

FACES OF POVERTY, FINANCING THE POOR, NOVEL MANAGEMENT PROPS, AND THE NOBEL PEACE PRIZE: *Modus Operandi* of the Grameen Bank in Bangladesh

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Close to my home is the city of Mirrors where my neighbor lives, but even for a day I didn't see him yet
— Lalon Shah (*The Ancient Bengali Poet*)

Abstract

Reaching the poor, above all rural women, and conducive their participation in development in ways to unleash their full potentials, is a matter of creating an organizational framework ensuring them direct access to and control of resources and designed programs anchored in socio-cultural environments. The Grameen Bank (GB) of Bangladesh, the first micro-credit institution in the world, has succeeded in creating such an environment on a large scale, because of dynamic roles and leadership of GB Founder cum Managing Director and the Nobel Laureate of 2006, Professor Muhammad Yunus. He has successfully tackled many faces of poverty in Bangladesh, and also shown us, most myths on poor either invalid or at least adequate. The *classic* credit system of GB has been replicating effectively not only in Bangladesh but in many other cultures, both developing and developed countries. This paper is a *précis* of the author's hand-in-experiences with GB. For the capacity-building of GB, Yunus has added many novel props in traditional management process, through *learning-by-doing* approach. Here the core aims to focus on faces of poverty in Bangladesh, GB organizational culture and managerial facets, and the dynamic roles and leadership of Yunus. However, for better understanding such aspects, the author intends to address the GB origin and originality points, its *classic* credit model and operating system, major diversifications, and development paradigms. Initially, some overviews

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would be on organizational life-cycle concept to justify the process of GB institutionalization. No system is absolutely perfect, and surely GB is not an exception, notably if we heed on its parallel dual visions - the livelihoods improvement of the poor and to do business with them. Again, some new policies of GB have been raised confusions among many. Some focus, thus, would be on such policy issues.

Keywords: Poverty-faces, Bangladesh, Micro-credit, Grameen Bank, Organizational-culture, Participation, Grassroots-training, Capacity-building, Leadership, and Nobel Prize.

I. INTRODUCTION

Poor, Poverty, Traditional Myths and the Grameen Bank

Over one billion people worldwide live in abject poverty, marginalized from the mainstream, and often hidden from the public eye. They also tend to have less access to social and basic amenities, such as health, sanitation, education and so on; and the situations are severe in less developed countries (LDCs). Asian LDCs have been reserving highest portion of world poor with sole domination of South Asian countries including Bangladesh¹⁾—the most densely-settled territory in the world, except some city states, having over 1000 people/km². In rural Bangladesh, more or less, half of the peoples are under recognized poverty line and mostly out of universal education; and basically, the end-less one-way migration to cities is the prime reason behind severe urban poverty.

Economists and policymakers once believed that economic development of smallholder farming systems was constrained by the widespread otherworldly and non-acquisitive preferences of farmers in LDCs. British administrators in colonial India once held that the rural dwellers had only themselves to blame for their poverty and misery; and also for long, the policymakers' traditional myths and beliefs had been as—they are ignorant, lazy, and morally bankrupt; and the villagers, quite naturally, were not the stuff that development is made of. Fortunately, while the problems of the rural poor are many, they are not insurmountable; and the poor villagers have demonstrated how misconceived and fallacious these views have had, once they have given some resources with responsibility. The prime purpose here is to nose-down our eyes on such aspects.

Poor people participate easily and willingly in development—if social and organizational environments are designed in ways conducive to their participation (Hossain, *et al.* 2006). The Grameen Bank (*literally, rural or countryside bank; and hereinafter* GB) of Bangladesh—the first micro-credit institution in the world, has succeeded in creating such an environment on a large scale, because of dynamic roles and leadership of the Founder cum Managing Director of GB and the Nobel Laureate of 2006, Professor Muhammad Yunus. GB founder has shown himself to be a leader who has managed to translate his visions into practical action for the benefit of millions of people in Bangladesh; and the

system quickly attracted huge international attention and was emulated in countless locations, not only in Bangladesh also in many other countries, both poor and rich (see, Hossain 1999: 138–42).

GB began as a project to deliver credit to poor rural Bangladeshis in 1976. Led by Yunus, it steadily developed what it now calls its ‘*classic*’ micro-credit system. In short, he has created the leeway-environments to do business with the rural poor, above all, women; and reportedly, the collateral-free micro-credit for self-employment generation ²⁾ with necessary skill-trainings has been recognized as an important vehicle to improve their livelihoods. This paper is the précis of hand-in research-experiences of the author with GB system, ³⁾ and it is also mobilized in a time, when people’s interests on *classic credit model* have reached in peak due to the Nobel Prize. In fact, it was jointly awarded to Yunus and GB for the “*efforts to create economic and social development from below.*”

Grameen Bank at a Glance and the Nobel Peace Prize 2006

No doubt, the work of Yunus is tremendous one in many respects, and for which he has been evaluated and awarded in unbelievable means, both locally and internationally. ⁴⁾ Many peoples for long, basically those who are directly or indirectly involved with the GB system including the author, had been either worshiped or hoped ‘*The Nobel Prize for Yunus*’. ⁵⁾ In fact, his name has been proposed for times in Economics category to the Swedish Nobel Committee; and eventually, the Peace Prize has awarded in a time, when the limitations of GB credit model became focal issue among many.

