Five Cents a Day: Innovative Programs for Reaching the Destitute with Microcredit, No-interest Loans, and other Instruments: The Experience of Grameen Bank

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CONTENTS

Origin of Grameen Bank ........................................................................................................... 1
Transformation into Bank: Owned by the poor ........................................................................ 1
Organizational structure of Grameen Bank ........................................................................... 2
Organizational development process at the grass root ..................................................... 3
Enhancing the capacity of the poor to Bear New Risks .................................................. 3
An exclusive focus on the poorest of the poor ............................................................... 4
Micro-credit: Grameen Bank experiences ........................................................................ 4
Twenty-five years (1976-2002) later ............................................................................. 4
Positive impact of Grameen Microcredit ........................................................................ 5
Grameen Generalized System (GGS): A new system in Grameen ................................ 5
Main features of GGS ........................................................................................................... 6
Struggling members (beggars) program of GB ............................................................... 7
A 3 dollars loan changed Syman’s life .............................................................................. 9
Update of Struggling Members: April 2006 .................................................................... 12
Some success stories of Struggling Members .................................................................... 13
Grameen road map by the year 2010 .................................................................................. 15
Long term vision: Move out of poverty and stay out of poverty .................................. 16

Graphs:
Growth of GB Members: Over last 3 years & next 5 years ........................................ 5
Growth of Struggling Members ......................................................................................... 12
Struggling Members: Given up Begging .......................................................................... 15
Pictures: Some successful stories of struggling members ........................................... 11-15
Bibliography ...................................................................................................................... 17
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Origin of Grameen Bank
The rural landless people who are desperately in need of credit generally remain outside the orbit of the banking system. Dr. Muhammad Yunus, Professor of Economics, Chittagong University, launched an action-research program in 1976 with the following objectives:

i) to extend the banking facilities to the poor men and women.

ii) to eliminate the exploitation of the moneylenders.

iii) to create opportunities for self-employment for the vast unutilized and underutilized manpower resource.

iv) to bring the disadvantaged people within the folds of some organizational format which they can understand and operate, and can find socio-political and economic strength in it through mutual support.

v) to reverse the age-old vicious circle of "low income, low savings, low investment, low income" into an expanding system of "low income, credit, investment, more income, more credit, more investment, more income".

Transformation into Bank: Owned by the Poor

The project demonstrated its success in Jobra, Chittagong and some of the neighboring villages during 1976-79. With the financial support of Bangladesh Bank (Central Bank of the country) and nationalized commercial banks the program was extended to whole of Tangail (a district near Dhaka) in 1979. With the success in Tangail, program activities were further extended to several other districts in the country viz. Chittagong, Dhaka, Rangpur and Patuakhali.
In October 1983 the Grameen Bank project was transformed into an independent bank by a government ordinance, with the name "Grameen Bank" (GB). The government provided 60% of the initial paid up share capital of the bank, while 40% held by the borrowers of the bank. In July 1986, the government proportion in the paid up share capital was reduced to 25%, while 75% were to be subscribed by the borrowers. Except foreign exchange transactions, the bank is empowered to carry out entire range of banking functions including research and surveys, investments counseling to the clients etc. The mission of the Grameen Bank (GB) is to alleviate poverty from the lives of the poor people. It is a private, specialized bank owned by the poor and the largest financial institution on the planet.

**Organizational Structure of Grameen Bank**

The Chief Executive of GB is the **Managing Director**. The Board of Directors, which is the highest policy making body, consists of 13 members of whom 9 are elected from among the borrowers shareholders. Various activities of the Bank are organized and implemented by four tiers of administrative set-up, viz **branch office, area office, zonal office** and **head office**.
The branch office is the lowest operation unit of GB. It is located in a village. It selects & organizes the target clienteles, supervises credit operation, and recommends sanction of loans. An area office supervises about 10 to 12 branch offices that are assisted by program officers. The area manager works under the supervision of the zonal office that is located in the district headquarter. A zonal manager supervises about 8 to 10 Area offices. The head office is situated in Dhaka City. It primarily maintains relationships with the government and other agencies, provides general guidance and feedback to the lower units of the bank.

Organizational Development process at the grassroots level
Grassroots organizational development is an integral part of Grameen's credit program. It helps in building up viable grassroots units in the form of groups and centers to promote group solidarity. Reinforced by a participatory decision making and management process, the centers represent collective strength. Where the group solidarity is strong, the poor can together confirm in an organized fashion those who are socially and politically more powerful. The group solidarity represents a countervailing influence. It has the potential to provide protection against the traditional power structure.

