

Nobel Peace Prize is world's most prestigious achievement award. It is coveted not so much for its \$1.68 million monetary value as for what it represents. It is awarded to an individual or to an organisation that make a unique and outstanding contribution to the cause of peace and humanity.

In December 2006 the Nobel Prize Committee did something unheard of: they awarded the Prize to a **bank** ... and its founder!

Excerpts from :

The Price of a Dream

The Story of the Grameen Bank

by **David Bornstein**

(Adapted and reprinted with permission)

Buses and trucks barrel down Mirpur Road, in Dhaka, Bangladesh, blasting their horns and leaving trails of black smoke to settle on rickshaws and oxcarts. By the side of the road a high brick wall encircles four buildings in a compound, one of which is dominated by a tropical garden that opens to the sky. This is the head office of the legendary Grameen Bank – a bank that has turned the concept of banking on its head by lending billions of dollars in millions of tiny working capital loans to some of the poorest people on earth.

Thousands of visitors from around the world have travelled to Bangladesh to learn from this bank, and many arrive carrying tape recorders

and note pads. When they enter the office, they find no receptionist, no carpets, and no lifts. The rooms are equipped with ceiling fans, paper-weights, and stacks of ledgers. Despite the heat, only the computer room on the fifth floor is air-conditioned. Here, programmers monitor operations, and prepare reports, which they love to spice up with wild-looking graphs depicting their organisation's growth. The programmers like to alternate colours and switch between bars, cylinders, and lines, but their graphs all look basically the same - like ski hills, rising slowly at first, and then shooting up at impossibly steep angles towards the sky.

Over the past three decades, the Grameen Bank has extended US\$ 5.7 billion in tiny loans of a couple of hundred dollars each for self-employment purposes to some of the poorest people in the world - landless villagers in Bangladesh. Today, through a network of more than 2,200 branch offices, the bank serves more than six and a half million clients, 97 percent of them women. Each month, it adds thousands more and extends new loans totalling \$60 to \$70 million. With on-time loan repayments exceeding 98 percent and bad debts less than 0.5 percent, it outperforms all other banks in Bangladesh and most banks around the world.

"Grameen" comes from the Bangla word gram, which means village or rural, and true to its name, the Grameen Bank works only in villages, which is one of many ways it differs from conventional banks. Another is that it lends money mainly to women in small amounts for short periods of time. Yet another is its method of screening borrowers: to qualify for a loan, a villager must show that her family's assets fall below the bank's threshold. She will not be required to furnish collateral, demonstrate a credit history, or produce a guarantor; instead, she must join a five-member

group and a forty-member centre, attend her centre's meeting every week, and she must assume responsibility for the loans of her group's members. This is crucial, because it is the group - not the bank - that initially evaluates loan proposals. Defaulters spoil things for everybody else, so group members choose their partners wisely. If all five repay their first set of loans in one year, each is guaranteed access to credit for the rest of her life - or as long as she elects to remain a customer. In this fashion Grameen is faithful to the Latin word from which "credit" derives; credere - to believe."

"The myth that credit is the privilege of a few fortunate people needs to be exploded," explains Muhammad Yunus, the founder of the Grameen Bank. "You look at the smallest village and the tiniest person in that village: a very capable person, a person desperate to work. You have only to create the proper environment to support these people so that they can change their lives through their own efforts."

Pure idealism? Perhaps. Nonetheless, these words come from a man who has designed a bank that enables its borrowers to save money for emergencies, provides them with benefits in the event of death, has instituted a village-based health-care and a self-financing insurance program. It has turned beggars into telecommunication vendors and given the disabled the self respect of a business. Today, against the backdrop of three and a half decades of often-wasted international aid, Grameen's entrepreneurial approach stands out as singularly effective and sustainable. To date, the bank has revolved its loan capital more than 15 times. Along the way, it helped millions of villagers to move from one or two meals a day to three, from one or two sets of clothing to three or four. Grameen members have borrowed money to

pay for their children's education, to buy medicine, to build houses, to accumulate assets for old age, and for the weddings of their sons and daughters.

It was in 1991, shortly after completing a master's in journalism, that I first heard about the Grameen Bank from a friend who was directing a documentary film about it. Before journalism, I had studied commerce and worked for four years writing computer systems for business applications. I had always been interested in innovative businesses. So I asked my friend to lend me some literature - a book and several articles – on this bank in Bangladesh.

