



## Concept Paper on the Bank of the Poor - Grameen Bank Microfinance System

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### Background and Objectives

Muhammad Yunus first conceptualised the Grameen Bank -originally Bank of the Poor - system in Bangladesh in 1976. Believing that credit is a human right, and disagreeing with conventional banking systems that exclude the poor from receiving this right on the assumption that they will not repay loans, he created a methodology and institution centred around the unique circumstances and needs of the poorest of the poor. The project was then transformed into an independent bank by government legislation in 1983, and Mohammad Yunus received a Noble Peace Prize in 2006 for the Bank's successes in alleviating poverty over the past decades.

Recognising that charity does not solve poverty, The Grameen Bank encourages the poor to harness their under or unutilised skills by allowing them access to small collateral-free loans. The group-based microfinance banking system sustains itself instead on the basis of mutual trust, accountability, participation and creativity. In the process of enabling previously disadvantaged borrowers to launch their own enterprises, the Bank also prioritises concern for the environment, strengthening education, encouraging saving, and the provision of technology as necessary factors in the development of human capital.

Specifically, the Grameen Bank describes its primary objectives as follows:

- Extend banking facilities to poor men and women
- Eliminate the exploitation of the poor by money lenders
- Provide self-employment opportunities for the unemployed
- Enable the disadvantaged, mostly women from the poorest households, to participate in a banking system they can understand and manage themselves
- Replace the cycle of 'low income, low saving and low investment' with a proactive cycle of curbing low income with 'injection of credit, investment, more income, more savings, more investment, more income'.

### Method of Operation

The Grameen Bank operates through a network of bank branches located in rural areas. These branches comprise a bank manager and a number of centre managers representing between 15 to 22 villages. Credit officers visit these villages and through rigorous selection decide to finance small voluntary groups of five individuals who show commitment to viable income-generating

activities, such as rice-husking, machine repairing, pottery and garment making, weaving, buying of milk cows, goats, etc. Borrowers have freewill to choose the nature of their productive or investment activity based on the skills they possess.

A borrower can only receive loans by forming part of a borrowing group, as trust and peer pressure are the operational mandates for ensuring the repayment of loans. In this way, the pressures of collective responsibility replace the need for conventional collateral requirements and give the GB system its strength. Initially, only two group members receive a first loan, for which they are given a six week period to begin repaying the principal and interest before the remaining members in the group become eligible for receiving loans. New loans for any member are only available once all previous loans have been repaid.

The Grameen Bank aims to keep interest rates as close as possible to the market rate, normally about 16 percent, while maintaining an overarching goal of programme sustainability. GB requires a repayment scheme based on 50 weekly instalments, and encourages savings by allowing 5 percent of loans to be credited to a group fund. The Grameen Bank receives most of its loanable funds on commercial terms from the central bank, other financial institutions, the money market, and from various aid organisations.

The Bank works to simultaneously address the greater social development agenda of the poor, including housing, education, sanitary water, environmental health, and other basic social and economic needs. To increase its efficiency, the Bank also invests heavily in its human resources, to ensure staff members are dedicated and well-trained on both the Grameen credit system as well as the particulars of the rural villages in which the Bank serves.

### Successes and Potential Benefits of the Grameen Bank Microcredit System

- The Grameen Bank exhibits an average of 97 percent repayment rates;
- GB members enjoy an average household income at least 25 percent higher than non-members;
- The number of GB members living below the poverty line has sharply decreased;
- The landless benefit most, followed by marginal landowners;
- There has been a shift from agricultural wage labour to self-employment and petty trading—a shift which results in an indirect positive effect on the employment and wages of other agricultural wage labourers, and which has impacted poverty alleviation and economic improvement at a national level;
- Group savings have proven as successful as group lending.

The Grameen Bank system has a proven track-record in helping the poor become self-reliant, active, and empowered members of society. As a result, it has become a model for microfinance initiatives worldwide.

