

A STUDY ON BANGLADESH GRAMEEN BANK AS A POVERTY ERADICATOR

PRIMA.P

RESEARCH SCHOLAR

BHARATHIAR UNIVERSITY

COIMBATORE

ABSTRACT

The poor need fair access to finance to empower them to help themselves. Since conventional banking makes lending decisions based on a borrower's existing assets (collateral), those who have nothing get nothing. 50 percent of the population of Bangladesh lives on less than USD 1 per day. If they needed money, they traditionally had to turn to local money lenders who charged extremely high interest rates and frequently entrapped the borrowers. The main aim of this study is to focus on the contribution of the Bangladesh Grameen Bank towards the poverty eradication in Bangladesh.

Keywords: Grameen Bank, Micro credit, Poverty alleviation

INTRODUCTION

The Grameen Bank is a Nobel Peace Prize-winning microfinance organization and community development bank founded in Bangladesh. It makes small loans (known as microcredit or "grameencredit") to the impoverished without requiring collateral. The name Grameen is derived from the word gram which means "rural" or "village" in the Sanskrit language.

Micro-credit loans are based on the concept that the poor have skills that are under-utilized and, with incentive, they can earn more money. A group-based credit approach is applied to use peer-pressure within a group to ensure the borrowers follow through and conduct their financial affairs with discipline, ensuring repayment and allowing the borrowers to develop good credit standing. The bank also accepts deposits, provides other services, and runs several development-oriented businesses including fabric, telephone and energy companies. The bank's credit policy to support under-served populations has led to the overwhelming majority (96%) of its borrowers being women.

Grameen Bank originated in 1976, in the work of Professor Muhammad Yunus, Professor at University of Chittagong, who launched a research project to study how to design a credit delivery system to provide banking services to the rural poor. Based on his positive results, in October 1983 the Grameen Bank was authorized by national legislation as an independent bank. In 2006, the bank and its founder, Muhammad Yunus, were jointly awarded the Nobel Peace Prize. In 1998 the Bank's

"Low-cost Housing Program" won a World Habitat Award. In 2011, the Bangladesh Government forced Muhammad Yunus to resign from Grameen Bank, saying that at age 72, he was years beyond the legal limit for the position.

In 1976, Prof. Yunus lent USD 27 to 42 people - focusing on the poorest of the poor. This led to the innovation of micro finance and the foundation of the Grameen Bank in 1983. This Bank lent money without collateral, at very small amounts and at comparatively low interest rates almost exclusively to poor women. Grameen discovered that women are more reliable in paying back and that they use the loans more wisely than men. The Grameen Bank is the first social business. Interestingly, it gives the poor not only access to capital, but allows them to be the owners of the bank and thereby benefit from any dividend payments. Additionally education is a central part of Grameen Bank. Scholarships are awarded every year to the highest performing children of Grameen borrowers.

OBJECTIVES OF THE STUDY

- *To study the importance of Grameen Bank in India To examine the impact of Grameen Bank on the poor people*
- *To study about the important features of Grameen Bank*
- *To analyse the contribution of Grameen Bank towards the social development.*

RESEARCH METHODOLOGY

This is a descriptive study on the role and importance of Bangladesh Grameen Bank. The data is collected from secondary sources mainly from the journals, paper presentations, articles, website etc

LIMITATION OF THE STUDY

- *The secondary data is only used.*
- *The statistical tools and techniques is not adopted.*

BRIEF HISTORY OF GRAMEEN BANK

Muhammad Yunus earned a doctorate in economics from Vanderbilt University in the United States. He was inspired during the Bangladesh famine of 1974 to make a small loan of US\$27 to a group of 42 families as start-up money so that they could make items for sale, without the burdens of high

interest under predatory lending. Yunus believed that making such loans available to a larger population could stimulate businesses and reduce the widespread rural poverty in Bangladesh.

Yunus developed the principles of the Grameen Bank (literally, "Bank of the Villages" in Bengali) from his research and experience. He began to expand microcredit as a research project together with the Rural Economics Project at Bangladesh's University of Chittagong to test his method for providing credit and banking services to the rural poor. In 1976, the village of Jobra and other villages near the University of Chittagong became the first areas eligible for service from Grameen Bank. Proving successful, the Bank project, with support from Bangladesh Bank, was extended in 1979 to the Tangail District. The bank's success continued and its services were extended to other districts of Bangladesh.

By a Bangladeshi government ordinance on October 2, 1983, the project was authorized and established as an independent bank. Bankers Ron Grzywinski and Mary Houghton of ShoreBank, a community development bank in Chicago, helped Yunus with the official incorporation of the bank under a grant from the Ford Foundation. The bank's repayment rate suffered from the economic disruption following the 1998 flood in Bangladesh, but it recovered in the subsequent years. By the beginning of 2005, the bank had loaned over USD 4.7 billion and by the end of 2008, USD 7.6 billion to the poor.

The Bank continues to expand across the nation. By 2006, Grameen Bank branches numbered over 2,100. Its success has inspired similar projects in more than 40 countries around the world, including a World Bank initiative to finance Grameen-type schemes.

