Case 47

Grameen Bank

Ford Foundation, 1976

Scott Kohler

Background. When Bangladesh gained its independence from Pakistan in 1971, Secretary of State Henry Kissinger called it “an international basket case.” With a weak economy, overcrowded cities, and a high exposure to catastrophic weather, Bangladesh has remained one of the least developed countries (LDCs) in the world, and has received more than $30 billion in international assistance over the past three decades. However, Bangladesh is also the birthplace of the Grameen Bank, one of the great success stories in third world development.

Strategy. The Grameen Bank was created by Professor Muhammad Yunus, a Bangladeshi economics professor who, during the famine of 1974, felt compelled to reach out to the Bangladeshi poor in an effort to understand why they were unable to achieve economic success. Over the next two years, Professor Yunus studied the poor, landless underclass of Jobra, a village near his home in Chittagong. He concluded that the poor were poor not because they were inherently unable to support themselves, but rather because they lacked access to capital, a structural flaw that could be remedied. Yunus began by making small loans, of about $25 each, to forty-three villagers in Jobra. His largesse soon grew into the world’s first experiment in microfinance.

Using these small amounts of money, Yunus’ borrowers were able to generate a steady stream of income, with which they not only paid off their debts but also improved the economic lot of their families. Between 1976 and 1979, these micro-loans “successfully changed the lives of around 500 borrowers.” Working at first with only his graduate economics students, then later through the branch offices of several state-run banks, Yunus eventually decided to quit his academic post and incorporate the Grameen (meaning “rural” or “countryside”) Bank in 1983. The bank makes small loans (averaging about $376) to clients, who are required to be members of a five-person team of borrowers. Teams are responsible for encouraging, as well as helping, each other to repay loans. A loan is made first to one member of the group. If the member successfully repays it, a loan is made to someone else in the group. So each borrower’s access to credit is dependent upon the team’s repayment of all loans made. This “peer group lending” uses a mixture of peer pressure and peer support to achieve a rate of repayment significantly higher than that enjoyed by even the most successful American banks. Groups of five are organized into local centres, which are associations of eight-to-ten groups that act as a regional support net. Committed to transparency in a nation that has been plagued by corruption, the Grameen Bank makes all its loans publicly at the centre meetings. In addition, Grameen required its borrowers to pledge to maintain certain social principles, such as educating female children, not giving dowry, and helping to build schools in their communities. As a result, the bank achieves leverage beyond the scope of its financial benefits.

The loans must be used to generate income. Borrowers use the loans to become self-employed, whether by purchasing dairy cows, honey bees, or bamboo to make furniture that can be sold. To finance its early lending, the Grameen Bank received grants and loans (market rate and concessionary) from banks (in Bangladesh and around the world) governments (such as those of Bangladesh and Canada), international aid agencies (like the International Fund for Agricultural Development), and foundations. Most notable among the latter group has been the Ford Foundation, which supported Yunus from his earliest efforts, while he was still an economics professor studying the causes of poverty in rural Bangladesh. In the mid-1970s, the Foundation gave Professor Yunus a $12,000 grant for his poverty research, which was then followed up by consistent
support. The Foundation has contributed to the Bank’s resources for lending, and, according to Yunus, an early $800,000 grant from Ford was the critical guarantee fund that enabled him to attract the support of skeptical commercial banks."

**Outcomes.** The Grameen Bank has grown dramatically, and its results have been extraordinary. The Grameen Bank now turns a profit and has deposits worth $324 million. Since its inception, the bank has made over $4.57 billion in loans. Its rate of recovery is 98.85 percent, despite the fact that the Grameen Bank refuses to make loans to anyone except the poorest members of Bangladeshi society. The bank now has over 4 million members (clients) in 48,000 villages serviced by over 1,300 Grameen branch offices. The Bank also makes housing loans that have enabled the Bangladeshi poor to construct over 600,000 new homes. The Grameen Bank has also empowered women in a society where they have traditionally been subservient to men. Ninety-five percent of all borrowers from the Grameen Bank are women. This is no accident. Professor Yunus realized early on that women are more likely to repay a first-time loan than men, and that female borrowers were far more likely than male to use the profits generated from a loan to support and uplift their families, rather than on personal consumption. So the Bank has also been an engine of social change."

**Impact.** Microfinance was a true innovation. Its success flies in the face of traditional banking theory, which holds that destitute residents of third-world villages, often lacking any property of their own at all, do not make reliable borrowers. And the methods of the Grameen Bank have been emulated around the world. According to the United Nations, some 67 million people had access to micro-credit in 2003. Institutions modeled after the Grameen Bank have sprung up in seventy countries; there are over 500 such organizations in the United States alone! The Ford Foundation has supported the spread of the Grameen model. In the late 1980s, the Foundation funded an exchange program between American development workers and the Bank. According to Anwarul K. Chowdhury, the United Nations Under-Secretary-General and High Representative for the Least Developed Countries, "[m]icrocredit is an inducer, a catalyst for economic activity of the poor people" and leads “to the empowerment of women...."

The tremendous impact of Professor Yunus’s foundation-supported experiment was recognized in October 2006 by the Norwegian Nobel Committee, which awarded the 2006 Nobel Peace Prize jointly to Yunus and the Grameen Bank. Announcing its decision, the Nobel Committee observed that, not so long ago, “[l]oans to poor people without any financial security had appeared to be an impossible idea.” Thanks to Yunus and Grameen, they no longer do. As the Nobel Committee recognized:

"Every single individual on earth has both the potential and the right to live a decent life. Across cultures and civilizations, Yunus and Grameen Bank have shown that even the poorest of the poor can work to bring about their own development."

**Notes**

724. Grameen borrowers have used their Grameen loans for diverse enterprises, from manufacturing musical conch shells to processing animal entrails and more. Ibid.


730. Ibid.

731. Grameen borrowers also commit to a set of “16 Decisions” for a healthy and productive life, including such promises as “We shall educate our children and ensure that they can earn to pay for their education,” and “We shall not take any dowry at our sons’ weddings, neither shall we give any dowry at our daughters’ wedding. We shall keep our centre free from the curse of dowry. We shall not practice child marriage.”


735. Statement by Mr. Anwarul K. Chowdhury.


737. Ibid.