### **The Grameen Foundation:**

The Grameen Foundation supports microfinance programs that embody the vision and values of the Grameen Bank in extending financial services to the poor. It's main objectives include:

harnessing the power of technology through partnerships with companies, academic institutions and other organisations, and by helping to provide telecommunications access to the rural poor; connecting MFIs with capital markets to increase resources and financial services; and expanding microfinance industry knowledge through knowledge-sharing and ‘open-sourcing’ of information to help guide the work of microfinance organisations worldwide.

To achieve these goals, the Foundation partners with a worldwide network of MFIs and provides support in the form of funding, technical assistance, training, expertise, and new technology.

### **Banks for the Poor in the Arab Region:**

The Grameen Foundation collaborates with the Abdul Latif Jameel Group, one of the leading private business groups in Saudi Arabia, to fulfil a goal of expanding microfinance opportunities in the Middle East and North Africa and reaching one million new borrowers by 2011. The Grameen-Jameel initiative provides assistance to other MFIs through capacity building, direct financing, loan guarantees, technical support, translation of microfinance manuals and publications into Arabic, and has sponsored many practitioners to receive training on best practices exhibited through the Grameen Bank example. The Foundation has also partnered with Sanabel, the microfinance network for the Middle East and North Africa, and CGAP, a multi-donor consortium housed at the World Bank, to help launch the ‘Arabic Microfinance Gateway’ and spread information on microfinance best practices among regional practitioners.

Of the seven PERSGA countries, the Grameen-Jameel initiative only currently operates in Saudi Arabia, running a project called Programme for Productive Families that has empowered thousands of poor Saudi women in its two years of operation. Microenterprises include such activities as street-side vending, small shops in local markets, itinerant trading, food processing, repair shops, tailoring, handcrafts, and small businesses in processing, manufacturing, trading, and other similar projects. To date, the programme has witnessed a 100 percent repayment rate.

### AGFUND

The Arab Gulf Programme for UN Development Organisations (AGFUND) has also helped spearhead regional efforts to increase microfinance programmes in the Arab World and to work towards fulfilling objectives embodied in the 2005 UN-declared Year of Microcredit. In 2004, AGFUND convened an international conference in Jordan (MEARMS) to encourage Arab states to adopt Banks for the Poor in their jurisdictions. The conference included representatives of various governmental ministries, private enterprises, independent NGOs and interested personalities who agreed on the important developmental role microfinance could play on a regional level. Of the PERSGA members, Jordan, Yemen, Sudan and Djibouti have expressed interest in establishing Banks for the Poor and have carried out feasibility studies to determine viable methods of implementation. As far as actual project operation, however, all are in different stages of securing legal mechanisms and private sector investment that help allow for such Banks.

To help with the development of Banks for the Poor in the respective countries, AGFUND and state actors are urging private sector involvement and investments in the projects. Such participation can contribute both to national development as well as the economic competitiveness and responsibilities of private businesses. In line with the recognition of the important role of private sector involvement, the MEARMS conference elected a major Jordanian investor and private sector representative as the Chairman of the Board of AGFUND, and welcomed the participation of the Jordanian Company for Financing Small Projects.

## **Conclusions**

Experts attending the MEARMS conference concluded that the Arab Region has an unmet need for Banks for the Poor and that there is great potential for such microfinance initiatives to alleviate regional poverty and to contribute to the UN Millennium Goal of halving the world's poverty by 2015. Therefore, based on the positive example of the Grameen microcredit banking system exhibited throughout the world, it seems timely that more projects of its sort should be replicated in the Arab world. Microcredit has proven to be a successful development strategy in strengthening the private sector and civil society and minimising the role of government in economic productivity. However, support from the established private sector, potential financiers and donors is vital for the viability and sustainability of future microcredit operations.

PERSGA aims to work with partners to help implement microfinance opportunities in coastal areas in the PERSGA member states. Income-generating projects of the sort can help the poor benefit from the wealth of the natural environment through sustainable and well-managed projects under PERSGA guidance. This has the dual benefit of not only reducing poverty, but of producing economic incentives for the respect and sound management of valuable natural resources, so as to ensure both prolonged income-generation as well as long-lasting environmental health.