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# Micro Financing Implementation and Expansion Strategies of Grameen Bank in Bangladesh

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**Abstract-** Grameen Bank (GB) is a micro lending organization in Bangladesh that was initiated by Professor Muhammed Yunus as a pilot project in Jobra village in 1976. It provides small loans to rural poor women, without collateral, following group lending peer support methodologies. It disburses \$16.7 billion to 8.67 million borrowers through 2247 branches across Bangladesh. The loan repayment rate is 97%. It is a self-sufficient financial institution. GB's unique program implementation steps make it successful in achieving its goals of creating self-employment and creates choice among rural poor women; thereby increasing their income, empowering them, and promoting environmentalism in rural Bangladesh. Obvious loan disbursement policy, simplified record keeping arrangement, monitoring and evaluation system, accounting procedures, auditing, decentralization policy, two way flow of information and communication (bottom up approach) etc are the outstanding process that empowered GB borrowers. Moreover, location specific solution by field staffs strategy, prompt respond to field problems, active community participation, and staff rewards for outstanding jobs all together create competition and inspiration among employees to offer a high quality of services to its borrowers.

Guidance to field staffs by the executives, coordination with other stakeholders, bottom up decision makings, and the "learning by doing" approach are the core elements of the program. Regular audits and inspections with monitoring information systems (MIS) are fabulous elements of GB's credit execution. GB runs its costs from its own investment income. Grameen Bank does not hire foreign consultants for its program design, development, and implementation.

The sixteen decisions of the Grameen Bank that clients follow encourage them to develop their resource capital, human capital, social capital and others like economic sustainable development in the borrowers' life. GB has succeeded in achieving its goals/objectives because it works in the community as an insider not as an outsider. Above all, Professor Muhammed Yunus' dynamic leadership mobilizes staff to work hard for the betterment of the lives of clients. Now Grameen micro credit is recognized as a tool to eradicate poverty

and to empower women. Its lending methodology has been replicating in 98 countries all over the world since 1993.

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## I. INTRODUCTION

There were several rural development and poverty eradication projects initiated by various government and non-governmental agencies in Bangladesh at different times. For example, the Bangladesh Rural Development Board (BRDB), Integrated Rural Development Program (IRDP), Food for Work Program, CARE Bangladesh, Rangpur and Dinajpur Rural Services (RDRS), Village Aid, and Bangladesh Rural Rehabilitation Program (BRRP) etc. However, few projects focused exclusively on poor women in development and the feminization of poverty. Many of them were temporary relief, handout projects. In contrast the Grameen Bank (GB) micro financing program continued for more than three decades and is successful in sustainably addressing poverty and empowering rural women in Bangladesh. Now it is recognized as a model of development work in the world. This essay focuses on the implementation steps, features, policies and programs the Grameen Bank engages which has made it a successful national financial institution in Bangladesh and has resulted in its replication across the world. Its micro lending technology is replicating across the world because of its uniqueness.

Bangladesh has 165 million people within a 147,570 square kilometer area. (Bangladesh profile 2014). Half of the population is female. The majority of Bangladesh's people live in rural areas. The density of the population is 763 people per square kilometer. 67% of women live under the poverty line, which is significantly higher than the national average of 51% (Human Rights Report, 2000). Therefore, a majority of rural poor women are suffering from absolute poverty and miseries. The reasons for these sufferings may be found in the limited access to, voice and choice of state resources. Hence, policies, programs and projects which focus on income generation and rural poverty are urgently needed to fulfill their basic needs.

Four decades ago banking facilities were not favorable to the landless poor in Bangladesh. Collateral

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for loans were a requirement and this proved to be a strong barrier against the rural poor accessing institutional credit. Therefore, a specialized bank was needed where alternative credit facilities without collateral could be delivered. This need was filled by the Grameen Bank which was established in 1976 by Professor Muhammed Yunus. It delivers credit to the rural poor without collateral, giving priority to rural poor women.

Professor Muhammed Yunus started credit operation on a pilot basis in a village named Jobra in 1976. This initiative was a flashlight to the poor women of Jobra village with little credit. This pilot credit project was desired by other villages and there was a great demand from many rural women to get loans for starting their businesses (Yunus, 1994).