The bank has gained its funding from different sources, and the main contributors have shifted over time. In the initial years, donor agencies used to provide the bulk of capital at low rates. By the mid-1990s, the bank started to get most of its funding from the central bank of Bangladesh. More recently, Grameen has started bond sales as a source of finance. The bonds are implicitly subsidised, as they are guaranteed by the Government of Bangladesh, and still they are sold above the bank rate. In 2013, Bangladesh parliament passed 'Grameen Bank Act' which replaces the Grameen Bank Ordinance, 1983, authorizing the government to make rules for any aspect of the running of the bank.

REVIEW OF LITERATURE

Bangladesh is a developing country with a vast rural society which is about 90% of the total population. The majority of the rural population, particularly women, is subjected to severe poverty, gender inequalities and unemployment. Due to negligence of the rural development by the government and rich population the financial condition of the poor in the villages remain unchanged after the independence of the country in 1971. The GB is a well-known institutional framework that has achieved considerable success in improving the socioeconomic conditions of the rural poor, particularly women, in Bangladesh (Sarker 2001).

Economics of the University of Chittagong, Bangladesh, has founded the GB. The country was slowly recovering from a vicious war of independent in 1971 which had destroyed its infrastructure and its productivity and murdered much of its intelligentsia. The damage caused by the war had been amplified by the famine of 1974 and suffering of human on a vast scale could be witnessed in any town or village of Bangladesh (Hulme 2008).

The terms microcredit and microfinance are often used interchangeably but there is a difference between them. Microcredit refers to the act of providing the loan. On the other hand microfinance is the act of providing these same borrowers with financial services, such as savings institutions and insurance policies (Sengupta and Aubuchon 2008).

MICRO CREDIT STRUCTURE

Grameen Bank Credit Delivery means taking credit to the very poor in their villages by means of the essential elements of the Grameen credit delivery system. Grameen Bank credit delivery system has the following features:

1 There is an exclusive focus on the poorest of the poor.

Exclusivity is ensured by:

- i) establishing clearly the eligibility criteria for selection of targeted clientele and adopting practical measures to screen out those who do not meet them*
- ii) in delivering credit, priority has been increasingly assigned to women*
- iii) the delivery system is geared to meet the diverse socio-economic development needs of the poor*

2 Borrowers are organized into small homogeneous groups.

Such characteristics facilitate group solidarity as well as participatory interaction. Organizing the primary groups of five members and federating them into centres has been the foundation of Grameen Bank's system. The emphasis from the very outset is to organisationally strengthen the Grameen clientele, so that they can acquire the capacity for planning and implementing micro level development decisions. The Centres are functionally linked to the Grameen Bank, whose field workers have to attend Centre meetings every week.

3 Special loan conditionalities which are particularly suitable for the poor.

These include:

- i) very small loans given without any collateral*
- ii) loans repayable in weekly instalments spread over a year*
- iii) eligibility for a subsequent loan depends upon repayment of first loan*
- iv) individual, self chosen, quick income generating activities which employ the skills that borrowers already possess*
- v) close supervision of credit by the group as well as the bank staff*
- vi) stress on credit discipline and collective borrower responsibility or peer pressure*
- vii) special safeguards through compulsory and voluntary savings to minimise the risks that the poor confront*
- viii) transparency in all bank transactions most of which take place at centre meetings.*

4 Simultaneous undertaking of a social development agenda addressing basic needs of the clientele.

This is reflected in the "sixteen decisions" adopted by Grameen borrowers. This helps to:

- i) raise the social and political consciousness of the newly organized groups*
- ii) focus increasingly on women from the poorest households, whose urge for survival has a far greater bearing on the development of the family*
- iii) encourage their monitoring of social and physical infrastructure projects - housing, sanitation, drinking water, education, family planning, etc.*

5 Design and development of organization and management systems capable of delivering programme resources to targeted clientele.

The system has evolved gradually through a structured learning process, that involves trials, errors

and continuous adjustments. A major requirement to operationalize the system is the special training needed for development of a highly motivated staff, so that the decision making and operational authority is gradually decentralized and administrative functions are delegated at the zonal levels downwards.

6 Expansion of loan portfolio to meet diverse development needs of the poor.

As the general credit programme gathers momentum and the borrowers become familiar with credit discipline, other loan programmes are introduced to meet growing social and economic development needs of the clientele. Besides housing, such programmes include:

- i) credit for building sanitary laterines*
- ii) credit for installation of tubewells that supply drinking water and irrigation for kitchen gardens*
- iii) credit for seasonal cultivation to buy agricultural inputs*
- iv) loan for leasing equipment / machinery, ie., cell phones purchased by Grameen Bank members*
- v) finance projects undertaken by the entire family of a seasoned borrower.*

The underlying premise of Grameen is that, in order to emerge from poverty and remove themselves from the clutches of usurers and middlemen, landless peasants need access to credit, without which they cannot be expected to launch their own enterprises, however small these may be. In defiance of the traditional rural banking postulate whereby "no collateral (in this case, land) means no credit", the Grameen Bank experiment set out to prove - successfully - that lending to the poor is not an impossible proposition; on the contrary, it gives landless peasants the opportunity to purchase their own tools, equipment, or other necessary means of production and embark on income-generating ventures which will allow them escape from the vicious cycle of "low income, low savings, low investment, low income". In other words, the banker's confidence rests upon the will and capacity of the borrowers to succeed in their undertakings.

