladeshis improved their lives through Grameen housing loans.

In 1988 Ford awarded Grameen a conventional grant as well as a PRI "revolving fund for large-scale enterprises" worth \$1.5 million.<sup>47</sup> Ford's 1988 "Annual Report" summarized the Foundation's ongoing support of the Bank:

The Grameen Bank now operates 500 branches and has some 475,000 members, 84 percent of whom are women. The Foundation, which has collaborated with other donors

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<sup>41</sup> Yunus, *Banker to the Poor*, op. cit., p. 124.

<sup>42</sup> Yunus, op. cit., p. 125.

<sup>43</sup> Yunus, op. cit., p. 127.

<sup>44</sup> Ford Foundation, "Ford Foundation Annual Report 1984." New York: Ford Foundation, 1984, p. 26. Retrieved from <http://www.fordfound.org/elibrary/documents/1984/normal/low/1984norm-low.pdf>.

<sup>45</sup> Ford Foundation, "Annual Report 1984," op. cit., p. 29.

<sup>46</sup> Ford Foundation, "Ford Foundation Annual Report 1985." New York: Ford Foundation, 1985, p. 27. Retrieved from <http://www.fordfound.org/elibrary/documents/1985/suppress/low/1985supp-low.pdf>.

<sup>47</sup> Ford Foundation, "Ford Foundation Annual Report 1988." New York: Ford Foundation, 1988, p. 155. Retrieved from <http://www.fordfound.org/elibrary/documents/1988/suppress/low/1988supp-low.pdf>.

in supporting the experiment, this year provided the bank with grants and loans totaling \$2.25 million to expand the range of income-generating activities poor people can pursue. The Funds will help groups of borrowers experiment with improved technologies and larger-scale ventures—for example, fisheries and silk production.<sup>48</sup>

In 1987, Yunus helped launch a Grameen replication program in Malaysia. Two years later, with the establishment of a replication program in the Philippines, he founded the Grameen Trust, which provides financial and technical assistance to Grameen replication projects worldwide, organizes workshops and other training programs, conducts monitoring and evaluation of projects, produces manuals and other training materials, and engages in other activities. Funded in major part by the MacArthur Foundation, the Grameen Trust helped to establish replication programs first in India, Nepal, and Vietnam; programs in China, Latin America, and Africa soon followed.<sup>49</sup>

In 1989, Ford summarized its funding of Grameen: “A \$300,000 grant this year for monitoring and evaluation brought the Foundation’s total support for the bank to some \$4 million. About half that amount were PRI loans.”<sup>50</sup> A 1992 grant of \$400,000<sup>51</sup> represented Ford’s final investment in the Grameen Bank.

## MICROFINANCE IN THE 1990S AND BEYOND

In the decades since Muhammad Yunus dipped into his pocket to lend \$27 to 42 families, the idea of extending credit to the very poor has gone global. Financial service to the poor has diversified to include, in addition to personal and housing loans, savings accounts, insurance, money transfer services, and other financial products; that is, microfinance. In 1997, the international poverty-fighting nonprofit RESULTS Educational Fund (REF) convened the Global Microcredit Summit, launching a nine-year campaign to extend microcredit to 100 million clients worldwide. At the end of the seventh year of the campaign, 3,164 microcredit institutions reported servicing active accounts with 92 million clients, of whom 66 million were considered to be among the world’s very poorest.<sup>52</sup> (See Exhibit D.) Women made up 84% of the poorest clients.<sup>53</sup> Those numbers do not include clients who have successfully graduated from microcredit programs, clients in government programs in China and Thailand, and clients serviced by institutions that failed to report.<sup>54</sup>

A 2002 assessment of the microfinance movement, tellingly entitled “Innovations From the Field: A Daringly Brief Summary of a Huge Phenomenon,” attempted to communicate how far the microfinance movement had come:

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<sup>48</sup> Ford Foundation, “Annual Report 1988,” op. cit., pp. 46-47.

<sup>49</sup> Yunus, op. cit., pp. 155-161.

<sup>50</sup> Ford Foundation, “Ford Foundation Annual Report 1989.” New York: Ford Foundation, 1989, p. 46. Retrieved from <http://www.fordfound.org/elibrary/documents/1989/suppress/low/1989supp-low.pdf>.