GB objectives are to involve extending banking facilities to the poor for their self-employment, to free them from exploitation by money lenders, and to empower women through providing them with collateral-free loans for doing businesses. GB introduced group-managed, peer support loan repayment system among borrowers in which they would repay loans in weekly installments at 2% of the principal amount, plus interest, within one year. GB has been introduced flexible loan and easy loan and these loans borrowers should repay within six months since 2000. After repaying the loans, borrowers can again withdraw loan for another six months. Now the six months loan cycle of Flexible loan and easy loan are very popular to borrowers of GB in Bangladesh. This credit program also included savings products which would help to develop better saving strategies among its borrowers. The whole mechanism of GB goes to the borrowers' doorsteps. They do not need to come to the bank office to repay their loans. The whole structure and operation of GB makes borrowing and repayment convenient and easy for its clients. There are no rigid structural policies and monitoring devices by outside consultants. The field staff of the GB is responsible for developing its loan operation policies, programs and operation strategies, and accounting and monitoring devices. Professor Yunus, its founder coordinates all staff activities, ideas and recommendations. He is the apex leader of GB loan operation.

This GB micro credit system has had a great impact on extreme poverty (Khondaker 2003). It can play a vital role in attaining Millennium Development Goals (MDGs). In the words of Kofi Anan, UN Secretary General, "microfinance has proved its value, in many countries, as a weapon against poverty and hunger. Now it is recognized as a development model for income generation self-employment and empowers disadvantaged women" (Grameen Dialogue-60, 2005).

## II. IMPLEMENTATION STRATEGIES OF Grameen Bank

At the beginning Grameen Bank started as a pilot project, which had no formal organizational structure and procedures for delivering loans to poor people. The Grameen Bank project developed its implementation strategies, working methodology, and credit delivery mechanisms in the course of time. All credit delivery technologies were developed during its operation. GB has developed "learning by doing" strategy during its establishment. However, GB policies, implementation strategies, credit delivery and recovery mechanisms and other parameters are in a continual process of development and change to fulfill borrowers' needs and demands through situational analysis and a bottom up approach. It is obvious that rigidity in policies and guidelines have no place in GB.

## III. Grameen Bank Client Development and Client Improving Services

Micro financing institutions are working for their supporting micro entrepreneurs to promote micro entrepreneurs micro enterprises. Grameen bank deals with GB borrowers' like GB customers through its different attractive products with quality service. GB developed strategies for reaching the clients more efficiently which enabled GB and its clients to make an adequate level of income. GB defines its clients as partner of the GB loan operations. It thinks clients success is the success of GB. GB looks for the origin of the demand of the poor people in the community and identifies related services for them. At the beginning, GB field staffs survey the area and survey the demographic segments of the poor people in the community, discern local physical infrastructures and social infrastructures in the community and analyses people's loans demands would be to GB. The next step is to find where the acute poverty sufferers target clients thrive and develop ways of relationships that could help poor people to be easy and comfortable to do banking with GB. Then field staffs started to provide unique simplified non-formal training in person to familiarize poor people about the GB products and services. Information previously gathered help field staffs in formulating the appropriate products (size of loans, types of loans, modes of repayments and service strategies).

## IV. Benefits of Adapting the In-Person Client Services of GB

There are several benefits of adopting the in-person clients services that are stating below:

- Encourages the GB micro entrepreneurs to think of creative ways to serve its clients

- Identifies and generates more loan receivers (clients) those can do business well by receiving loans from GB
- Allows the poor micro-entrepreneurs to grow steadily in profiting business, repay the loans and to empower them both economically and socially
- Enables the entrepreneurs to expand their businesses with new products and services
- GB in-person communication system helps GB clients to have direct relations and communications with GB. No need advertisement for GB to inform and expand GB in Bangladesh. GB has no advertisements on radio, TV, print media and in other social media.
- GB in-person services to its borrowers give GB an advantage over the competition with its uniqueness.
- The cliental relationships with GB has increased sustainable loan services to poor people in Bangladesh
- GB micro-entrepreneurs and GB relations improved continuously
- GB entrepreneurs' microenterprises put in the best competitive position because of entrepreneur-client relationship.
- Micro entrepreneurs easily obtain a competitive advantage over big enterprises by improving GB client's service and clients networking within the community.

#### V. GRAMEEN BANK (GB) MONITORING AND INFORMATION SYSTEM (MIS)

GB is more concern with calculating its vision and maintaining its organizational culture. Its' management has some motivational devices to ensure targeted performances. GB monitors its loan services to borrowers intensively. It has an efficient MIS cell at its different stages of admin layers. It has developed its loan monitoring system that provides quick feedback to the field staffs by the GB executives. Grameen Bank uses its management information system (MIS) to generate information for decision making and to disseminate information back to lower level staff so that they can systematize their own performance. This MIS system has grown from field experience and that allows managers and field staffs to track its accomplishments.

