

# Poverty Alleviation and the Grameen Bank

by *Mohammad A. Auwal and Arvind Singhal*

**Editor's note:** *This paper draws upon Auwal and Singhal (1992)*

Despite many decades of development efforts by national governments and donor agencies, rural poverty is on the rise in developing countries (Rahman 1988; Wignaraja 1990). Although many new poverty-focused programs have been launched in rural areas, the benefits of these efforts have rarely reached those who are poor, isolated, powerless, physically weak, or otherwise vulnerable.

One notable exception in the generally dismal array of poverty alleviation efforts worldwide is the Grameen Bank in Bangladesh. The Grameen (meaning "rural" in the Bangla language) Bank represents a highly innovative, flexible, and effective institutional mechanism to reach and empower the poor: it provides credit to the rural poor without any collateral and gives its members the flexibility to be self-employed and invest in various other income-generating activities.

Mohammed Yunus, founder of the Grameen Bank, conceived the idea of collateral-free social welfare banking from his observation of the poor people's (especially women's) ineffectual struggle for survival. Yunus discovered that poor rural women in Bangladesh were involved in desperate attempts to augment family income: Many husked paddy for local elites all day in return for a pound of rice; others produced handicrafts and earthen pottery, selling their goods to traders at unbelievably low prices. Those who took cash advances from traders and local moneylenders earned the equivalent of 5 to 10 cents (U.S.) a day. Yunus realized that women could significantly multiply their income if they had small amounts of capital which they needed to buy raw materials.

Yunus also found the principles of conventional banking inappropriate in a poor country like Bangladesh. Banks demanded collateral and basic literacy from clients. Few landless people could meet these requirements. The banks discouraged women from doing business unless their husbands could serve as guarantors. To Yunus, the banks had miscalculated the economic potential of the poor rural people (especially of women) and had underestimated the importance of nonagricultural activities in rural areas (Yunus 1979; Ray 1987). Yunus could see that the skills of women in food

processing, handicrafts, poultry raising, vegetable growing and so forth could easily be channeled into income-generating activities. He knew from his field research that the poor in Bangladesh were hardworking and much more capable of taking care of themselves than as portrayed in development textbooks. They needed no mercy or charity--only small loans (Yunus 1987).

## The Widespread Reach and Performance of the Grameen Bank

<i>Activity</i>	<i>Cumulative Figure (August 1993)</i>
<b>Reach</b>	
Number of members	
Women	1,579,764
Men	100,637
Total	1,680,401
Number of villages covered	33,080
Number of operational branches	1,034
<b>Performance</b>	
Total loans disbursed	\$743 million*
Loan recovery rate	about 98%
Number of houses built with Grameen loans	214,959

SOURCE: Grameen Bank (1993)

\* One U.S. dollar = 37 Bangladeshi *Takas*.

The Grameen Bank has evolved into a formidable organization headed by Yunus as its managing director. By August 1993, the Grameen Bank had grown to 1,679,764 members (of which 92 percent were women), lending the equivalent of U.S. \$743 million (Table 1). In addition to spreading rapidly in Bangladesh, the Grameen Bank has inspired poverty alleviation rural banking efforts in Bolivia, (Please see **Grameen**, Page 16)

# Grameen

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Burkina Faso, Canada, France, Indonesia, Malawi, Malaysia, Mali, Nepal, Nigeria, Peru, the Philippines, Senegal, Sri Lanka and the United States (Mahmud 1989).

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