<sup>51</sup> Ford Foundation, “Ford Foundation Annual Report 1992.” New York: Ford Foundation, 1992, p. 27. Retrieved from <http://www.fordfound.org/elibrary/documents/1992/suppress/low/1992supp-low.pdf>.

<sup>52</sup> Annan, Kofi, “Introduction.” In Sam Daley-Harris, *State of the Microcredit Summit Campaign Report 2005*. Washington, DC: Microcredit Summit Campaign, 2005, p. 1. Retrieved from <http://www.microcreditsummit.org/pubs/reports/socr/2005/SOCR05.pdf>.

<sup>53</sup> Daley-Harris, Sam, *State of the Microcredit Summit Campaign Report 2005*. Washington, DC: Microcredit Summit Campaign, 2005, p. 25. Retrieved from <http://www.microcreditsummit.org/pubs/reports/socr/2005/SOCR05.pdf>.

<sup>54</sup> Daley-Harris, op. cit., p. 28.

To an increasing degree the rapidly swelling numbers of microfinance institutions (MFIs) are not merely the result of tiny new nonprofit start-ups created to serve the poor. Rather, many of the newest or at least largest entrants are existing institutions (mainly banks) that are restructuring themselves to seek new clients among low-income segments of the financial services markets which, until now, were previously seen as un-bankable and credit-ineligible. . . .

. . . Many innovations are also occurring outside the financial services area as MFIs create “strategic alliances” with NGOs or companies offering to channel complimentary client services such as business skills, health care, nutrition, water and sanitation, housing, schooling, human rights, literacy, and many others. At the same time, equally important innovations are occurring in the administration, financing, governance, evaluation, and legal status of the practitioner institutions themselves. Even the traditional profile of clients served is changing, as some MFIs no longer merely seek to serve the poor or the poorest families (as defined by an income or asset criterion) but the most vulnerable or marginal groups within this broad population—such as street children, young adults, families with chronic disease, seniors, refugees, victims of natural disaster or terrorism, pastoral populations, landless rural laborers, outcastes, and tribal groups.<sup>55</sup>

Microfinance is now the topic of scholarly journals and numerous regularly held as well as special international conferences.

### **Benefits and Shortcomings of Microfinance**

Promoters of microfinance tout its ability to reduce poverty, and empirical evidence is beginning to come in that supports that view. A 2005 study examining data gathered from Bangladesh over a 14-year period concluded that microcredit programs accounted for 40 percent of the total reduction in the nation’s moderate rural poverty.<sup>56</sup>

Poverty reduction produces better nutrition and improved health, especially for women and children. Indeed, the United Nations Development Programme’s “Human Development Report 2005” associates Bangladesh’s active microfinance sector with observed improvements in women’s lives:

Improved access to health and education for women, allied with expanded opportunities for employment and access to microcredit, has expanded choice and empowered women. While disparities still exist, women have become increasingly powerful catalysts for development, demanding greater control over fertility and birth spacing, education for their daughters, and access to services.<sup>57</sup>

Microfinanciers also maintain that their programs reduce vulnerability to the outside shocks—wars, natural disasters—that can overwhelm society’s poorest members. Microcredit can act as insurance against the “transient but violent events”<sup>58</sup> that Amartya Sen has contrasted with endemic deprivation.

<sup>55</sup> Hatch, John K., with Sara R. Levine and Amanda Penn, “Innovations From the Field: A Daringly Brief Summary of a Huge Phenomenon.” Microcredit Summit Campaign, 2002, pp. 1-2. Retrieved from <http://www.microcreditsummit.org/papers/+5hatch.pdf>.

<sup>56</sup> Khandker, Shahidur R., “Microfinance and Poverty: Evidence Using Panel Data from Bangladesh.” *World Bank Economic Review*, 19 (No. 2, 2005), pp. 263-286. Cited in Daley-Harris, op. cit., pp. 12-13.

<sup>57</sup> Watkins, Kevin, “Human Development Report 2005.” New York: United Nations Development Programme, p. 46. Cited in Daley-Harris, op. cit., pp. 13-14.

<sup>58</sup> Sen, op. cit.