OPERATION OF GRAMEEN BANK

The mode of operation of Grameen Bank is as follows. A bank branch is set up with a branch manager and a number of center managers and covers an area of about 15 to 22 villages. The manager and the workers start by visiting villages to familiarise themselves with the local milieu in which they will be operating and identify the prospective clientele, as well as explain the

purpose, the functions, and the mode of operation of the bank to the local population. Groups of five prospective borrowers are formed; in the first stage, only two of them are eligible for, and receive, a loan. The group is observed for a month to see if the members are conforming to the rules of the bank. Only if the first two borrowers begin to repay the principal plus interest over a period of six weeks, do the other members of the group become eligible themselves for a loan. Because of these restrictions, there is substantial group pressure to keep individual records clear. In this sense, the collective responsibility of the group serves as the collateral on the loan. Loans are small, but sufficient to finance the micro-enterprises undertaken by borrowers: rice-husking, machine repairing, purchase of rickshaws, buying of milk cows, goats, cloth, pottery etc. The interest rate on all loans is 16 percent. The repayment rate on loans is currently - 95 per cent - due to group pressure and self-interest, as well as the motivation of borrowers.

Although mobilization of savings is also being pursued alongside the lending activities of the Grameen Bank, most of the latter's loanable funds are increasingly obtained on commercial terms from the central bank, other financial institutions, the money market, and from bilateral and multilateral aid organizations.

TEN INDICATORS OF POVERTY UPLIFTMENT

Every year GB staff evaluate their work and check whether the socio-economic situation of GB members is improving. GB evaluates poverty level of the borrowers using ten indicators. A member is considered to have moved out of poverty if her family fulfills the following criteria:

- 1. The family lives in a house worth at least Tk. 25,000 (twenty five thousand) or a house with a tin roof, and each member of the family is able to sleep on bed instead of on the floor.*
- 2. Family members drink pure water of tube-wells, boiled water or water purified by using alum, arsenic-free, purifying tablets or pitcher filters.*
- 3. All children in the family over six years of age are all going to school or finished primary school.*
- 4. Minimum weekly loan installment of the borrower is Tk. 200 or more.*
- 5. Family uses sanitary latrine.*
- 6. Family members have adequate clothing for every day use, warm clothing for winter, such as shawls, sweaters, blankets, etc, and mosquito-nets to protect themselves from mosquitoes.*
- 7. Family has sources of additional income, such as vegetable garden, fruit-bearing trees, etc, so*

that they are able to fall back on these sources of income when they need additional money.

8. *The borrower maintains an average annual balance of Tk. 5,000 in her savings accounts.*
9. *Family experiences no difficulty in having three square meals a day throughout the year, i. e. no member of the family goes hungry any time of the year.*
10. *Family can take care of the health. If any member of the family falls ill, family can afford to take all necessary steps to seek adequate healthcare.*

16 DECISIONS OF GRAMEEN BANK

1. *We shall follow and advance the four principles of Grameen Bank: Discipline, Unity, Courage, and Hard Work in all walks of our lives.*
2. *We shall bring prosperity to our families.*
3. *We shall not live in dilapidated houses. We shall repair our houses and work toward constructing new houses at the earliest.*
4. *We shall grow vegetables all the year round. We shall eat plenty of them and sell the surplus.*
5. *During the plantation seasons, we shall plant as many seedlings as possible.*
6. *We shall plan to keep our families small. We shall minimize our expenditures. We shall look after our health.*
7. *We shall educate our children and ensure that they can earn to pay for their education.*
8. *We shall always keep our children and environment clean.*
9. *We shall build and use pit-latrines.*
10. *We shall drink tube-well water. If it is not available, we shall boil water or use alum.*
11. *We shall not take any dowry in our sons' weddings, nor shall we give any dowry in our daughters' weddings. We shall keep the centre free from the curse of dowry. We shall not practice child marriage.*
12. *We shall not inflict any injustice on anyone, nor shall we allow anyone to do so.*
13. *For higher income, we shall collectively undertake bigger investments.*
14. *We shall always be ready to help each other. If anyone is in difficulty, we shall all help him.*
15. *If we come to know of any breach of discipline in any centre, we shall all go there and help restore discipline.*
16. *We shall introduce physical exercise in all our centers. We shall take part in all social activities collectively.*

SOCIAL IMPACT OF GRAMEEN BANK

There are various social impact had been intertwined with micro-credit. In general, the concept of lending in micro-credit had developed leadership roles to the women that given facilities from micro-credit institution. Mostly in Bangladesh, women are treated as housewife and only responsible for household. So Grameen Bank's approach towards the loan system brings additional social benefits. Micro-credit also gives a big impact to the poor people to combat poverty in their life. Micro-credit has evolved due to its special features on loan giving process in order to start up businesses. Besides, micro-credit institutions provide poor people different financial services along with savings, credit ,and insurance facilities .The program has also had an impact on the choice of economic activity among borrowers. There is a shift from wage employment in agriculture and "domestic service and household work in favor of trading, livestock rearing and domestic processing and manufacturing. The dependence on wage labor was much less among the Grameen Bank clients ,as more of them turn to be an entrepreneur.

