A Grameen Bank Concept: Micro-credit and Poverty Alleviation Program in Bangladesh

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Abstract— Micro-credit became a new phenomenon in the present world due to its recognition of an efficient weapon to fight against poverty. A current investigation proved that, more than 1.3 billion inhabitants are struggling to earn a smaller amount one dollar ($1) a day where they are captivated by extreme shortage of basic needs such as; food, cloth, shelter, treatment and education. Recently a tremendous success has been displayed to eradicate poverty using micro-credit loan and every year 1% of total population is coming out from poverty. However, reducing poverty is more successful in rural areas than in urban areas because of its random access in remote places. In every year half a billion US dollar are given to 7.5 million borrower throughout the country as a micro-loan to break the vicious cycle of poverty. So, this paper approaches to explore Grameen Bank’s activities and the way it assists enormously to develop the living standard of the poor and vulnerable people in Bangladesh and encourages to apply this model in different countries.

Keywords— Basic needs, efficient weapon, grameen bank, micro-loan

I. INTRODUCTION

Bangladesh is a densely populated country and the amount of population is 160.5 million with a density of 834 inhabitants in per square kilometre. Moreover, recurrent natural disaster such as flood, erosion and storm gives more trouble to the country. Hence, people are loosing their lives and shelter. Despite the frequent natural catastrophe hit in the country, magnificent development have been witnessed. In 1990’s, poverty jump down from 57% to 40% and average GDP growth increased over the last six year is 6% [1].

Among the micro-finance organizations (NGO’s) in Bangladesh, Grameen bank is in a leading position who is trying to develop poor as well as vulnerable people providing micro-loans without requiring any collateral or mortgage. Its aim is to create a poverty museum each and every area in Bangladesh. However presently Grameen relication is administered all over the world and dedicated to create poverty free world. With this initiative, this paper focuses how micro-finance is helping to eradicate poverty in Bangladesh. Following this approach, this paper has structured into six parts. First part discusses about microcredit system, difference between Grameen Bank and Conventional Bank. Second part highlights the structure of micro-credit, institutional framework and advancement of the micro-finance institution. Section three illustrates grameen loan system, investment procedure and replica model elucidated. Fourth part describes causes of poverty and its reduction strategy framework. The implications towards eradication of poverty explained in section fifth and finally, social and economic impact of micro-credit in Bangladesh has been conferred.

II. GRAMEEN BANK CONCEPT

A. Idea of Microcredit

Micro-credit is a small amount of loan given to the poor to develop their standard of living. This small amount of loan can help people to come out the cycle of poverty by generating income. Defining micro-credit, it is a - “Financial service where small amounts of money (usually around $50-$150) are loaned to poor people for use as a capital to start or expand small businesses” [2]. It is amazing how does the little amount of money gives strength to the poor to start a business and helping to break out the vicious cycle of poverty. This small amount of loan or financial supports to the needy people helps to encourage setting up free-businesses. In other way, it is a financial innovation system that comes from grameen banking system or procedure which is based on trust and collateral-free and opposite to conventional banking system. In order to get loan people go to the conventional bank but Grameen Bank approaches rootless or landless people’s door steps. It is incredible that, without guarantee any bank can allocate or sanction loan to the rootless or vulnerable people. This loan giving approach placed Grameen Bank in a unique position in micro-finance and approaches beyond the boundaries. Micro-credit summit was held at Washington DC on 2-4 February 1997, adopted microcredit that, “Microcredit (mi- [*]Kro'kre-dit); noun, programs extend small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families” - Microcredit Summit [3]. So, micro-credit is an extension of extremely tiny loan given to the rural poor villagers to assist them to be identical human beings, so that they can operate small-scale business and can afford shelter, food, education as well as treatment to their families.
B. General Features of Microcredit
Grameen Bank allocates credits to the poor and uneducated women in rural places and created trouble-free loan method with easiest re-payment system without imposing any terms and condition because its main concern is to build social assets in order to achieve prosperity.

C. Is Grameen Bank Different from Conventional Bank?
The founder of Grameen Bank Dr. Yunus says, “Less you have, more attractive you are, if you have nothing you will get the highest priority”. Grameen Bank always gives priority to the poor, rootless, landless as well as vulnerable. His belief is against the trend that “the more you have, the more you can get”. That’s why half of the population of the world is not allowed to get loan from conventional bank. Whoever believes landless people are highly privileged by getting collateral free loan? Grameen Bank is giving favor to them. About 97% borrowers are female and getting “ownership of assets” for their families. Grameen Bank’s 23,144 staffs meet 7.95 million borrowers door-step in 84,691 villages to deliver bank services at rural areas [4]. It is well known that conventional banks are profit maximizing whereas Grameen Bank’s objective is to provide financial services to fight against poverty. For this GB is looking beggar from the street to provide loan so that they can start SME or any other small businesses to turn out from poverty. This bank is dedicated to give micro-loan to beggar not for consumption but for business to change their social status. In this process Grameen system helps to implement some goals in social, educational and health sectors. These all are known as “sixteen decision” [5]. These sixteen decisions are still effectively working and implementing among the Grameen borrowers. Every Grameen branch borrowers can recite “sixteen decisions” [6]. These all decisions demonstrated not only micro-credit or micro-loan system but also trying to solve population problems, sanitation, pure drinking water and illiteracy. However, these decisions also help enormously to create health awareness, social movement, ensuring education for borrower’s children. Moreover, GB is trying to create social awareness against the dowry system. All these issues can be triumphant after achieving economic empowerment.