Enhancing the Capacity of the Poor to Bear New Risks
In view of the vulnerabilities of its targeted clientele, Grameen has carefully built into its credit delivery system innovative safety features. These act like shock absorbers, enabling the Grameen members to better cope with natural as well as man-made disasters. Without them the credit delivery system would not have functioned at all on a regular and continuing basis. It would be useful to briefly describe some of these features, which have evolved over the years as functional components of the credit delivery system.
An Exclusive Focus on the Poorest of the Poor

Exclusively is ensured by:

- Selection Criteria for assetless, landless poor people of Bangladesh.
- Exclusive focus on the poor women.
- Appropriate credit delivery system to meet the diverse socio-economic development needs of the poor.
- Development of (real life situation) practical staff training.
- Development of suitable organizational structures and participatory decision making process.

Micro-credit: Grameen Bank experiences

Quarter century experiences proved the following:

- Micro-credit is a very effective instrument to empower the poor, especially women
- Cost-effective and sustainable
- Creates opportunity to move out of poverty
- Based on system built on trust and mutual co-operation
- Dedicated to establish credit as a human right
- Creates self-employment for the most poor, particularly poor women.
- The poor do not have to come to the bank; the bank goes to the poor.

Twenty-Five Years (1976-2002) Later

The journey has started from one village and now covering to 68 thousand villages. It provided services to 42 poorest borrowers in 1976 and now covers 6.23 million borrowers of whom 96.52 percent are women. It has extended its operations to the whole country through 2121 branches. The first disbursement was Tk. 856 (US$ 27) and now the cumulative disbursement is Tk. 276.54 billion (US$ 5.52 billion). Monthly disbursement is Tk. 4.5 billion (US $ 64.24 million) and cumulative repaid amount of Tk. 245.40 billion (US$ 4.88 billion). The recovery rate is excellent at 98.55%. The outstanding amount is Tk. 31.13 billion (US$ 444.39 million) and the balance of deposits is Tk. 35.49 billion (US$ 506.66 million).
Positive Impact of Grameen Microcredit

There is substantial evidence that GB's poverty alleviation strategy through its credit operations have very quickly produced a positive impact on the lives of the poor in terms of higher income and empowerment of the poor rural women. Grameen Bank's operations had direct impacts on rural credit market, capital accumulation by the rural poor, income and employment generation, poverty alleviation, family size and empowerment of the poverty stricken rural poor, particularly the women from the landless households.

Grameen Bank's impact on the socio economic aspects has been extensively documented by the evaluation studies undertaken by the BIDS (Bangladesh Institute of Development Studies), individual researchers from home and abroad, external aid agencies and multilateral agencies like the World Bank. The references include: (i) Credit for Alleviation of Rural Poverty, the experience of GB in Bangladesh, by Dr. Mahbub Hossain , Sept. 1986 (ii) Impact of GB on the Situation of Poor Rural Women, by R.I. Rahman, July, 1986 (iii) Participation As Process   What we can learn from GB, Bangladesh. By Andreas Fuglesang and Dale Chandler, August 1989 (iv) Is Grameen Bank Sustainable? By Dr. Shahid Khandker, Dr. Baqui Khalily and Mr. Zahed Khan, February, 1994" (v) Grameen Bank, Performance and Sustainability By Dr. Shahidur R. Khandker, Dr. Baqui Khalily and Mr. Zahed
Khan, October, 1995”. Another study by World Bank shows that 5 percent of Grameen Bank household rose above poverty each year by borrowing from Grameen Bank (Ref. Fighting Poverty with Microcredit-Experience in Bangladesh by Dr. Shahidur R. Khandker, Oxford University Press Inc., New York, 1998).

**Grameen Generalized System (GGS): A New System in Grameen**

At the middle of 2000 with our quarter century experiences we design a new Grameen methodology, incorporating all the lessons learnt and the wishes and desires called -- ‘The Grameen Generalized System’ (Grameen II).

It took a long preparation time to develop a flexible, borrower-friendly system. It was field-tested over months and finally made operational in September of 2000. New system is designed to work equally well both in normal and disaster situations. It allows the enterprising borrowers to move ahead faster. It offers tailor-made loans replacing the old single-size-fits-all type of loans.

New system (GGS) basically has been built around one prime loan product - called the Basic loan. In addition, there are two other loan products: 1) the housing loan, and 2) the higher education loan, which run parallel to the basic loan.

