

## CASE STUDY 7.2

### THE GRAMEEN BANK AND MICROCREDIT

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Poverty and environmental degradation go together. Today, more than half of the people of the world live on less than US \$2 a day. Impoverished people do not worry about the environmental impacts of their actions when they are trying to provide food and other basic necessities for themselves and their families. Therefore, the easing of poverty can have a positive effect on environmental conditions. Typically, the poor are unable to get loans from traditional sources and must go to moneylenders who charge extremely high rates of interest. This locks them into a cycle of poverty.

The Grameen Bank is a creation of Muhammad Yunus, a professor of economics at Chittagong University in Bangladesh, that provides an alternative source of credit for poor people. It is an outgrowth of an experiment during the late 1970s that showed that it was possible to make loans to the poor with a high rate of repayment and that the loans would improve the standard of living of the borrowers. In 1983, the Bangladeshi government established the Grameen Bank (*grameen* means village or rural in the Bengali language) as an independent bank. The bank provides tiny loans without any collateral (most are for less than US \$200) to the rural poor to begin a variety of businesses that can generate income that will raise the standard of living of the people. About 90 percent of the borrowers are women. The large proportion of loans to women is based on several factors. Unmarried women (widows, divorced, abandoned) are the poorest segments of society and have the greatest need. In addition, lenders feel that women are more likely to use the money to improve the conditions of their families and to repay the loan.

One of the primary reasons the bank has been successful is that the borrowers are helped to manage the repayment of their loans. Many of the conditions of the loans may be considered intrusive, but the system works. Some of the loan conditions are:

1. There is close supervision by bank personnel.
2. Borrowers must become members of a small group of their peers that advises the borrower and supervises the repayment of loans. Because most decisions about loans are made in meetings with other borrowers present, peer pressure is strong to use the loan wisely.
3. Loans are paid back on a weekly basis, which means that loans must be for activities that provide a quick return on investment and rely on skills already possessed by the borrower.
4. Compulsory saving is required of those who receive loans. This reduces the likelihood that poor decisions by the borrower will result

in squandering of the new income generated by the business started with the aid of the loan.

Today, the Grameen Bank is owned by the rural poor whom it serves. Borrowers own 90 percent of the bank's shares, while the Bangladeshi government owns the remaining 10 percent. Through its loans, about 5 percent of its borrowers come out of poverty every year. In 2006, Muhammad Yunus was awarded the Nobel Peace Prize for his efforts to help the world's poor.

The success of the Grameen Bank has led to replication of the concept in other countries. In 1997, a Microcredit Summit was held in Washington, D.C., that attracted 2900 delegates from 137 countries. They adopted a goal of reaching 100 million of the world's poorest families with microcredit and other financial services, preferably through the women in those families, by 2005. By the end of 2004, about 2500 microcredit institutions existed in nearly 100 countries. They had served over 92 million clients, over 83 percent of whom were women. The year 2005 was declared the International Year of Microcredit by the United Nations. The goal of reaching 100 million people with microcredit by the end of 2005 was not met. But by the end of 2007, 133 million people had been reached with microcredit worldwide.



shifts within ecosystems to allow an increase in the population of one species, but this always adversely affects certain other populations because they are competing for the same basic resources.

When humans need food, they convert natural ecosystems to artificially maintained agricultural ecosystems. The natural mix of plants and animals is destroyed and replaced with species useful to humans. If these agricultural ecosystems are mismanaged, the region's total productivity may fall below that

of the original ecosystem. The desertification in Africa and destruction of tropical rainforests are well-known examples. In countries where food is in short supply and the population is growing, pressure is intense to convert remaining natural ecosystems to agriculture. Typically, these areas are the least desirable for agriculture and will not be productive. However, to a starving population, the short-term gain is all that matters. The long-term health of the environment is sacrificed for the immediate needs of the population.