POVERTY ALLEVIATION THROUGH GRAMEEN BANK

Grameen Bank is founded on the principle that loans are better than charity to interrupt poverty: they offer people the opportunity to take initiatives in business or agriculture, which provide earnings and enable them to pay off the debt.

The bank is founded on the belief that people have endless potential, and unleashing their creativity and initiative helps them end poverty Grameen has offered credit to classes of people formerly underserved: the poor, women, illiterate, and unemployed people. Access to credit is based on reasonable terms, such as the group lending system and weekly-installment payments, with reasonably long terms of loans, enabling the poor to build on their existing skills to earn better income in each cycle of loans.

Grameen's objective has been to promote financial independence among the poor. Yunus encourages all borrowers to become savers, so that their local capital can be converted into new loans to others. Since 1995, Grameen has funded 90 percent of its loans with interest income and deposits collected, aligning the interests of its new borrowers and depositor-shareholders. Grameen converts deposits made in villages into loans for the more needy in the villages

It targets the poorest of the poor, with a particular emphasis on women, who receive 95 percent of the bank's loans. Women traditionally had less access to financial alternatives of ordinary credit lines and incomes. They were seen to have an inequitable share of power in household decision making. Yunus and others have found that lending to women generates considerable secondary effects, including empowerment of a marginalized segment of society, who share betterment of income with their children, unlike many men. Yunus claims that in 2004, women still have difficulty getting loans; they comprise less than 1 percent of borrowers from commercial banks. The interest rates charged by microfinance institutes including Grameen Bank is high compared to that of traditional banks; Grameen's interest (reducing balance basis) on its main credit product is about 20%.

Grameen has diversified the types of loans it makes. It supports hand-powered wells and loans to support the enterprises of Grameen members' immediate relatives. It has found that seasonal agricultural loans and lease-to-own agreements for equipment and livestock help the poor establish better agriculture. The bank has set a new goal: to make each of its branch locations free of poverty, as defined by benchmarks such as having adequate food and access to clean water and latrines.

Grameen Bank is best known for its system of solidarity lending. The Bank also incorporates a set of values embodied in Bangladesh by the Sixteen Decisions. At every branch of Grameen Bank, the borrowers recite these Decisions and vow to follow them. As a result of the Sixteen Decisions, Grameen borrowers have been encouraged to adopt positive social habits. One such habit includes educating children by sending them to school. Since the Grameen Bank embraced the Sixteen Decisions, almost all Grameen borrowers have their school-age children enrolled in regular classes. This in turn helps bring about social change, and educate the next generation.

Solidarity lending is a cornerstone of microcredit, and the system is now used in more than 43 countries. Although each borrower must belong to a five-member group, the group is not required to give any guarantee for a loan to its members. Repayment responsibility rests solely on the individual borrower. The group and the centre oversee that everyone behaves responsibly and none gets into a repayment problem. No formal joint liability exists, i.e. group members are not obliged to pay on behalf of a defaulting member. But, in practice the group members often contribute the defaulted amount with an intention to collect the money from

the defaulted member at a later time. Such behavior is encouraged because Grameen does not extend further credit to a group in which a member defaults.

No legal instrument (no written contract) is made between Grameen Bank and its borrowers; the system works based on trust. To supplement the lending, Grameen Bank requires the borrowing members to save very small amounts regularly in a number of funds, designated for emergency, the group, etc. These savings help serve as an insurance against contingencies.^[15]

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

CONCLUSION

Grameen Bank (GB) has reversed conventional banking practice by removing the need for collateral and created a banking system based on mutual trust, accountability, participation and creativity. Grameen Bank provides credit to the poorest of the poor in rural Bangladesh, without any collateral. At GrameenBank, credit is a cost effective weapon to fight poverty and it serves as a catalyst in the over all development of socio-economic conditions of the poor who have been kept outside the banking orbit on the ground that they are poor and hence not bankable. The financial resources can be made available to the poor people on terms and conditions that are appropriate and reasonable, "these millions of small people with their millions of small pursuits can add up to create the biggest development wonder."

REFERENCE

- *Grameen Bank (2005), Stanford Graduate School of Business, Stanford University, Stanford.*
- *Grameen Bank (2009), Grameen Bank Monthly Report, Source: Grameen Bank, July, 2009, Website: <http://www.grameen-info.org>*
- *Grameen Family of Enterprises (2005), Web: <http://www.grameen-info.org/gfamily.html>*
- *Jamal Nazrul Islam, Haradhan Kumar Mohajan, Rajib Datta, Int. J. Eco. Res., 2012, v3i4, 76-96 ISSN: 2229-6158 IJER |*
- *World Bank (2001), Poverty Analysis; Web: <http://web.worldbank.org>*
- *Hulme, D. (2008), The Story of the Grameen Bank: From Subsidised Microcredit to Market-based Microfinance, Brooks World Poverty Institute Working Paper-60, University of Manchester, UK.*

A STUDY ON BANGLADESH GRAMEEN BANK AS A POVERTY ERADICATOR

SUBJECT:COMMERCE

PREPARED BY:

PRIMA.P

RESEARCH SCHOLAR

BHARATHIAR UNIVERSITY

COIMBATORE

Email id:primarathish9902gmail.com

Ph:00919539307420

Resi:00914942641604

ABSTRACT

The poor need fair access to finance to empower them to help themselves. Since conventional banking makes lending decisions based on a borrower's existing assets (collateral), those who have nothing get nothing. 50 percent of the population of Bangladesh lives on less than USD 1 per day. If they needed money, they traditionally had to turn to local money lenders who charged extremely high interest rates and frequently entrapped the borrowers .the main aim of this study is to focus on the contribution of the Bangladesh Grameen Bank towards the poverty eradication in Bangladesh.

