Case Study - Grameen

One of the biggest problems facing people who live below the poverty line is the difficulty in gaining access to resources; particularly banking and finance services. As a result they are often dependent on moneylenders and other unofficial sources, and are often charged at exorbitant rates if they do borrow. This makes it hard to save and invest - and puts a major barrier in the way of breaking out of this spiral through starting new entrepreneurial ventures. Awareness of this problem led Muhammad Yunus, Head of the Rural Economics Program at the University of Chittagong, to launch a project to examine the possibility of designing a credit delivery system to provide banking services targeted at the rural poor. In 1976 the Grameen Bank Project (Grameen mean 'rural' or 'village' in Bangla) was established. The project aimed to;

- extend banking facilities to the poor
- eliminate the exploitation of the poor by money lenders
- create opportunities for self-employment for unemployed people in rural Bangladesh
- offer the disadvantaged an organizational format which they can understand and manage by themselves
- reverse the age-old vicious circle of 'low income, low saving & low investment', into virtuous circle of 'low income, injection of credit, investment, more income, more savings, more investment, more income'.

The original project was set up in Jobra (a village adjacent to Chittagong University) and some neighbouring villages and ran during 1976-1979. The core concept was of 'micro-finance' - enabling people (and a major success was with women) to take tiny loans to start and grow tiny businesses. With the sponsorship of the central bank of the country and support of the nationalized commercial banks, the project was extended to Tangail district (a district north of Dhaka, the capital city of Bangladesh) in 1979. Its further success there led to the model being extended to several other districts in the country, and in 1983 it became an independent bank as a result of government legislation. The repayment rate suffered in 1998 due to the flood of Bangladesh, but has recovered since, and Grameen bank continues to expand. In 2006 Grameen Bank had over 2,100 branches, and has inspired similar projects worldwide (including a world bank initiative).

Today Grameen Bank is owned by the rural poor whom it serves. Borrowers of the bank own 90% of its shares, while the remaining 10% is owned by the government. It now serves over 5 million clients, and has enabled 10,000 families to escape the poverty trap every month. Since 1995 Grameen Bank has funded over 90% of loans with interest income and deposits collected.

The 'solidarity lending' practice is vital to how Grameen Bank operates. Each borrower must belong to a group of 5 people, none of whom are required to act as a guarantor for the other. However, if a borrower does default on their repayments, further credit could be denied to all members of the group. As such, members of the group often do assist in such situations. This circumstance necessitates a community - it is in each member's best interest to ensure that all other members practice responsible borrowing. The practice is dependent on trust, rather than
legal frameworks and penalties. Borrowers are required to make savings in various areas which act as an insurance policy against contingencies.

Grameen is founded upon the principle that insufficient access to credit not only affects those at the bottom of the pyramid, but also the wider structures and peoples who might benefit from the potential innovations made by those excluded from exploring their enterprise due to their poverty. Further, this group of people represent new and unsaturated markets, that have previously been underserved.

In this spirit, Grameen has moved into other areas which have been similarly out of reach for the poor. For example, Grameen Phone is one of the largest mobile telephone operators in Asia, but bases its model on providing communication access to the poorest members of society through innovative pricing models.

Grameen Shakti was founded in 1996, and translates roughly as 'village energy'. Complete energy coverage has been historically difficult in Bangladesh. Lack of natural resources such as fossil fuels, lack of financial capital, and the wide geographic distribution of villages have all compounded into somewhat of an impasse. The state is unable to meet overwhelming demand, and the private sector is put off by the ability of the very poor to pay back investment. Grameen Shakti is a social enterprise founded with the purpose of developing renewable energy in rural areas of Bangladesh. At its core is the application of micro-credit; plants are repaid over years in monthly instalments. Specific 'packages' are designed for maximum efficiency; addressing the diverse range of clients and their ability to pay. Grameen Shakti became a financially-sustainable social enterprise within 4 years of its foundation.

Grameen founder Muhammad Yunus' ability to see opportunity in resource scarcity has implications for both the developing and developed world. By reframing a previously underserved group as potential consumers by creating a structure which is designed specifically with their needs and abilities in mind, Yunus created an environment in which innovation can flourish, the framework for which can be adapted and translated into multifarious equally untapped settings.

A video clip on Grameen Bank can be viewed here -
https://www.youtube.com/watch?v=MrlUQKuvsmyw