#### VI. BEST PRACTICES PARAMETERS OF GRAMEEN BANK

GB has developed some parameters that are keys to the success of its objectives. These parameters are properly included in the operational structure at all levels and can be readjusted to the various needs of the poor in order to eradicate poverty. The GB target group is exclusively rural poor women. Its loan operations follow group lending methodology. It places special

attention to and adapts community participation approaches to empower women. Loan appraisals and planning are conducted in the weekly centre meetings through mutual discussions and observance; not by complicated paper work or complicated financial and marketing analysis. Groups are composed of five poor women of similar socio-economic backgrounds, from the same village. Six groups make one center in a neighborhood/village. Borrowers themselves select their group members, but GB staff screen and verify members' portfolio backgrounds to ensure that they are indeed the poorest of the poor. This group formation system helps to maintain a homogeneous setting, networking and solidarity, in which clients can interact freely with each other. Nonetheless, strict credit discipline and close supervision is in place to guide each borrower towards proper control of loans.

#### VII. UNIQUE PRACTICES OF GRAMEEN BANK

To maintain equal opportunity and to address issues of participatory management, democracy and empowerment to all members of Grameen Bank, the positions of Centre Chief, Group Chairman, and Group Secretary change every year. By this process all members of the center get a chance to be Center Chief, Group Chairman, and Group Secretary by rotation. This practice helps to enhance leadership qualities and decision making skills in all members. In addition, this practice of rotating leaders adds to a decentralized power structure and holds each member accountable to the other within the center. These tools are essential to the efficient operation of the credit program including avoiding inequalities and maintaining corruption free loan transactions. These unique practices of the Grameen Bank start from making annual action plans at the field level. Branch managers set up some performance indicators like loan disbursements, loan repayment, group savings, and attendance in the centre meetings of borrowers and borrowers' wealth creation by loan utilization etc. These parameters track the viability of the branch performances. The Branch maintains all loans and other such related documents. Its performance is ensured by GB internal audit department. This internal auditing process enhances the leakage free credit delivery system.

The entire GB credit operation operates through a system of close supervision. There is an in-service training program in GB for its staff training. This practical training helps staff to be committed and to work for the poor as a cohesive team. There are no intermediaries between clients and the bank at the grass roots level. GB charges 20% interest on its general loans and 5% interest on its housing loans and student loans. There is no subsidy at any stage of the credit operation.

The simple, straight-forward program designed for loan proposals through mutual discussions among center members ensures diversified loan disbursements



to its clients. All transactions are conducted within centre meetings and are intensively monitored. It ensures mutual accountability through a peer support mechanism. No information is kept secret, so there is no scope for corruption, misappropriation or irregularities. These strategies further contribute to the successful operations of the Grameen Bank.

### VIII. REPLICATION OF Grameen Bank Model

The Grameen Bank credit program is widely accepted as a tool for poverty reduction. It attracts the attention of all development experts, researchers, universities, executives, policy makers and donors as a micro credit success story in Bangladesh for addressing poverty. Different countries have used Grameen Bank group-based credit experiences to replicate similar practices in their own cultural contexts. The Grameen micro credit model has been replicated worldwide since 1993. Now 98 countries follow GB group lending model, but they adjust their lending programs to their local culture, values and norms (Grameen Trust 2002, p.51).

The Global Micro Credit Summits of 1997, 2002, 2006 and 2011 helped to draw the attention of policy makers and practitioners' worldwide. Different international organizations like UNDP, UNHCR, UNICEF, ILO, CIDA, SIDA, USAID and several countries included the micro financing program in their policies to address poverty. All projects that were modeled on the GB reported loan repayment rates of more than 95%. These micro finance institution (MFI) initiators are trying to cover their cost of operation from their interest income. For example, Activist for Social Alternatives (ASA), Tamil Nadu, India, SHARE, Andrapradesh, India, CARD in the Philippines and NIRDHAN in Nepal, have their own banks to serve the poor (GT report 2006). The Grameen Bank Replication Program (GBRP) has set up a website that also helps people get information about its programs. The GB web site address is [www.grameen.com/grameen/gtrust](http://www.grameen.com/grameen/gtrust).

### IX. FACILITATING FACTORS FOR IMPLEMENTATION OF PRACTICE

The operational tools of GB which include projection meetings to plan for the program, direct contact with clients, mini meetings, rigorous training on group formation, weekly meetings, and group screenings ensures that all clients have equal opportunities to participate in decision making. These tools add to the successful implementation of the GB programs throughout Bangladesh.