**Main Features of GGS**

- The prime loan product - called Basic loan: Grameen micro-credit highway
- Slower speed or detour (Flexi-loan)
- Repayment according to income
- Loan ceiling as per repayment record and deposits
- Weekly savings varies with loan size
- Fresh loan after every six months, to top up the existing loan
- Full repayment at any time allowed
- Term of the loan: Any duration possible
• Loan disbursement as per schedule
• Interest is paid simultaneously with principal
• Grameen pension savings
• Many savings products to choose from
• Bridge loan any time
• Larger savings entitles to larger loan size
• Overdue loans are routinely written off
• Generous loan loss provisioning
• Loan insurance fund (Loans paid off at death)
• “Stars” to indicate achievements
• Higher education loan & Scholarship for member’s children
• Struggling members (Beggars) Loan: No loan interest, loan insurance without paying any cost)

**Struggling Members (Beggars) Program of GB**

From its inception, Grameen used specific targeting of the poor and gave priority to the poorest of the poor, whom Grameen realized needed special attention. Professor Yunus recalls the story of a beggar named Sufia Khaton from the early days of Grameen Bank. Because of her low status, no one wanted to include her in their group. Professor Yunus arranged for her to join a group on his personal guarantee, the experiment ran into a snag; to the annoyance of her fellow group members, she wanted to borrow only 10 taka as a loan compared to average loan size of 500-1000 taka at that time. The other members thought she was joking and urged her to borrow at least 100 taka, but she could not imagine borrowing more than 10 taka. After much persuasion, Professor Yunus finally convinced her to borrow 30 taka, which she repaid promptly.

Given that some poor remain outside the Grameen mainstream, GB introduced a special program for the hard-core poor called Struggling
(Beggar) Members program. This is a new initiative taken by Grameen Bank both to challenge a sustained campaign that microcredit cannot be used by the people belonging to the lowest rung of poverty, as well as to reinforce the Grameen Bank’s belief that credit should be accepted as a human right.

Causes of Begging
Begging is chosen by many poor people in Bangladesh, as a result of river erosion, divorce, death of the earning member in the family, unemployment to disability. For many, it becomes a lifetime occupation. Beggars in Bangladesh are not reached by most of the poverty alleviation programs and subsist on the margins of society.

Objective of the Program
To reach out to the beggars, Grameen Bank has taken up a special program, called the Struggling Members Program which in July 2002. The objective of the program is to provide financial services to the beggars to help them find a dignified livelihood, send their children to school and graduate into becoming regular GB members. We want to make sure that no one in the Grameen Bank areas (villages) has to beg for survival.

The basic features of the program are:

- Existing rules of Grameen Bank do not apply to beggar members; they make up their own rules.
- The struggling members are not required to form any microcredit group. While they may be affiliated with a regular group, they are not obliged to attend the weekly meetings.
- The bank treats its struggling members with the same respect and attention as regular members and refrains from using the term "beggar" which is socially demeaning.
- Groups and Centers are being encouraged to become patrons of this type of member.
• All loans are collateral-free and there is no interest charged.
• The repayment schedule is flexible; the installments are to be paid according to their convenience and earning capability, decided by the struggling member themselves. Loans can be for very long term, to make repayment installments very small. For example, for a loan to buy a quilt or a mosquito-net, many borrowers are paying Tk 2.00 (3.4 cents US) per week.
• Installments must not be paid from money earned from begging, but from money earned from their new businesses.
• The struggling members are welcome to save with Grameen Bank if they wish.
• Beggar members are covered under life insurance and loan insurance programs without paying any premium.
• Each member receives an identity badge with his/her picture and name, and Grameen Bank logo. She can display this as she goes about her daily life, to let everybody know that she is a Grameen Bank member and this national institution stands behind him/her.
• Members are not required to give up begging, but are encouraged to take up an additional income-generating activity like selling popular consumer items door to door, or at the place of begging.

A 3 dollars loan changed Syman’s life

For the last several years, Syman was earning her living by begging door to door in the village. She had worked as a housemaid for many years and washing dishes took a toll on her hands. Because her hands were infected, she could not work as a maid any more and had to beg instead. She was fifty years old. Even though she had a tough life she still had her pride. Married off at the mere age of 12, she returned to her parents after only one year because her husband was abusing her. A year later, she was married again, this time as a second wife. Not only was she mistreated by the first wife, but the ill-treatment increased when her husband started to pay more attention to her with the birth of a son. Five years later she was blessed with a
daughter. Her husband, however, died in the same year, and the first wife forced her out of the house. When she returned to her natal home for the second time, she could feed her children only by working as a housemaid. Through hard work and sheer tenacity, she raised the children and was even lucky enough to get them married. But as ill luck would have it, her son left her to live with his in-laws within six months of his marriage, and her daughter and the son-in-law came to live with her. She thus depended for support on the son-in-law who was a landless laborer. Destitute women such as Syman, in all likelihood, would not be accepted as members of any microfinance institution. Under an innovative program for beggars, however, Syman is now a member of Grameen Bank. She owns a small business selling miscellaneous items in the village; the business is funded by an interest free loan from the bank. Her customers are the same households that she used to visit for handouts.