Keywords: Grameen Bank, Micro credit, Poverty alleviation

INTRODUCTION

The Grameen Bank is a Nobel Peace Prize-winning microfinance organization and community development bank founded in Bangladesh. It makes small loans (known as microcredit or "grameencredit") to the impoverished without requiring collateral. The name Grameen is derived from the word gram which means "rural" or "village" in the Sanskrit language.

Micro-credit loans are based on the concept that the poor have skills that are under-utilized and, with incentive, they can earn more money. A group-based credit approach is applied to use peer-pressure within a group to ensure the borrowers follow through and conduct their financial affairs with discipline, ensuring repayment and allowing the borrowers to develop good credit standing. The bank also accepts deposits, provides other services, and runs several development-oriented businesses including fabric, telephone and energy companies. The bank's credit policy to support under-served populations has led to the overwhelming majority (96%) of its borrowers being women.

Grameen Bank originated in 1976, in the work of Professor Muhammad Yunus, Professor at University of Chittagong, who launched a research project to study how to design a credit delivery system to provide banking services to the rural poor. Based on his positive results, in October 1983 the Grameen Bank was authorized by national legislation as an independent bank. In 2006, the bank and its founder, Muhammad Yunus, were jointly awarded the Nobel Peace Prize. In 1998 the Bank's "Low-cost Housing Program" won a World Habitat Award. In 2011, the Bangladesh Government forced Muhammad Yunus to resign from Grameen Bank, saying that at age 72, he was years beyond the legal limit for the position.

In 1976, Prof. Yunus lent USD 27 to 42 people - focusing on the poorest of the poor. This led to the innovation of micro finance and the foundation of the Grameen Bank in 1983. This Bank lent money without collateral, at very small amounts and at comparatively low interest rates almost exclusively to poor women. Grameen discovered that women are more reliable in paying back and that they use the loans more wisely than men. The Grameen Bank is the first social business. Interestingly, it gives the poor not only access to capital, but allows them to be the owners of the bank and thereby benefit from any dividend payments. Additionally education is a central part of Grameen Bank. Scholarships are awarded every year to the highest performing children of Grameen borrowers.

OBJECTIVES OF THE STUDY

- *To study the importance of Grameen Bank in India To examine the impact of Grameen Bank on the poor people*
- *To study about the important features of Grameen Bank*
- *To analyse the contribution of Grameen Bank towards the social development.*

RESEARCH METHODOLOGY

This is a descriptive study on the role and importance of Bangladesh Grameen Bank. The data is collected from secondary sources mainly from the journals, paper presentations, articles, website etc

LIMITATION OF THE STUDY

- *The secondary data is only used.*
- *The statistical tools and techniques is not adopted.*

BRIEF HISTORY OF GRAMEEN BANK

Muhammad Yunus earned a doctorate in economics from Vanderbilt University in the United States. He was inspired during the Bangladesh famine of 1974 to make a small loan of US\$27 to a group of 42 families as start-up money so that they could make items for sale, without the burdens of high interest under predatory lending. Yunus believed that making such loans available to a larger population could stimulate businesses and reduce the widespread rural poverty in Bangladesh.

Yunus developed the principles of the Grameen Bank (literally, "Bank of the Villages" in Bengali) from his research and experience. He began to expand microcredit as a research project together with the Rural Economics Project at Bangladesh's University of Chittagong to test his method for providing credit and banking services to the rural poor. In 1976, the village of Jobra and other villages near the University of Chittagong became the first areas eligible for service from Grameen Bank. Proving successful, the Bank project, with support from Bangladesh Bank, was extended in 1979 to the Tangail District. The bank's success continued and its services were extended to other districts of Bangladesh.

By a Bangladeshi government ordinance on October 2, 1983, the project was authorized and established as an independent bank. Bankers Ron Grzywinski and Mary Houghton of ShoreBank, a

community development bank in Chicago, helped Yunus with the official incorporation of the bank under a grant from the Ford Foundation. The bank's repayment rate suffered from the economic disruption following the 1998 flood in Bangladesh, but it recovered in the subsequent years. By the beginning of 2005, the bank had loaned over USD 4.7 billion and by the end of 2008, USD 7.6 billion to the poor.

The Bank continues to expand across the nation. By 2006, Grameen Bank branches numbered over 2,100. Its success has inspired similar projects in more than 40 countries around the world, including a World Bank initiative to finance Grameen-type schemes.