The book I borrowed said nothing about the “business”. It was a compilation of case studies entitled *Jorimon and Others : Faces of Poverty*, edited by Muhammad Yunus. The book told of poor villagers who had taken loans from the bank and improved their lives. It was while reading the third story, entitled “Sakina's New Identity,” about a woman who once had to beg for food, who took a loan and began supporting herself by making and selling sweet potato cakes, that I thought: if these stories are true, then the Grameen Bank is a dream come true.

A newspaper article dating from the fall of 1990 said that this bank had financed 800,000 “micro-entrepreneurs.” How did they all make profit? The bank charged the commercial interest rate, then 16 percent. This seemed awfully high. Was it necessary to charge poor people so much? Of course, the cost of managing such small loans had to be high. But was this rate low enough to allow them a fair return on investment? It had to be, I guessed, because, as the article pointed out, each year the villagers took larger loans, and each year they repaid

them, and according to the bank they repaid them on time.

Yunus, an economist, had founded the bank while teaching at a university in southern Bangladesh. One day, walking in a village near his campus in 1976, he met a woman named Sufiya trying to earn a living by making bamboo stools. The woman had very little money to purchase materials and so she barely earned enough. Yunus related the story to his graduate students and together they designed an experimental credit program to assist her and others like her in that village.

From there, the story unfolded like a fable. The experiment spread from half a dozen villagers to a few hundred, and the system held. It spread from a few hundred to a few thousand, and it still held. Yunus quit teaching. A cadre of graduate students abandoned their career plans to join him. At 50,000 clients, things were still working. Yunus raised millions of dollars and set out to franchise his operation. At a certain point, for reasons the articles I had did not make clear, the bank switched from banking with men to banking almost exclusively with women.

After several years, inspired and assisted by Grameen, similar banks and replication projects had sprouted up in Malaysia, in the Philippines, in Malawi, and in dozens of locales in Africa and South America.

From the beginning Yunus said his target market was the poorest half of Bangladesh, some 10 million families. Was he serious? Surely his system would break down before it reached that point. The market would become saturated. Bureaucratic torpor would set in. How far could it go?

He took it even further, estimating that a billion poor people around the world could improve their lives relatively quickly with support from institutions such as the Grameen Bank. In the foreword to *Jorimon*, apparently surprised by his own success, he wrote that the villagers' stories illustrated how easy it is "to change a person's life for the better; which seems unbelievable at times."

It did seem unbelievable. Better than cold fusion - if it were true. As Yunus saw it, poverty was not the complex, insuperable problem it had been made out to be. The process of impoverishment was quite predictable, and the way to arrest it was also quite predictable.

The Grameen Bank was an attempt to prove this thesis.

Bangladesh was certainly an appropriate place to try. Stricken by floods, droughts, and cyclones, Bangladesh was a country so poor it had been dubbed the Fifth World and labelled by diplomats an "international basketcase." To many observers, Bangladesh was not just a troubled nation, it was a disturbing notion. From afar, this little country seemed proof of the randomness of the universe, proof that some people are just plain unlucky and there's not much that can be done about it.

The Grameen Bank set out to dispel this notion.

It had its work cut out. The numbers were staggering. Imagine almost half the population of the United States packed into an area the size of Wisconsin, and the vast majority of them malnourished, illiterate, and desperate for work.

Each day, thousands of villagers flooded into Dhaka, Bangladesh's choking and wheezing capital city, seeking employment. Millions were poised to follow in the coming years. But this problem wasn't unique to Bangladesh. Throughout Asia, Africa, and Latin America, urban populations were skyrocketing as tens of millions could no longer earn a living in their villages.

"By the end of this decade," wrote Richard Critchfield in his 1994 book *The Villagers*, "more people will live in towns and cities than in villages, a great milestone in human history." It was a milestone he feared would be accompanied by "drastic cultural disruption." Robert Kaplan writing in *The Atlantic Monthly* the same year, envisioned, in the coming decades, "an increasingly large number of people . . . living in shanty-towns where attempts to rise above poverty, cultural dysfunction, and ethnic strife will be doomed by a lack of water to drink, soil to till, and space to survive in."