Syman with BBC News  (April 01, 2004)

A 3 dollar loan changed Syman’s life. Syman used to beg door to door after her husband died leaving her penniless. Now a three-dollar bank loan has changed her life. She has gone into business selling biscuits.

Once Syman went hungry. Now she can buy enough to eat. She even has savings of six dollars. This, in a country where nearly half the population is below the poverty line. Even by the standards of a poor country, like Bangladesh, the amounts being loaned are small. But three dollars really can change a life. Giving a beggar the chance to become self sufficient. It’s thanks to Grameen, which has become one of Bangladesh’s biggest banks by lending money exclusively to the poor. Now it’s targeting beggars. Offering them loans with no interest and no conditions. The bank is even prepared to lose money. More than
seven thousand beggars have taken out loan so far. And they are likely to be a good risk. Grameen has found the poor almost always pay back, unlike the rich.

Roland Buerk  
Reporter, BBC News

I struggled hard while raising my children. I don’t have my father, or mother, or even my husband to look after us. We struggled a lot. No one suffered like me ... Even when we were struggling, we said to Allah that “No Allah, we are very happy,” we told him that “we aren’t suffering.” So, when you came and gave me a loan, and now I go selling biscuits (cookies) around the village, I honestly feel happy. This is much better than going around begging in empty hands. Syman is walking around the village hawking bracelets, lozenges and candies.

Syman  
Stuggling Member (former beggar)  
Grameen Bank

It is a huge profit in the long run in the cause of poverty alleviation – in the cause of changing the beggars to a human resources and income generating people. They will be asset.

Dipal C. Barua  
Deputy Managing Director  
Grameen Bank

Bad debts in Bangladesh’s commercial banks add up to more than three billion dollars. Syman has always paid back her loan. For her it was a dream come true. A chance to escape the poverty trap.

Roland Buerk  
Reporter, BBC News
Syman - Begging before joining GB. Now she is peddling and no longer begging.

Update of Struggling Members: May 2006

- No of Struggling Member: 73,388
- Cumulative loan disbursement: Tk. 58.32 million
- Cumulative loan Repayment: Tk. 34.78 million
- Savings from their income: Tk. 4.58 million
- Given up begging: 1850
- Joined GB’s main stream: 1057
- Loan for Village Phone (Mobile phone): 8
- Amount paid out against dead struggling members from life insurance fund: Tk. 0.46 million
- Loan paid out for dead struggling members from insurance fund: Tk. 0.25 million.
- Loans for essential goods:
  - Quilt : 10396
  - Blanket : 1741
  - Wrapper (Chadar/shal) : 2081
  - Mosquito-net : 6770
  - Umbrella : 3890
  - Bedstead (Khat) : 7
- We are expecting to provide our service to 100,000 beggars by the year 2006.

By the end of June 2006 we have provided our service to 75,672 beggars. We hope we will provide our service to 100,000 beggars by the end of 2006. Grameen Bank now has more than 2,200 branches. GB has been open two branches per day and the expansion is on-going. In the remaining six months of this year, if we add only two struggling members per branch, per month, (2200X2X6=26,400) it will reach our target.
Growth of Struggling Members
Number of beggars (cumulative)

Struggling Members: Given up Begging
(Number: Cumulative)

Grameen Road Map by the Year 2010
- Membership will reach 15 million. The goal is that no poor women will be left out. It will be exhaustive; include every poor and poorest in the villages of Bangladesh.
- The bank will open two branches per day.
- All beggars in the villages will become member of the Grameen Bank.
- Half of the borrower will be on micro-enterprise or special investment loan.
- There will be 1 million phone ladies.
• 100,000 medical, engineering and master’s degree will be funded by education loans.
• The bank will distribute 50,000 scholarships per year.
• Branch staff will not be doing any office work such as accounting, report writing because of the increased use of computers.

**Long Term Vision: Move Out of Poverty and Stay Out of Poverty**

More income for women & family:

• Basic loan
• Micro enterprise loans for bigger investment
• Integration of IT & Communications for income generation and knowledge
• Built asset to pay for the education and marriage of the children, to enable them to create large asset base, and other long term needs.
• Prepare the future generation with education and knowledge so that the families do not slip back into poverty through Scholarships and Higher Education loan.
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