The bank has gained its funding from different sources, and the main contributors have shifted over time. In the initial years, donor agencies used to provide the bulk of capital at low rates. By the mid-1990s, the bank started to get most of its funding from the central bank of Bangladesh. More recently, Grameen has started bond sales as a source of finance. The bonds are implicitly subsidised, as they are guaranteed by the Government of Bangladesh, and still they are sold above the bank rate. In 2013, Bangladesh parliament passed 'Grameen Bank Act' which replaces the Grameen Bank Ordinance, 1983, authorizing the government to make rules for any aspect of the running of the bank.

REVIEW OF LITERATURE

Bangladesh is a developing country with a vast rural society which is about 90% of the total population. The majority of the rural population, particularly women, is subjected to severe poverty, gender inequalities and unemployment. Due to negligence of the rural development by the government and rich population the financial condition of the poor in the villages remain unchanged after the independence of the country in 1971. The GB is a well-known institutional framework that has achieved considerable success in improving the socioeconomic conditions of the rural poor, particularly women, in Bangladesh (Sarker 2001).

Economics of the University of Chittagong, Bangladesh, has founded the GB. The country was slowly recovering from a vicious war of independent in 1971 which had destroyed its infrastructure and its productivity and murdered much of its intelligentsia. The damage caused by the war had been amplified by the famine of 1974 and suffering of human on a vast scale could be witnessed in any town or village of Bangladesh (Hulme 2008).

The terms microcredit and microfinance are often used interchangeably but there is a difference between them. Microcredit refers to the act of providing the loan. On the other hand microfinance is the act of providing these same borrowers with financial services, such as savings institutions and insurance policies (Sengupta and Aubuchon 2008).

MICRO CREDIT STRUCTURE

Grameen Bank Credit Delivery means taking credit to the very poor in their villages by means of the essential elements of the Grameen credit delivery system. Grameen Bank credit delivery system has the following features:

1 There is an exclusive focus on the poorest of the poor.

Exclusivity is ensured by:

- i) establishing clearly the eligibility criteria for selection of targeted clientele and adopting practical measures to screen out those who do not meet them*
- ii) in delivering credit, priority has been increasingly assigned to women*
- iii) the delivery system is geared to meet the diverse socio-economic development needs of the poor*

2 Borrowers are organized into small homogeneous groups.

Such characteristics facilitate group solidarity as well as participatory interaction. Organizing the primary groups of five members and federating them into centres has been the foundation of Grameen Bank's system. The emphasis from the very outset is to organisationally strengthen the Grameen clientele, so that they can acquire the capacity for planning and implementing micro level development decisions. The Centres are functionally linked to the Grameen Bank, whose field workers have to attend Centre meetings every week.

3 Special loan conditionalities which are particularly suitable for the poor.

These include:

- i) very small loans given without any collateral*
- ii) loans repayable in weekly instalments spread over a year*
- iii) eligibility for a subsequent loan depends upon repayment of first loan*

- iv) *individual, self chosen, quick income generating activities which employ the skills that borrowers already possess*
- v) *close supervision of credit by the group as well as the bank staff*
- vi) *stress on credit discipline and collective borrower responsibility or peer pressure*
- vii) *special safeguards through compulsory and voluntary savings to minimise the risks that the poor confront*
- viii) *transparency in all bank transactions most of which take place at centre meetings.*

4 Simultaneous undertaking of a social development agenda addressing basic needs of the clientele.

This is reflected in the "sixteen decisions" adopted by Grameen borrowers. This helps to:

- i) *raise the social and political consciousness of the newly organized groups*
- ii) *focus increasingly on women from the poorest households, whose urge for survival has a far greater bearing on the development of the family*
- iii) *encourage their monitoring of social and physical infrastructure projects - housing, sanitation, drinking water, education, family planning, etc.*

5 Design and development of organization and management systems capable of delivering programme resources to targeted clientele.

The system has evolved gradually through a structured learning process, that involves trials, errors and continuous adjustments. A major requirement to operationalize the system is the special training needed for development of a highly motivated staff, so that the decision making and operational authority is gradually decentralized and administrative functions are delegated at the zonal levels downwards.

6 Expansion of loan portfolio to meet diverse development needs of the poor.

As the general credit programme gathers momentum and the borrowers become familiar with credit discipline, other loan programmes are introduced to meet growing social and economic development needs of the clientele. Besides housing, such programmes include:

- i) *credit for building sanitary latrines*
- ii) *credit for installation of tubewells that supply drinking water and irrigation for kitchen gardens*
- iii) *credit for seasonal cultivation to buy agricultural inputs*

- iv) *loan for leasing equipment / machinery, ie., cell phones purchased by Grameen Bank members*
- v) *finance projects undertaken by the entire family of a seasoned borrower.*

The underlying premise of Grameen is that, in order to emerge from poverty and remove themselves from the clutches of usurers and middlemen, landless peasants need access to credit, without which they cannot be expected to launch their own enterprises, however small these may be. In defiance of the traditional rural banking postulate whereby "no collateral (in this case, land) means no credit", the Grameen Bank experiment set out to prove - successfully - that lending to the poor is not an impossible proposition; on the contrary, it gives landless peasants the opportunity to purchase their own tools, equipment, or other necessary means of production and embark on income-generating ventures which will allow them escape from the vicious cycle of "low income, low savings, low investment, low income". In other words, the banker's confidence rests upon the will and capacity of the borrowers to succeed in their undertakings.