Moreover, “microclusters”—groups of microbusinesses located near to one another and engaged in similar activities—can serve to overcome the problems of size and isolation that sometimes hinder individual microenterprises. Constituent members benefit from microclustering through bulk purchasing and order fulfillment; the sharing or division of labor; subcontracting; and the sharing of information and technology.<sup>59</sup>

Critics of microfinance have expressed doubt about the endurance of its poverty reduction effects. They point out that some borrowers, especially those with seasonal or undependable incomes, have difficulties in paying back loans, resulting in reduced consumption. Critics have also observed that, as microfinance institutions grow, they tend to invest less in the poorest of the poor, exacerbating differences between the destitute and the struggling. Furthermore, the success of a few microbusinesses in a locale can spur other borrowers to enter the same field, leading to overcompetition that ultimately harms everyone. Critics have also alleged that some borrowers become trapped in a microcredit dependency cycle that resembles those of traditional informal lending arrangements such as sharecropping, debt bondage, and recourse to the village moneylender. As for microclusters, critics have observed that such compacts have trouble growing beyond a certain point; they can become inward looking and inflexible, their inability to adapt to changing circumstances leading to stagnation and collapse. Microclusters that do succeed can attract labor gluts that cause falling wages, harming the very people microfinance means to benefit. Finally, critics have charged that poorly designed microfinance programs—those aimed at creating quick fixes for whole classes of the poor (e.g., victims of natural disasters, refugees from civil strife, the newly unemployed)—tend to fail.<sup>60</sup>

### **Microfinance and the “Social-Consciousness-Driven Sector”**

In his memoir, Muhammad Yunus acknowledged the limits of microfinance: “Micro-credit is not a miracle cure that eliminates poverty in one fell swoop. But it can end poverty for many and reduce its severity for others.”<sup>61</sup> He reflected on the place of microfinance in the larger economic and social systems in which it operates:

As I thought more about what we had accomplished at the Grameen Bank, I wanted to convey to other economists and policy makers that our success was not an aberration, but rather a specific example of a new kind of enterprise—an enterprise driven by an attitude that I label “social consciousness.”<sup>62</sup>

Yunus continued: “. . . I do believe in the power of the global free-market economy and in using capitalist tools. I believe in the power of the free market and the power of capital in the marketplace.”<sup>63</sup> Elaborating on his faith in the free market, he explained:

I would like to see all barriers and protections around world markets disappear. Protectionism is built up in each nation in the name of the poor, but its real beneficiaries are the rich and clever people who know how to manipulate the system. On the contrary, the poor have a better chance in a bigger market than in a small, protected market.<sup>64</sup>

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<sup>59</sup> Meade, Jason, “An Examination of the Microcredit Movement,” 15 January 2001. Retrieved from <http://www.geocities.com/jasonmeade3000/Microcredit.html>.

<sup>60</sup> Meade, op. cit.

<sup>61</sup> Yunus, op. cit., p. 171.

<sup>62</sup> Yunus, op. cit., p. 202.

<sup>63</sup> Yunus, op. cit., p. 205.

<sup>64</sup> Yunus, op. cit., p. 239.

Alongside faith in markets, Yunus expressed skepticism in the benevolence of social safety nets:

I also believe that providing unemployment benefits is not the best way to address poverty. The able-bodied poor don't want or need charity. The dole only increases their misery, robs them of incentive and, more importantly, of self-respect.

Poverty is not created by the poor. It is created by the structures of society and the policies pursued by society. Change the structures as we are doing in Bangladesh, and you will see that the poor change their own lives.<sup>65</sup>

Not wanting to be understood as a “capitalist in the simplistic left/right sense,”<sup>66</sup> he advanced two proposals for reform:

I am proposing two changes to . . . capitalism. The first change relates to [the] overblown image of a capitalist entrepreneur. To me, an entrepreneur is not an especially gifted person. I rather take the reverse view. I believe that all human beings are potential entrepreneurs. . . .

If all of us started to view every single human being, even the barefooted one begging in the street, as a potential entrepreneur, then we could build an economic system that would allow each man or woman to explore his or her economic potential. . . .

The second change relates to how an entrepreneur makes investment decisions. Economic theory depicts the entrepreneur as only a profit maximizer. Indeed, in some countries, like the United States, corporate law requires the maximization of profits. . . . As a result, the social dimension in the thinking of the entrepreneur has been completely bypassed. . . .

