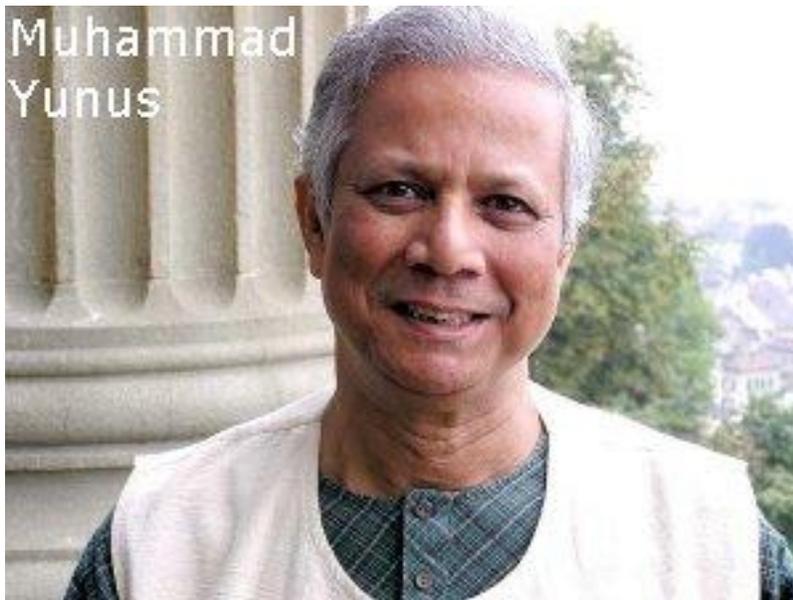


Muhammad Yunus is Grameen founder. He was born on 28th June, 1940 in the village of Bathua, Chittagong, the business centre of what was then Eastern Bengal. He was the 3rd of 14 children of whom five died in infancy. His father was a successful goldsmith. He always encouraged his sons to seek higher education. But his biggest influence was Sufia Khatun – his mother, who always helped the poor people that knocked on their door. This inspired him to commit himself to eradication of poverty. His early childhood years were spent in the village. His family moved to the city of Chittagong, where his father had the jewelry business in 1947.



In 1974, Professor Muhammad Yunus, a Bangladeshi economist from Chittagong University, led his students on a field trip to a poor village. They interviewed a woman who made bamboo stools, and knew that she had to borrow the equivalent of 15p to buy raw bamboo for each stool made. After repaying the middleman, sometimes at rates as high as 10% a week, she was left with a penny profit margin. Had she been able to borrow at more advantageous rates, she would have been able to amass an economic cushion and raise herself above subsistence level.

Realizing that there must be something terribly wrong with the economics he was teaching, Yunus took matters into his own hands, and from his own pocket lent the equivalent of 17 to 42 basket-weavers. He found that it was possible with this tiny amount not only to help them survive, but also to create the spark of personal initiative and enterprise necessary to pull themselves out of poverty.

Against the advice of banks and government, Yunus carried on giving out ‘micro-loans’, and in 1983 formed the Grameen Bank, meaning ‘village bank’ founded on principles of trust and solidarity. In Bangladesh today, Grameen has 2,564 branches, with 19,800 staff serving 8.29 million borrowers in 81,367 villages. On any working day Grameen collects an average of \$1.5 million in weekly installments. Of the borrowers, 97% are women and over 97% of the loans are paid back, a recovery rate higher than any other banking system. Grameen methods are applied in projects in 58 countries, including the US, Canada, France, the Netherlands and Norway.

The Grameen Bank of Bangladesh has triumphed against long odds to help spark an international movement that heralds new approaches to poverty alleviation. The movement emphasizes market-based institutions that provide credit to poor households to generate new opportunities through self-employment. Until recently, Grameen has reported repayment rates of 98% and modest profits while serving over two million functionally landless borrowers.

From these humble efforts emerged a new industry: microcredit—the extension of small loans and other financial and business services to entrepreneurs too poor to qualify for traditional bank loans. Microcredit has since proven to be an effective tool for alleviating poverty and, in addition to creating wealth, generating positive externalities, such as better education and improved health. Grameen Bank is a not-for-profit organization owned by its borrowers. Loan amounts, which start at \$35 and average \$200, depend on the needs of the borrower and her level of credit (determined by previous borrowing and repayment record). Interest rates are kept relatively low and as close as possible to prevailing commercial rates. While these low rates squeeze the bank’s profit margins, they support its primary focus on alleviating poverty rather than generating high returns. Other for profit microfinance institutions (MFI) that have raised rates considerably in order to increase margins, provide capital for growth and attract for-profit investors continue to enjoy strong demand for their services. This suggests that rates high enough to cover the risks inherent in uncollateralized loans are not unreasonable or unbearable.

Grameen Bank’s success must be measured in terms of both social and financial standards. Furthermore, one must first ask whether the bank is a successful social program before turning to its performance as a financial institution.

Grameen Bank is a successful social program that combats poverty by addressing the specific needs of the neediest in society, with a particular emphasis on women. There are, of course,

questions as to the degree of the bank's success. Presumably, if microfinance is truly successful, then microfinance should vanish as the poorest of the poor graduate into the mainstream capital markets.

Several studies have sought to specifically determine whether microcredit empowers women. One of the most important studies, conducted by Pitt, Khandker and Cartwright, investigates the situation in Bangladesh and concludes that empowerment effects, more than standard income-substitution effects, drove the results of their earlier study, which demonstrated that communities benefit more when loans are disbursed to women rather than to men (Pitt, Khandker and Cartwright 2003, 1998).

One big, often underestimated impact that Grameen's women borrowers have is on property rights. Grameen Bank has given loans that have built 600,000 homes to date, 95 percent of which women own. As a condition of the loan, the bank also insists that the house can be built only on land owned by the borrower (for which, read woman). Although many husbands complain, they usually come around to the fact that a house owned by their wife is better than no house at all.

Beginning with a simple experiment in 1976, Grameen Bank has become one of the largest enterprises in Bangladesh and has lifted millions of people—mostly women and their families—out of poverty. Given Khandker's findings (1998) that “as much as 5 per cent of program-participating households should be able to lift their families out of poverty every year,” the 4.2 million women already reached through BRAC and Grameen Bank in Bangladesh translate into 21 million family members. If 5 percent of these are able to lift themselves out of poverty every year, then in Bangladesh alone one million people are lifting themselves out of poverty every year (87,000 per month) as a result of microcredit (Khandker 1998). This is a remarkable social achievement by any standard.