GB is **not a centralized decision-making** organization. Management functions and decision-making powers are continuously being delegated to the branch offices to improve their managerial skills as well as to get grass roots information to hierarchal upper

levels in area, zonal and head offices. This feedback loop involving head offices, zonal offices and branch offices enhances organizational management; decision making processes and improves program activities. Prompt responses to field problems by supervising officers are characteristic of Grameen administration.

GB mobilizes its staff to be enthusiastic to do their assigned GB jobs by awarding them star staff and five star branches. Those who achieve star criteria receive appreciation letters from Professor M. Yunus, monetary compensation, promotions, and opportunities to travel and conduct assignments abroad. A Grameen Bank Staff proudly displays his star on formal occasions. These awards encourage competition and help inspire field staff to be more active in their work for the poor.

Grameen Bank does not hire foreign consultants for its program design, development, and implementation. GB has taken experience directly from the field and looks at its needs. The GB borrowers' staff review problems and needs themselves. The solutions are based on local situations. The proposed solution is first tested in 2-3 branches for about 6 months on a pilot basis. Lessons are learned and then are extended to other areas served by the bank. However, all solutions do not produce positive results.

GB has faced many problems during its operation. These have come in the form of bureaucratic influence from the government, income disruption to borrowers as a result of natural disasters like flood, cyclones and river devastation. Overlapping with other credit institutions, opposition by religious leaders and local money lenders, and political crises are also hampers to loan operations. These problems have impacted upon borrowers' income as well as loan repayment. Delinquent loans portfolios increased. These problems are solved by the GB field staffs by their continuous polite patient and respectful behaviors to borrowers but strive to maintain credit discipline. GB staff may sometimes become disappointed, but are never disheartened about negative results. Both the head and zonal offices monitor field activities and lend constant support to their staff.

GB had served borrowers an approximate 2.54 million rural poor in 25 years in August, 2002; however, it has increased its client's services to about 6.7 million in September 2006 (GB report September 2006). This has been a huge increase within four years. This rapid expansion poses added challenges to GB to maintain quality service to its borrowers. GB offers loans to poor people for small businesses; however, it does not provide any training/orientation on small business management, marketing, loans management and book keepings that are very essential for businesses.

Although there have been many success stories of women who have been emancipated through Grameen micro-credit, Robin Isserles (2003) cautions

that many women (16%) are still dominated by their husbands and do not actually enjoy the benefits from their financial gains or loan investments. In many cases, their husbands take the credit, and use the money for personal purposes (p., 43). GB gives loans to poor women for the improvement of their household economics as well as to generate social and human capital among them. However, GB has not put special implementation strategies to free women from patriarchal order. Rather, it believes that if women become earners, they can empower themselves, promoting their own welfare as well as that of their family.

Moreover, although GB is successful in addressing poverty, 58% of its borrowers cross the poverty line (Grameen Bank 2006). Many borrowers are still living below the poverty line. Its investment interest rate is 20% to its borrowers, which is similar to other commercial banks in Bangladesh. GB covers its costs from its investment income. However, it is too much for poor people.

## X. CONCLUSIONS

Through working for the Grameen Bank since 1980, the author Kazi Rouf has observed that poor women are credit worthy and would have more self-confidence if they could earn money. Poor women could be more organized if they connect with institutions which support a bottom-up approach that respects poor people and their values. Grameen Bank does not use high level socio-economic implementation technology or development ideas are not imported from outside. GB has succeeded because it works in the community as an insider not as an outsider (Rouf, 2011). Top down policy contradicts with local values. There is a cross relation among program design, program objectives, friendly program implementation strategies, local culture and community participation.

However, leadership is very important to mobilize people into activity, to achieve project objectives and to implement the program successfully. In addition, the project activities should exclusively focus on disadvantaged people and strategies should be attentive to environmental sustainability. Poor people have less features and access to different public places, information, and resources; therefore, one stop information services to clients can help protect them from bureaucratic hazards. Moreover, guidance, coordination with other stakeholders, bottom up decision making approach, and "learning by doing" approach are the core elements of the program. Regular audits and inspection with monitoring information systems (MIS) altogether are very essential for micro financing institutions.

Feminization of poverty is increasing in Canada especially in single mothers. There are some NGOs involved in micro financing in Canada, but they are

working in a limited scale. My dream is to initiate a micro financing project in Toronto using my experiences and use some implementation techniques of Grameen America in the project.

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