Did development along the lines of the Grameen Bank offer an alternative to this grim scenario, a means of helping people by providing them with opportunities for self-employment where they lived? How many additional villagers would have moved to a slum in Dhaka had the bank not granted them a loan?

The questions prompted a broader inquiry: Did helping people stay in their villages represent economic progress? Two centuries ago hadn't Adam Smith written that the "greatest improvements in the productive powers" of mankind were attributable to the division of labour? And hadn't this led to industrialisation, urbanisation, factories, assembly

lines, and, in the end, greater wealth for all? Look at postwar Japan, look at the Asian “tigers”.

Yet here was a twentieth-century economist, one of the most highly respected voices in world development, arguing that the best way to combat the world's most entrenched poverty was to create the conditions whereby millions of tiny entrepreneurs scattered in hundreds of thousands of villages and small towns could support themselves through self-chosen pursuits. Not wage-employment, but self-employment; not gigantism, but gradualism; not cities, but villages; not men, but women.

Was this the vision of a modern-day Luddite, a machine-smasher? To the contrary. Yunus had been schooled in the tradition of the renowned growth economist Joseph Schumpeter. Schumpeter views the entrepreneur as the dynamic factor in the economy, a force that issued a “gale of creative destruction,” exploiting new technologies and exploring “uncharted sea[s].” But Yunus had also grown up in Bangladesh and seen the effects of technology thrust haphazardly upon a pre-industrial society. When villagers left the countryside in droves to become factory labourers and slum dwellers, he didn't call it progress.

“ Unless designed properly, wage employment may mean being condemned to a life in squalid city slums or working for two meals a day for one's life. Wage employment is not a happy road to the reduction of poverty. The removal or reduction of poverty must be a continuous process of creation of assets, so that the asset base of a poor person becomes stronger at each economic cycle, enabling him or her to earn more and more,” Yunus wrote.

In fact, Yunus doubted that the developing world was capable of creating wage employment for the estimated 38 million people who, each year, entered the labour forces in Asia, Africa, and Latin America.

What interested him were advancements that helped societies reorganise themselves along more intimate lines. In the age of the Internet why did people have to leave the countryside for cities? Because that's where the factory jobs were! So, rather than move the villagers to the capitalists, move the capital to the villagers. That was the general idea.

The Grameen Bank was the first step in this process. By placing resources directly into the hands of poor people, it got them involved in myriad businesses - providing services, trading, processing, manufacturing, and shopkeeping - while gradually expanding the economic role of women. In time, many village-based entrepreneurs would upgrade their skills and management abilities. It might take decades or generations but, Yunus felt, eventually they would be able to carve out profitable niches in the world economy. In the meantime, although they remained extremely poor by international standards, they would enjoy more options and hopefully lead more satisfying lives.

In the late 1980s, the Grameen Bank began helping villagers with intermediate-level technology in agriculture and fisheries. In the early 1990s, the bank began helping thousands of its weaver-borrowers market each year more than a million yards of handmade cotton and silk to manufacturers producing shirts for the American and French markets. In 1996, Yunus obtained a licence to

implement a cellular phone network in Bangladesh to be run by thousands of his borrowers. He began exploring the commercial possibilities of borrowers generating and selling solar power in villages and started a company which would bring global data-entry business to the women in Bangladeshi villages over the Internet.

Oddly enough, one could think of the Grameen Bank as a version of supply-side economics: Reaganomics, with a twist. Rather than injecting capital into economy at the altitude of corporate investors, as tax cuts or special incentives, it injected capital at ground level, as loans to the poor. Call it trickle-up - or better, bubble up - economics.

What did bubble-up economics promise? In the short run, modest but measurable improvements for the poorest segment of society: better food, shelter, and clothing; some basic health care; opportunities for education; more control, less anxiety; and the ability to plan; within a limited range; for the future.

Here was the kicker: In the long run, Yunus believed that everyone, including the wealthy, would benefit. These small-business people would eventually reach a point where they had more spending power, where they could each afford a few more bars of soap each year, a few tubes of toothpaste, an extra sari.

Across Bangladesh, this would translate into a demand for millions of bars of soap, millions of tubes of toothpaste, and millions of saris. And then, although they may have no idea why soap or sari demand is up, those in the business of producing these items would experience the pleasant sensation

of bubbles nudging them from below. All those small loans finally reaching the surface.

