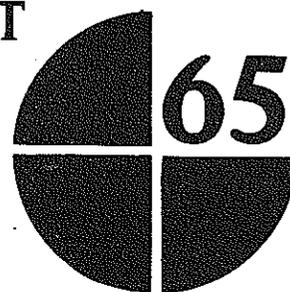


RESEARCH REPORT



**CREDIT FOR ALLEVIATION
OF RURAL POVERTY:
THE GRAMEEN BANK IN
BANGLADESH**

Mahabub Hossain

February 1988

**INTERNATIONAL
FOOD
POLICY
RESEARCH
INSTITUTE**

In collaboration with the
**BANGLADESH
INSTITUTE OF
DEVELOPMENT
STUDIES**

The **International Food Policy Research Institute** was established in 1975 to identify and analyze alternative national and international strategies and policies for meeting food needs in the world, with particular emphasis on low-income countries and on the poorer groups in those countries. While the research effort is geared to the precise objective of contributing to the reduction of hunger and malnutrition, the factors involved are many and wide-ranging, requiring analysis of underlying processes and extending beyond a narrowly defined food sector. The Institute's research program reflects world-wide interaction with policymakers, administrators, and others concerned with increasing food production and with improving the equity of its distribution. Research results are published and distributed to officials and others concerned with national and international food and agricultural policy.

The Institute receives support as a constituent of the Consultative Group on International Agricultural Research from a number of donors including the United States, the World Bank, Japan, Canada, the United Kingdom, the Netherlands, Australia, the Ford Foundation, Italy, Norway, the Federal Republic of Germany, India, the Philippines, Switzerland, Belgium, and the People's Republic of China. In addition, a number of other governments and institutions contribute funding to special research projects.

Board of Trustees

Dick de Zeeuw
Chairman, Netherlands

Ralph Kirby Davidson
Vice Chairman, U.S.A.

Eliseu Roberto de Andrade Alves
Brazil

Yahia Bakour
Syria

Ivan L. Head
Canada

Dharma Kumar
India

Anne de Lattre
France

*James R. McWilliam
Australia

Philip Ndegwa
Kenya

Saburo Okita
Japan

Sukadji Ranuwihardjo
Indonesia

Theodore W. Schultz
U.S.A.

Leopoldo Solis
Mexico

M. Syeduzzaman
Bangladesh

Charles Valy Tuho
Côte d'Ivoire

John W. Mellor, Director
Ex Officio, U.S.A.

**CREDIT FOR ALLEVIATION
OF RURAL POVERTY:
THE GRAMEEN BANK IN
BANGLADESH**

Mahabub Hossain

**Research Report 65
International Food Policy Research Institute
in collaboration with the
Bangladesh Institute of Development Studies
February 1988**

Copyright 1988 International Food Policy
Research Institute.

All rights reserved. Sections of this report may
be reproduced without the express permission
of but with acknowledgment to the International
Food Policy Research Institute.

Library of Congress Cataloging
in Publication Data

Hossain, Mahabub, 1945-
Credit for alleviation of rural poverty.

(Research report ; 65)

Bibliography: p. 85.

1. Grameen Bank. 2. Rural poor—Bangladesh.
3. Small business—Bangladesh. I. Title. II. Ser-
ies: Research report (International Food Policy
Research Institute) ; 65.

HG3290.6.A8G735 1988 332.1'753'095492
88-599 ISBN 0-89629-067-0

CONTENTS

Foreword	
1. Summary	9
2. Introduction	12
3. Socioeconomic Environment and the Role of Credit	15
4. Organization and Management of the Grameen Bank	23
5. Progress of Bank Operations	32
6. Performance in Credit Operations	44
7. Economic Effects	55
8. Costs of Operation	70
9. Conclusions and Lessons of Experi- ence	77
Appendix: Expenditure Patterns and the Market for Nonfarm Goods and Services	82
Bibliography	85

TABLES

1. Distribution pattern of rural land-ownership, 1979 and 1983/84	16	14. Loans disbursed for various types of collective enterprises, 1982-85	40
2. Changes in structure of labor force, 1973/74 to 1983/84	17	15. Utilization of the Group Fund, 1983-86	42
3. Distribution pattern of rural credit, by landownership group, 1982	22	16. Distribution of Group Fund loans, by purpose for which loans were taken, 1979-85	43
4. Selected characteristics of the districts covered by the Grameen Bank	32	17. Distribution of borrowers, by amount of cultivated land owned, 1985	44
5. Coverage of the Grameen Bank, February 1987	33	18. Distribution pattern of landownership and landholding, 1985	45
6. Trends in disbursement and recovery of loans and accumulation in Group Fund and Emergency Fund, 1979-86	33	19. Occupation of members and heads of household as stated on membership application form	47
7. Trends in membership and borrowing, by sex of borrower, 1983-86	35	20. Average size of current loans, by length of bank membership, 1985	48
8. Trends in disbursement of loans, by sector, 1979-86	35	21. Loan distribution, by purpose of loan and sex of borrower, 1985	49
9. Disbursement of loans to male borrowers, by sector, 1979-86	36	22. Pattern of loan utilization, by sex of borrower, 1985	50
10. Disbursement of loans to female borrowers, by sector, 1979-86	37	23. Pattern of loan utilization, by purpose of loan, 1985	51
11. Major activities for which male borrowers took loans, 1983-85	38	24. Extent of overdue loans, by type of borrower, 1985	52
12. Major activities for which female borrowers took loans, 1983-85	38	25. Distribution of borrowers, by overdue and paid installments, 1985	52
13. Distribution of trading sector loans, by origin of commodities, 1979-85	39	26. Statistical difference between project and control group households according to selected exogenous variables, 1984/85	56

