

Grameen Bank and the development of 'microfinance'

One of the biggest problems facing people living below the poverty line is the difficulty of getting access to banking and financial services. As a result they are often dependent on moneylenders and other unofficial sources – and are often charged at exorbitant rates if they do borrow. This makes it hard to save and invest – and puts a major barrier in the way of breaking out of this spiral through starting new entrepreneurial ventures. Awareness of this problem, led Muhammad Yunus, Head of the Rural Economics Program at the University of Chittagong, to launch a project to examine the possibility of designing a credit delivery system to provide banking services targeted at the rural poor. In 1976 the Grameen Bank Project (Grameen means "rural" or "village" in Bangla language) was established, aiming to

- extend banking facilities to the poor;
- eliminate the exploitation of the poor by money lenders;
- create opportunities for self-employment for unemployed people in rural Bangladesh;
- offer the disadvantaged an organizational format which they can understand and manage by themselves;
- reverse the age-old vicious circle of "low income, low saving & low investment", into virtuous circle of "low income, injection of credit, investment, more income, more savings, more investment, more income".

The original project was set up in Jobra (a village adjacent to Chittagong University) and some neighbouring villages and ran during 1976-1979. The core concept was of 'micro-finance' – enabling people (and a major success was with women) to take tiny loans to start and grow tiny businesses. With the sponsorship of the central bank of the country and support of the nationalized commercial banks, the project was extended to Tangail district (a district north of Dhaka, the capital city of Bangladesh) in 1979. Its further success there led to the model being extended to several other districts in the country and in 1983 it became an independent bank as a result of government legislation. Today Grameen Bank is owned by the rural poor whom it serves. Borrowers of the Bank own 90% of its shares, while the remaining 10% is owned by the government. It now serves over 5 million clients, and has enabled 10,000 families to escape the poverty trap every month

Grameen Bank have moved into other areas where the same model applies – for example, Grameen Phone is one of the largest mobile telephone operators in Asia but bases its model on providing communication access to the poorest members of society through innovative pricing models.

[There is a detailed case study](#) originally developed at Stanford Business School which you can download (free) here