. . . I propose that we replace the narrow profit-maximization principle with a generalized principle—an entrepreneur maximizes a bundle consisting of two components: (a) profit and (b) social returns, subject to the condition that profit cannot be negative. (Actually, neither of these components should be negative. . . .)<sup>67</sup>

Finally, he proposed an economic schema that would include an entirely new sector:

Grameen is against the existing institutional framework. It opposes an economy grounded solely on greed-based enterprises. It wants to create social-consciousness-driven enterprises to compete with greed-based enterprises.

Grameen does not believe in laissez-faire. Grameen believes in social intervention without government getting involved in running businesses or providing services. Social intervention should come through policy packages encouraging businesses to move in directions desired by society. . . .

Since Grameen cannot be judged on the basis of its position in relation to the public and private sectors, it is difficult to use traditional political terms to label Grameen. Grameen is opposed to both public and private sectors as they are commonly understood. Instead, it argues for the creation of a completely new sector—what I call the social-consciousness-driven private sector.<sup>68</sup>

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<sup>65</sup> Yunus, *op. cit.*, p. 205.

<sup>66</sup> Yunus, *op. cit.*, p. 205.

<sup>67</sup> Yunus, *op. cit.*, pp. 207-208.

<sup>68</sup> Yunus, *op. cit.*, p. 210.

Whether the “social-consciousness-driven private sector” should or even can be created is an open question, one that will be answered in part by the continued spread and evolution of microfinance. When the Ford Foundation’s Bangladesh office helped Muhammad Yunus launch his idea for a bank for poor people, no doubt no one could have imagined that, less than three decades later, tens of millions of people worldwide would have benefited from the venture. As Yunus recalled of those early years:

I didn’t have a strategy. . . . I just kept doing what was next. But when I look back, my strategy was, whatever banks did, I did the opposite. If banks lent to the rich, I lent to the poor. If banks lent to men, I lent to women. If banks made large loans, I made small ones. If banks required collateral, my loans were collateral free. If banks required a lot of paperwork, my loans were illiterate friendly. If you had to go to the bank, my bank went to the village. Yes, that was my strategy. Whatever banks did, I did the opposite.<sup>69</sup>

### **Conclusion**

Commercial and government bankers believed that the very poor couldn’t possibly represent a good credit risk. Yet since the beginning, the Grameen Bank has operated on a profit. Ford’s 1981 PRI grant, and the Foundation’s subsequent funding throughout the 1980s, helped Grameen reach the tipping point beyond which the Bank could proceed smoothly to self-sufficiency. Ford’s final grant came in 1992, Grameen stopped accepting donations of any kind in 1995, and it stopped taking out loans from other Bangladeshi banks in 1998.<sup>70</sup> The Grameen Bank is now entirely self-supporting, its deposits fully financing its loan programs, even as it continues to expand. As for Ford, though its involvement with Grameen has ended, the Foundation continues to support other microfinance institutions worldwide.

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<sup>69</sup> Daley-Harris, *op. cit.*, p. 7.

<sup>70</sup> Yunus, “Halving Poverty,” *op. cit.*

## Exhibit A

### Grameen Bank Historical Data Series 1967-2005

Performance Indicator	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
<b>Cumulative Disbursement (All Loans)</b>	0.008	0.08	0.35	3.06	20.17	53.7	95.61	194.95	499.31	927.76	1469.49	2279.52	3559.95	5328.23	7590.7
<b>Disbursement During the Year (All Loans)</b>	0.008	0.073	0.268	2.71	17.11	33.53	41.91	99.34	304.36	428.45	541.73	810.03	1280.43	1768.28	2262.47
<b>Year-end Outstanding Amount</b>	0.005	0.054	0.24	1.88	13.19	21.32	31.63	72.07	177.03	225.68	301.51	457.74	723.87	996.95	127082
<b>Housing Loan Disbursement During the Year</b>	-	-	-	-	-	-	-	-	3.6	17.2	5.7	140.7	170.4	236.3	224.6
<b>Number of Houses Built cum</b>	-	-	-	-	-	-	-	-	317	1581	2042	23408	44556	67841	91157
<b>Total Deposits (Balance)</b>	-	-	0	0.22	1.48	4.23	7.37	18.51	38.33	79.82	122.67	221.88	324.46	566.65	851.43
<b>Deposits of GB Members (Balance)</b>	-	-	0	0.22	1.48	4.23	7.37	18.51	38.33	71.62	112.39	217.37	285.39	415.77	543.52
<b>GB Members' Deposit as % of Total Deposit</b>	-	-	-	100	100	100	100	100	100	90	92	98	88	73	64
<b>Number of Groups</b>	-	4	45	377	2935	4818	6243	11667	24211	34324	46869	67831	98073	132452	173907
<b>Number of Members</b>	10	70	290	2200	14830	24128	30416	58320	121114	171622	234343	339156	490363	662263	869538
<b>Percentage of Female Members</b>	20	14	24	41	31	39	39	46	56	65	74	81	86	89	91
<b>Number of Villages covered</b>	8	2	4	17	363	433	745	1249	2268	3666	5170	7502	10552	15073	19536
<b>Number of Branches</b>	1	1	1	6	24	24	54	86	152	226	295	396	501	641	781
<b>Profit/Loss (For the Year)</b>	1	-	-	-	-	-	-	-3.26	4.25	0.4	0.36	0.44	1.17	2.25	3.1