27. Noninstitutional credit as a source of working capital, 1985	58	38. Level and structure of household income for Grameen Bank members and comparable nonparticipant groups, 1984/85	66
28. Amount of loans received from various sources, by different groups of rural households, 1984/85	58	39. Annual household income in project and control villages, by land-ownership group, 1984/85	67
29. Changes in working capital after joining Grameen Bank, by type of borrower, 1985	59	40. Estimates of proportion of poor population among participants and target-group nonparticipants, 1984/85	68
30. Accumulation of capital after joining Grameen Bank, by length of membership and sex of borrower, 1985	60	41. Expenditures on basic needs by Grameen Bank members compared with control groups, 1984/85	69
31. Effect of Grameen Bank on growth of equity capital, 1985	60	42. Shares of Grameen Bank funds from various sources, 1984-86	71
32. Changes in pattern of livestock ownership after intervention by Grameen Bank, 1985	61	43. Changes in cost of Grameen Bank funds, 1984-86	71
33. Changes in occupation of borrowers after joining Grameen Bank, 1985	62	44. Trends in use of Grameen Bank funds, 1984-86	72
34. Labor force participation rates of members and nonparticipant groups, 1984/85	63	45. Sources and composition of Grameen Bank income, 1984-86	72
35. Increase in employment in activity for which loan was taken, by occupation and sex of borrowers, 1985	64	46. Trends in cost of administration of loan operations, 1984-86	73
36. Borrowers' perception of change in their economic condition after joining Grameen Bank, 1985	65	47. Unit costs of operation of bank branches, by age of branch, 1984/85	74
37. Borrowers stated reasons for their improved economic condition after joining Grameen Bank, 1985	65	48. Profit-and-loss accounts, 1984-86	75
		49. Expenditure pattern for all sample households, 1984/85	83
		50. Marginal budget shares and expenditure elasticity of demand for different groups of sample households, 1984/85	84

ILLUSTRATIONS

1. Map of districts served by the Gra-
meen Bank 13
2. The "Sixteen Decisions" program 28

FOREWORD

There is a growing recognition that institutional credit plays an important role in the modernization of agriculture through technological change. It is clear that as those processes of modernization occur, incomes rise and expenditures on locally produced goods and services expand in such a manner as to increase the demand for labor and labor-intensive entrepreneurial activities. The question then arises as to what extent institutional credit can be offered to very poor people to facilitate their taking direct advantage of the developing entrepreneurial activities.

Perhaps the most widely admired effort to answer this question is that of the Grameen Bank in Bangladesh. One of the commendable features of the Grameen Bank is its desire to have its experience intensely analyzed for the benefit of others who are considering such an effort, as well as for its own improvement.

Mahabub Hossain conducted this in-depth analysis as a staff member of the Bangladesh Institute of Development Studies, which undertook a comprehensive research project on evaluation of the Grameen Bank. The International Food Policy Research Institute, in connection with a range of collaborations with Mahabub Hossain and BIDS, is pleased to have provided support to him in the writing phase of this study of the Grameen Bank.

Particularly notable in the findings is the importance of the institutional philosophy that has been so ably implemented by the founder of the bank, Dr. Muhammad Yunus, through a complex management structure. Clearly, however, the scale of the bank's operations is now far beyond the pilot stage, so the lessons are real and important.

Related to the bank's philosophy is a set of costs that seem necessary to success. These costs are high and, although not unacceptable, suggest the possible need for some subsidization. The costs come to 26.5 percent of the loans and advances, using market rates for borrowed funds—that is about 10 percentage points higher than the substantial 16 percent rate charged. In noting this, emphasis must be given not only to the equity implications but to the development implications of bringing large numbers of low-income people into the discipline of economic development derived from a credit system that has virtually no overdues or bad loans. Indeed, in comparing the substantial costs of Grameen Bank lending, it is especially notable that rural credit systems in developing countries typically have overdues on the order of half the level of new loans. The Grameen Bank has an approach that keeps overdues and loan losses at close to zero.

These and a vast number of other economic issues are tackled in Mahabub Hossain's research report. In addition, BIDS is bringing out a number of reports on the impact of the bank relating to social and administrative issues. The findings in this study are important in that they are broad and detailed and will contribute to needed policy improvements in the rural credit programs of developing countries.

Rehman Sobhan
Director General, Bangladesh Institute
of Development Studies

John W. Mellor
Director, IFPRI

February 1988

ACKNOWLEDGMENTS

The field surveys for this study were conducted by the Bangladesh Institute of Development Studies, Dhaka. The contribution of Atiur Rahman and Rushidan Islam Rahman, who participated with the author in planning and implementing the survey, is gratefully acknowledged. The author is grateful to Rehman Sobhan, Director General of BIDS, and to Muhammad Yunus, Managing Director of the Grameen Bank, for providing institutional support. The report benefited from comments and suggestions made by John Mellor, Gunvant Desai, Hannan Ezekiel, Dayanatha Jha, Richard Meyer, and Muazzam Husain. Research assistance provided by Shamsun Nahar and Andrew Bernard is also gratefully acknowledged.