OPERATION OF GRAMEEN BANK

The mode of operation of Grameen Bank is as follows. A bank branch is set up with a branch manager and a number of center managers and covers an area of about 15 to 22 villages. The manager and the workers start by visiting villages to familiarise themselves with the local milieu in which they will be operating and identify the prospective clientele, as well as explain the purpose, the functions, and the mode of operation of the bank to the local population. Groups of five prospective borrowers are formed; in the first stage, only two of them are eligible for, and receive, a loan. The group is observed for a month to see if the members are conforming to the rules of the bank. Only if the first two borrowers begin to repay the principal plus interest over a period of six weeks, do the other members of the group become eligible themselves for a loan. Because of these restrictions, there is substantial group pressure to keep individual records clear. In this sense, the collective responsibility of the group serves as the collateral on the loan. Loans are small, but sufficient to finance the micro-enterprises undertaken by borrowers: rice-husking, machine repairing, purchase of rickshaws, buying of milk cows, goats, cloth, pottery etc. The interest rate on all loans is 16 percent. The repayment rate on loans is currently - 95 per cent - due to group pressure and self-interest, as well as the motivation of borrowers.

Although mobilization of savings is also being pursued alongside the lending activities of the Grameen Bank, most of the latter's loanable funds are increasingly obtained on commercial terms from the central bank, other financial institutions, the money market, and from bilateral and multilateral aid organizations.

TEN INDICATORS OF POVERTY UPLIFTMENT

Every year GB staff evaluate their work and check whether the socio-economic situation of GB members is improving. GB evaluates poverty level of the borrowers using ten indicators. A member is considered to have moved out of poverty if her family fulfills the following criteria:

- 1. The family lives in a house worth at least Tk. 25,000 (twenty five thousand) or a house with a tin roof, and each member of the family is able to sleep on bed instead of on the floor.*
- 2. Family members drink pure water of tube-wells, boiled water or water purified by using alum, arsenic-free, purifying tablets or pitcher filters.*
- 3. All children in the family over six years of age are all going to school or finished primary school.*
- 4. Minimum weekly loan installment of the borrower is Tk. 200 or more.*
- 5. Family uses sanitary latrine.*
- 6. Family members have adequate clothing for every day use, warm clothing for winter, such as shawls, sweaters, blankets, etc, and mosquito-nets to protect themselves from mosquitoes.*
- 7. Family has sources of additional income, such as vegetable garden, fruit-bearing trees, etc, so that they are able to fall back on these sources of income when they need additional money.*
- 8. The borrower maintains an average annual balance of Tk. 5,000 in her savings accounts.*
- 9. Family experiences no difficulty in having three square meals a day throughout the year, i. e. no member of the family goes hungry any time of the year.*
- 10. Family can take care of the health. If any member of the family falls ill, family can afford to take all necessary steps to seek adequate healthcare.*

16 DECISIONS OF GRAMEEN BANK

1. *We shall follow and advance the four principles of Grameen Bank: Discipline, Unity, Courage, and Hard Work in all walks of our lives.*
2. *We shall bring prosperity to our families.*
3. *We shall not live in dilapidated houses. We shall repair our houses and work toward constructing new houses at the earliest.*
4. *We shall grow vegetables all the year round. We shall eat plenty of them and sell the surplus.*
5. *During the plantation seasons, we shall plant as many seedlings as possible.*
6. *We shall plan to keep our families small. We shall minimize our expenditures. We shall look after our health.*
7. *We shall educate our children and ensure that they can earn to pay for their education.*
8. *We shall always keep our children and environment clean.*
9. *We shall build and use pit-latrines.*
10. *We shall drink tube-well water. If it is not available, we shall boil water or use alum.*
11. *We shall not take any dowry in our sons' weddings, nor shall we give any dowry in our daughters' weddings. We shall keep the centre free from the curse of dowry. We shall not practice child marriage.*
12. *We shall not inflict any injustice on anyone, nor shall we allow anyone to do so.*
13. *For higher income, we shall collectively undertake bigger investments.*
14. *We shall always be ready to help each other. If anyone is in difficulty, we shall all help him.*
15. *If we come to know of any breach of discipline in any centre, we shall all go there and help restore discipline.*
16. *We shall introduce physical exercise in all our centers. We shall take part in all social activities collectively.*

SOCIAL IMPACT OF GRAMEEN BANK

There are various social impact had been intertwined with micro-credit. In general, the concept of lending in micro-credit had developed leadership roles to the women that given facilities from micro-credit institution. Mostly in Bangladesh, women are treated as housewife and only responsible for household. So Grameen Bank's approach towards the loan system brings additional social benefits. Micro-credit also gives a big impact to the poor people to

combat poverty in their life. Micro-credit has evolved due to its special features on loan giving process in order to start up businesses. Besides, micro-credit institutions provide poor people different financial services along with savings, credit, and insurance facilities. The program has also had an impact on the choice of economic activity among borrowers. There is a shift from wage employment in agriculture and "domestic service and household work in favor of trading, livestock rearing and domestic processing and manufacturing. The dependence on wage labor was much less among the Grameen Bank clients, as more of them turn to be an entrepreneur.