<b>Performance Indicator</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b>Cumulative Disbursement (All Loans)</b>	10230.3	15434	26056.1	39968.5	53632	65509.8	81780.4	100900	116598	130559	146538	162286	183575	209167	3248163
<b>Disbursement During the Year (All Loans)</b>	2639.6	5203.7	10622.1	13912.4	13663.5	11877.8	16270.6	119119	15697.9	13961.4	15979.1	15748	21289.1	25591.4	38996.4
<b>Year-end Outstanding Amount</b>	1585.42	3168.88	6166.98	7933.38	8298.88	8639.68	10590.3	12316.7	11035.6	10436	11068.1	11395.1	15086.2	18874.6	27357.1
<b>Housing Loan Disbursement During the Year</b>	301.9	559.3	1673	1338.6	712.96	168.7	687.7	973.9	222.7	73.29	56.3	120.62	177.66	282.05	187.08
<b>Number of Houses Built cum</b>	118717	157334	258194	295702	331201	329040	402747	506680	511583	533041	545121	558055	578532	607415	627058
<b>Total Deposits (Balance)</b>	1381.03	2176.32	3150.21	413.56	4767.2	52012	5804.35	5404.45	6013.62	6611.85	7697.14	59424.2	14715.8	20717.8	31659.6
<b>Deposits of GB Members (Balance)</b>	951.8	1386.46	2722.01	3413.67	4047.99	3782.94	4562.86	4844.45	5523.95	5243.55	3827.6	7305.08	9972.15	13793.1	20138.4
<b>GB Members' Deposit as % of Total Deposit</b>	69	64	86	83	85	73	79	90	92	79	50	78	68	67	64
<b>Number of Groups</b>	213286	284889	372298	412145	424993	433791	465384	486870	494044	503001	504651	513141	577886	685083	877142
<b>Number of Members</b>	1066426	1424395	1814916	2013130	2065661	2059510	2272503	2368347	2357083	2378356	2378601	2483006	3123802	4059632	5579399
<b>Percentage of Female Members</b>	92	94	94	94	94	94	95	95	95	95	95	95	95	96	96
<b>Number of Villages covered</b>	25248	30619	33667	34913	35533	36420	37937	39045	39706	40225	4047	41636	43681	48472	59912
<b>Number of Branches</b>	915	1015	1040	1045	1055	1079	1105	1137	1149	1160	1173	1178	1195	1358	1735
<b>Profit/Loss (For the Year)</b>	-8.31	-5.65	9.56	21.67	15.03	19.02	14.32	104.34	76.93	11.14	58.45	59.67	357.52	422.13	1000.44

Notes: 1.) 1976 Figures show the loans given through the Janata Bank. It does not include the loan personally given by Professor Muhammad Yunus.

2.) Grameen Bank became operational as an independent on October 2, 1983. Housing Loan Programme started from 1984.

Source: Grameen Communications, "Grameen Historical Data Series 1976-2005." Retrieved from <http://www.grameen-info.org/bank/hist2005.html>.