Bubble-up seemed infinitely more attractive than trickle-down for the simple reason that it started with, rather than ended with, the people who needed assistance most. But could it really change a national economy? Or would it remain, as some predicted, mired in low productivity and ever diminishing returns? And what was the alternative for Bangladesh? Since its birth in 1971, the country had absorbed more than \$ 25 billion in foreign aid and the majority of its citizens had grown poorer. Here was an organisation producing results where so many others had come up empty.

In 1991, the Grameen Bank surpassed one million borrowers; in 1994, it surpassed 2 million; and by 2006 it had more than tripled to over six and a half million borrowers. (Since each borrower represents one family, Grameen's outreach in 2006 was 30 to 35 million people.) In the fourteen years since my first visit to Bangladesh in 1992, the bank's annual disbursements have increased more than fifteen fold. Microenterprise banks and programs have since opened shop throughout the world. Their systems vary according to context and culture, but their objectives are the same. Like Grameen, they view poor people as clients, not beneficiaries, and they seek to provide them with the means to support themselves through dignified self-employment.

Grameen is a pure meritocracy, providing opportunities for self-advancement based not on class or race or inherited privilege but on character, imagination, and hard work. Only those who belong to the poorest 50 percent of the population are eligible to join. But Grameen does not demand less of its clients

because of their circumstances; it demands more of them. While wealthy Bangladeshis often get away with defaulting on their bank loans, Grameen clients are not permitted to default. Only those who repay their loans promptly are granted subsequent loans, and only those judged trustworthy by their neighbours are accepted into borrowing groups in the first place.

Grameen is also a political chameleon. It has the ability to affirm beliefs that both conservatives and liberals hold dear. From the right Grameen can be seen as an entrepreneurial institution that makes the case for less government; from the left, it appears to be an enlightened social welfare program. Some see Grameen as an example of reinvented government. Muhammad Yunus disagrees. He sees his bank as an example of reinvented capitalism. In fact, he calls it a "socially conscious capitalist enterprise."

In the end Grameen resists all attempts to reduce it to an ideology. As an institution, the bank has few precedents; it is a business that scrupulously controls costs and aims at profitability, and a social program whose mandate is to end poverty and hunger, not just in Bangladesh but "from the face of the earth."

Consider: The Grameen Bank charges commercial rate interest. It rarely forgoes loans, although it restructures them when necessary. It provides no free services to its borrowers, charging fees even when it distributes such essential items as water-purification crystals, vegetable seeds, and iodized salt. It remains a private enterprise, with 92 percent of its shares owned by its 6.6 million borrowers (The remaining 8 percent shares are retained by the Bangladeshi government who likes to

remain involved). For all its efforts to contain costs, Grameen remains committed to a clientele that is inherently expensive to serve - a clientele that in the absence of an ethical imperative would probably never have been discovered by the free market.

Laissez-faire or interventionist? Either way, Grameen is a performer - which is why, in July 1995, the World Bank broke with its tradition of financing primarily large-scale infrastructure development projects and launched a \$230 million fund to finance Grameen Bank "replications" around the world.

And the number of these projects are dramatically expanding with over 400 Grameen replications in 60 countries already with a combined outreach similar to that of the Grameen Bank itself.

In the meantime, in Bangladesh, Grameen's money continues to revolve - going out as loans, coming back as instalments before being lent out again. Along the way, in the steady rhythm of their weekly meetings, Grameen bankers provide bits of useful information to millions of villagers, chipping away at old habits and attitudes, slowly turning the ship of one of the world's poorest nations.

Some have called Grameen a development "miracle," but this just misses the point. Miracles by definition occur once. Grameen has extended its services to 72,000 villages. Yunus likes to compare it to McDonald's. "People know the quality of our service," he says. "Our job is to make sure it doesn't deteriorate in any corner of the country."

Indeed, the Grameen Bank has marketed small loans like burgers and fries. With millions served.

Adapted and reprinted with permission from –
David Bornstein: 'The Price of a Dream';
371 pages, \$25.

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Postscript

On 12 December 2006, while receiving the Nobel Peace Prize in Oslo, Yunus declared the Grameen Bank to be "a testimony to the potential of the poor". We hope you agree. And we hope that you will join us in helping the poor fulfil their potential.