POVERTY ALLEVIATION THROUGH GRAMEEN BANK

Grameen Bank is founded on the principle that loans are better than charity to interrupt poverty: they offer people the opportunity to take initiatives in business or agriculture, which provide earnings and enable them to pay off the debt.

The bank is founded on the belief that people have endless potential, and unleashing their creativity and initiative helps them end poverty. Grameen has offered credit to classes of people formerly underserved: the poor, women, illiterate, and unemployed people. Access to credit is based on reasonable terms, such as the group lending system and weekly-installment payments, with reasonably long terms of loans, enabling the poor to build on their existing skills to earn better income in each cycle of loans.

Grameen's objective has been to promote financial independence among the poor. Yunus encourages all borrowers to become savers, so that their local capital can be converted into new loans to others. Since 1995, Grameen has funded 90 percent of its loans with interest income and deposits collected, aligning the interests of its new borrowers and depositor-shareholders. Grameen converts deposits made in villages into loans for the more needy in the villages

It targets the poorest of the poor, with a particular emphasis on women, who receive 95 percent of the bank's loans. Women traditionally had less access to financial alternatives of ordinary credit lines and incomes. They were seen to have an inequitable share of power in household decision making. Yunus and others have found that lending to women generates considerable secondary effects, including empowerment of a marginalized segment of society, who share betterment of income with their children, unlike many men. Yunus claims that in

2004, women still have difficulty getting loans; they comprise less than 1 percent of borrowers from commercial banks. The interest rates charged by microfinance institutes including Grameen Bank is high compared to that of traditional banks; Grameen's interest (reducing balance basis) on its main credit product is about 20%.

Grameen has diversified the types of loans it makes. It supports hand-powered wells and loans to support the enterprises of Grameen members' immediate relatives. It has found that seasonal agricultural loans and lease-to-own agreements for equipment and livestock help the poor establish better agriculture. The bank has set a new goal: to make each of its branch locations free of poverty, as defined by benchmarks such as having adequate food and access to clean water and latrines.

Grameen Bank is best known for its system of solidarity lending. The Bank also incorporates a set of values embodied in Bangladesh by the Sixteen Decisions. At every branch of Grameen Bank, the borrowers recite these Decisions and vow to follow them. As a result of the Sixteen Decisions, Grameen borrowers have been encouraged to adopt positive social habits. One such habit includes educating children by sending them to school. Since the Grameen Bank embraced the Sixteen Decisions, almost all Grameen borrowers have their school-age children enrolled in regular classes. This in turn helps bring about social change, and educate the next generation.

Solidarity lending is a cornerstone of microcredit, and the system is now used in more than 43 countries. Although each borrower must belong to a five-member group, the group is not required to give any guarantee for a loan to its members. Repayment responsibility rests solely on the individual borrower. The group and the centre oversee that everyone behaves responsibly and none gets into a repayment problem. No formal joint liability exists, i.e. group members are not obliged to pay on behalf of a defaulting member. But, in practice the group members often contribute the defaulted amount with an intention to collect the money from the defaulted member at a later time. Such behavior is encouraged because Grameen does not extend further credit to a group in which a member defaults.

No legal instrument (no written contract) is made between Grameen Bank and its borrowers; the system works based on trust. To supplement the lending, Grameen Bank requires the borrowing members to save very small amounts regularly in a number of funds, designated for emergency, the group, etc. These savings help serve as an insurance against contingencies.^[15]

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

CONCLUSION

Grameen Bank (GB) has reversed conventional banking practice by removing the need for collateral and created a banking system based on mutual trust, accountability, participation and creativity. Grameen Bank provides credit to the poorest of the poor in rural Bangladesh, without any collateral. At GrameenBank, credit is a cost effective weapon to fight poverty and it serves as a catalyst in the over all development of socio-economic conditions of the poor who have been kept outside the banking orbit on the ground that they are poor and hence not bankable. The financial resources can be made available to the poor people on terms and conditions that are appropriate and reasonable, "these millions of small people with their millions of small pursuits can add up to create the biggest development wonder."

REFERENCE

- *Grameen Bank (2005), Stanford Graduate School of Business, Stanford University, Stanford.*
- *Grameen Bank (2009), Grameen Bank Monthly Report, Source: Grameen Bank, July, 2009, Website: <http://www.grameen-info.org>*
- *Grameen Family of Enterprises (2005), Web: <http://www.grameen-info.org/gfamily.html>*
- *Jamal Nazrul Islam, Haradhan Kumar Mohajan, Rajib Datta, Int. J. Eco. Res., 2012, v3i4, 76-96 ISSN: 2229-6158 IJER |*
- *World Bank (2001), Poverty Analysis; Web: <http://web.worldbank.org>*
- *Hulme, D. (2008), The Story of the Grameen Bank: From Subsidised Microcredit to Market-based Microfinance, Brooks World Poverty Institute Working Paper-60, University of Manchester, UK.*