**Exhibit B****Ford Foundation Grants Approved in 1981 for Bangladesh**

<b>Agricultural and rural development</b>	
Bangladesh, Government of	\$182,000
Bangladesh Agricultural Research Council	\$25,000
Bangladesh Agricultural Research Institute	\$25,000
Bangladesh Agricultural University	\$25,000
Bangladesh Bank	\$279,000
Bangladesh Council of Scientific and Industrial Research	\$2,667
Bangladesh Institute of Law and International Affairs	\$14,875
Bangladesh Rice Research Institute	\$200,000
Bangladesh Rural Advancement Committee	\$140,000
Friends in Village Development	\$15,000
Prashika Manabik Unnayan Kendra	\$50,000
Rajshahi, University of	\$25,000
<b>Development planning and management</b>	
Civil Officers' Training Academy	\$25,000
<b>Education and research</b>	
Bangladesh Association for Community Education	\$5,940
Dacca, University of	\$7,920
Federation of Bangladesh University Teachers' Association	\$1,470
<b>International relations and world problems</b>	
Bangladesh Institute of Law and International Affairs	\$15,093
Bangladesh Society for the Enforcement of Human Rights	\$800
<b>Population studies, reproductive sciences, and health problems</b>	
Bangladesh Women's Health Coalition	\$129,350
Dacca, University of (Institute of Business Administration)	\$187,075
Family Planning Social Marketing Project	\$38,250
International Centre for Diarrheal Disease Research	\$200,000
Kumudini Welfare Trust of Bengal	\$3,176
Program for the Introduction and Adaptation of Contraceptive Technology (PIACT)	\$142,00
Women for Women	\$6,126
<b>Total</b>	<b>\$1,745,742</b>

Source: Ford Foundation, "Ford Foundation Annual Report 1981." New York: Ford Foundation, 1981, pp. 47. Retrieved from <http://www.fordfound.org/elibrary/documents/1981/normal/low/1981norm-low.pdf>.

## Exhibit C

### The Grameen Bank's "Sixteen Decisions"

Adopted at the national conference, 1984

1. We shall follow and advance the four principles of the 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 a dilapidated house. We shall repair our houses and work toward constructing new houses at the earliest opportunity.
4. We shall grow vegetables all the year round. We shall eat plenty of them and sell the surplus.
5. During the plantation season, 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.
9. We shall build and use pit latrines.
10. We shall drink water from tube wells. If they are not available, we shall boil water or use alum to purify it.
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 the center free from the curse of dowry. We shall not practice child marriage.
12. We shall not commit any injustice, and we will oppose anyone who tries to do so.
13. We shall collectively undertake larger 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 introduce physical exercise in all our centers. We shall take part in all social activities collectively.

Source: Yunus, Muhammad, with Alan Jolis. *Banker to the Poor: Micro-Lending and the Battle Against World Poverty*. New York: PublicAffairs, 1999, pp. 135-137.

## Exhibit D

### Global Growth of Microfinance Programs

<b>Year</b>	<b>Number of Programs<sup>71</sup> Reporting</b>	<b>Total Number of Clients Reached</b>	<b>Number of “Poorest”<sup>72</sup> Clients Reported</b>
<b>12/31/97</b>	618 institutions	13,478,797	7,600,000
<b>12/31/98</b>	925 institutions	20,938,899	12,221,918
<b>12/31/99</b>	1,065 institutions	23,555,689	13,779,872
<b>12/31/00</b>	1,567 institutions	30,681,107	19,327,451
<b>12/31/01</b>	2,186 institutions	54,932,235	26,878,332
<b>12/31/02</b>	2,572 institutions	67,606,080	41,594,778
<b>12/31/03</b>	2,931 institutions	80,868,343	54,785,433
<b>12/31/04</b>	3,164 institutions	92,270,289	66,614,871

Source: Daley-Harris, Sam, *State of the Microcredit Summit Campaign Report 2005*. Washington, DC: Microcredit Summit Campaign, 2005, p. 24. Retrieved from <http://www.microcreditsummit.org/pubs/reports/socr/2005/SOCR05.pdf>.

<sup>71</sup> Defined as programs that provide credit for self-employment and other financial and business services (including savings and technical assistance) to very poor persons.

<sup>72</sup> The Microcredit Summit Campaign defines “poorest” as those who are in the bottom half of those living below their nation’s poverty line, or any of the 1.2 billion who live on less than US\$1 a day adjusted for purchasing power parity (PPP), when they started with a program.