III. GROWTH IN MICROFINANCE INSTITUTION
During 1970’s, Professor Yunus started to give micro-credit loan “Dheki Rin Pkolpo” with the help of Bangladesh Bank in collaboration with “Swanirvar Bangladesh”. A small number of NGO’s were working with great effort. Later in 1975, “Swanirvar Bangladesh” came into relocate the “hands of beggar into the hands of worker” [7]. The main purpose of “Swanirvar Bangladesh” is to attain the all-round socio-economic development of rural people of Bangladesh on the basis of self-reliance”. Later on microcredit organization flourished in 1990s. Figure.1 shows how micro-finance Institution expanded over the time. Bangladesh Institute of Development Studies (BIDS) studied the expansion of microfinance institution from 1997 to 2000. At present more than 7.5 million micro lenders exist in Bangladesh.

IV. STRUCTURE AND INSTITUTIONAL FRAMEWORK
Figure.2 shows the structures of micro-credit. First step is to create motivation that everybody has a potentiality to do and receive. Second step is to build up the society and arranging training program. Third step is to give credit proposal then distribute fund for personal investment. Gradually comes rest of the work such as; fund collection, returns, operations and credit cost. Though interest is 20% but repayment is 98%. Interest rest is high because of Grameen giving door to door services and provides exclusive training program for the borrower’s and all activities are handled by the Grameen field workers.
Employed Women Association (SEWA) of India. Basically this network theory has been used for informational advantages.

![Institutional Network](source: www.ivybusinessjournal.com)

**Fig. 3 Institutional Network**

V. **GRAMNEEN LOAN SYSTEM, INVESTMENT AND REPLICA**

Grameen bank adopted unique loan systems that are voluntary formation where people create groups. Each and every group is consisting of five in numbers. Only two members are allowed to take a loan at first time. If the performances are reaching at the satisfactory level then next two borrowers can apply for loans. Finally, fifth member can be selected for loan. After approving loan Grameen Bank arranges a training program. Training program comes after the loan is because Grameen Bank assumes that if it starts first most of the borrower will be scared with the system and they will lose their interest to get loans. Consequently, it will not work. Figure 4, indicates how they distribute loans among the borrowers step by step. After getting loans people are engaged different types of business such as pottery, weaving, paddy husking, garment sewing, storage and marketing for self-development.

![Loan Distribution System](source: www.systemdynamics.org)

**Figure. 4 Loan Distribution System**

![Loan and Advances of Grameen Bank](source: www.systemdynamics.org)

**Figure. 5 Loan and Advances of Grameen Bank**

After the initiation, Grameen Bank has given 8 billion US dollar to the poor villagers. At present around forty millions of people are closely connected with Grameen Bank. Figure 5 shows advancement of Grameen Bank over the time.

Grameen Replica has used also all over the world to manage microfinance institution. Figure 6 shows Grameen Bank finance project which is working with a strong chain. There are eight groups where each group is consisting with five members. Branch office is controlling fifty centers where five centers consisting of 2000 members. Area office is looking after five branch offices and zonal office is handling five area offices and finally general office is going to look after all these matters related to the loan giving and repayment process. Micro-credit ascends over the time only for innovation and implementation of highly designed structure.

![Replica of loan system](source: www.bangladesh-bank.org)

**Fig.6 Replica of loan system**
VI. CAUSES OF POVERTY AND ITS REDUCTION PROCESS

In this section cause of poverty and overall objective of its reduction has discussed. Poverty is measured by deprivation of basic needs like shelter, food, clothing, treatment, education and safe drinking water. If all basic needs are absent it can be said people are living under poverty. According to World Bank;

"Poverty is an income level below some minimum level necessary to meet basic needs. This minimum level is usually called the "poverty line". What is necessary to satisfy basic needs varies across time and societies. Therefore, poverty lines vary in time and place, and each country uses lines which are appropriate to its level of development, societal norms and values. But the content of the needs is more or less the same everywhere. Poverty is hunger. Poverty is lack of shelter. Poverty is being sick and not being able to see a doctor. Poverty is not having access to school and not knowing how to read. Poverty is not having a job, is fear for the future, living one day at a time. Poverty is losing a child to illness brought about by unclean water. Poverty is powerlessness, lack of representation and freedom". [8]

Natural disasters like tornado, flood, hurricane, tsunami and cyclone are also the causes of poverty. When these natural catastrophes hit the country wealth has been destroyed. However, Lack of industries and factories in a place are also the cause’s poverty.

Figure 8 shows the flow chart of the strategic frame work of poverty reduction strategy. For reducing poverty four strategic blocks have been identified. Block 1 is denoting pro-poor growth, block 2 is boosting critical sectors for pro-poor economic growth, and third one is devising effeteness safety & targeted programs and finally ensuring social development. These four blocks helps to eradicate poverty. This chart also mentions four supporting strategies including social insertion and good governance and the best example of Grameen Bank in Bangladesh. Providing service delivery and sustainable social development long run planning is more important.

VII. IMPLICATION OF MICROFINANCE TOWARDS ERADICATING OF POVERTY

As we know, the role play by microcredit towards eradication of poverty in Bangladesh and other countries, showed positive results since it was introduced. The objectives are to help the world’s poorest, especially women, to improve their lives and break away from poverty through micro-finance.

A. Successful Stories in Bangladesh

In Bangladesh, according to data gathered by the Microcredit Summit Campaign year 2004, there are ten active institutions or association that facilitates micro-credit to the Bangladeshi

Here are the examples of role play by the institution or association regarding micro-credit facility in Bangladesh that bring the local people out of poverty.

B. Association for Social Advancement (ASA)

ASA is the second largest micro-finance NGOs in Bangladesh. It started in 1978 with various types of development programs for the socio-economic progress of the distress rural poor [9]. But since 1998, ASA only serve micro-credit and discarding all other social programs. ASA provides personal and group based micro-credit with a 12.5% service charge over a year. ASA had made a successful women entrepreneur in Dhaka and a role model in her group by started with a loan of Tk 10,000 from ASA in 2001. with the loan she bought sewing machines and started embroidery work for boutiques and fashion houses. Now she has 10 sewing machines and 10 employees and makes a profit of almost Tk 15,000 a month.

C. Bangladesh Rural Advancement Committee (BRAC)

BRAC was founded in 1972 and one of the largest NGOs in the world and the pioneers in NGOs activities in Bangladesh. BRAC provides micro-credit to its members for the following purposes: to crop cultivation, for the release of mortgage loan, agricultural, fishing, purchase of rural transport such asrickshaw, boats and bullock cart, weaving, pottery, food processing, small trading, poultry and paddy husking [10]. BRAC recovers the loan on weekly basis in installments with 15% flat rate of interest. A case study made at district Rangpur had proved the excellence of BRAC facility [11]. A housewife with a retarded husband was joined BRAC- Targeting the Ultra Poor Program. She was given a horticulture nursery asset with a land and proper training before she started planting. After two years, her nursery is flourishing and producing guava, mango and papaya plants. Her income varies and up to 25,000 taka (367.65 USD) from selling the fruits. With all those profits, she managed to buy three cows for milk production, increased food expenditure, and purchase saris, furniture and jewelries'. Her successes now widen other thought from her village. Now, most of the villagers joined the BRAC program and will be success one day.
D. Grameen Bank

The Grameen Bank (GB) is one of the most successful experiments in extending credit to the poor in Bangladesh. GB only provides micro-credit for productive activities [12]. Instead of giving micro-credit to the group of people, GB also treated people of Bangladesh efficiently through its social project by joining multinational companies as its social entrepreneurship part. For example, Grameen launched its yoghurt business, Grameen Danone, which provides malnourished children with a low-cost source of nutrition. Grameen Veolia has built several water treatment plants that provide clean drinking water to the poorest in Bangladesh, where some ground water is contaminated by arsenic. BASF Grameen provides cheap treated mosquito nets to help prevent malaria.

VIII. SOCIAL AND ECONOMIC IMPACT IN BANGLADESH

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”.

IX. CONCLUSION

It is anticipated that micro-loan will contribute to our economy by eradicating poverty in a real sense. This paper highlighted how micro-credit works for the poor by giving small amount of money and how they benefit by Grameen loan. Development should be grounded by cultural, social and economic growth of the country. And for the socio-economic development Grameen has adopted so many easy use methods. This paper is given the clear idea about micro-credit loan and structure of the Grameen Bank as well. This paper also studied with the growth of micro-finance institutions in Bangladesh and how they are helping enormously to eradicate poverty. The most important issue of micro-credit is how its structure formed and institutional network works with effectively to reducing poverty. This paper is also talked about the Grameen loan system and investment to the poor people and its replication all over the world. Another important issue has been discussed to eradicate poverty with promoting good governance by Grameen Bank for socio-economic development of the country. Creating sustainable development of the society Grameen Bank’s structure and program is essential. This paper also talks about the implication of microcredit towards eradication of poverty through government and non-government organizations like ASHA, BRACK, PROSIKHA, GRAMEEN BANK and SONALI BANK of Bangladesh.

REFERENCES


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