Financing the poor within the broader objective of rural poverty alleviation had been an established development policy globally for long (see Ledgerwood: 1998, Schneider: 1997). For instance, the Post World War-II period, for nearly four decades, South Asian governments have taken various initiatives to create anti-poverty programs. However, prior GB micro-credit model in Bangladesh, loans to the poor people without any financial security had appeared to be an impossible idea. From modest beginnings three decades ago, Yunus has, first and foremost through GB, developed micro-credit into an ever more important instrument in the struggle against poverty. He and his expertise colleagues have introduced an applicable and effective credit delivery mechanism and developed many related logistics through *learning-by-doing* approach, now popularly known as *Grameen Classic System* (GCS).

Under GCS methods, poor target villagers (means-tested through land and asset-ownership) joined weekly-meeting in groups at the Centre; and they to loans from GB branch as individuals, and need to help each others if they fall into difficulty. Loans are repaid over a year in equal weekly installments that often bemet comfortably from regular household-managed enterprise’s cash flow. Members also deposited small amount into personal and group-owned savings.

The GCS methods grew piecemeal, as lessons were learnt and numerous new ideas emerged. However, after severe flood in 1998⁶⁾ - that affected many members and also revealed many internal weaknesses in the GCS system - work began on the redesign of GB in 2000, known as Grameen II or formally the *Grameen Generalized System* (GGS). GB took near 2 decades and half to enrolled 2•38

Table 1: Grameen Bank at a Glance (*As of September 2007*)*Amounts in Million US\$, and Exchange Rate (Sep. '07): US\$1 = TK68.60*

Outreaches	No. (#) • (%)	Financial Performances	Million US\$
GB Borrower Members	7,309,335	Monthly Amount Disbursed (Sep./2007)	63.65
Women Members	7,074,319	Monthly Amount Repaid (Sep./2007)	57.24
(% of Women)	(96.78%)	Amount Disbursed since Inception	6,502.27
Total GB staff	24,592	Total Assets (End-2006)	849.42
Beggars as GB Members	84,648	Amount Disbursed to Beggars	1.54
Micro-enterprise Loans (#) *1	1,213,614	Cumulative Micro-enterprise Loans	411.28
Total Groups * 2	1,155,015	Higher Education Loan (Cumulative) *8	8.45
Total Centres *3	134,975	Scholarships (Cumulative)*9	0.76
Total Village-Pay Phones *4	295,024	Net Profit Earned in 2006 *10	20.00
Total Houses Built *5	649,412	Balance in Loan Insurance Savings	57.91
Number of Branches	2,462	Members' Deposit	401.41
Branches with CA & MIS *6	2,372	Non-Members' Deposit	296.35
Deposit to Loan Ratio (2006)	133%	Total Expenses 2006	114.89
Rate of Recovery (%) *7	98.40%	Own Funds	134.73

Notes: *1 Besides general loans, GB also provides *business expansion* (micro-enterprise) loans for the fast business-growing members, which usually are used by the husbands or sons of female borrowers. The average loan size is US\$320; and some popular enterprises are: power-tiller, irrigation pump, transport vehicle, and river-craft for transportation & fishing items, etc. *2: Each Group contains 5 Members, *3: Each Centre contains 8 Groups i.e. 40 Members, *4: Low cost mobile phone only for borrowers in collaboration with "Grameen Phone and Grameen Telecom (*two* network companies of GB family), *5: Built with long-term (10 years~) *Housing Loans* that started in 1984, *6: CA & MIS: Computerized Accounting and Management Information System; *7: Rate of Recovery mean amount-repaid as a % of amount-due; *8: Total No. of loans 18,247 to members' children, and *9: For the children of GB-members; and so far, total 50,497 students received it, &*10: Net Profit in Taka was Tk1398.16 millions (US\$1 = Tk69.91).

Sources: Compiled from the Monthly Statement of Sep./2007 (GB Statement No. 1, Issue No. 333: 11 Oct. 2007); The Auditors' Report & Financial Statements of GB 2006 (1 Aug./2007); and Yunus (2007).

million group members by the end of 2000; however, under GGS methods total membership tripled in less than 7 years by September 2007. In average, nowadays, GB disburses monthly over US\$63 million having almost perfect and timely repayment; and in 2006, it has earned net profit of US\$20 millions (Table 1). Even, as a first poverty-focused bank in the world, with little exceptions, it has been also evaluated positively for rural livelihoods improvement and women empowerment. Even having dual visions — *poverty alleviation and to do business with poor*, how it became viable, both institutionally and financially.

Rationale and Scopes of the Paper

So far, if we consider many faces of poverty in Bangladesh, not only economic but also socio-cultural

and behavioral as well as bureaucratic and political jargons, notably in recent years ⁷⁾ no doubt, the Noble Peace Prize 2006 is the only image-up event for the nation. The surrounding environments have changed drastically as many peoples became very excited; and the Nobel Prize has formatted even the psyche of those peoples,⁸⁾ who previously had been criticized GB system and Yunus. Many of them now in adore of mode, and some of them are trying to shows Yunus as *Social Prophet* and the *Micro-credit* as a medicine to cure all social ills! The author's views here would neither be sky-touched, nor be narrow, albeit realistic, as those are based on his research experiences with GB system.

Sample Scanned Photos of 3rd Stage Field Exercises (6 weeks: 12/1997~1/1998)



(With Yunus)



(Observing Branch activities)



(Observing a newly-formed "Centre")

There had been flood of studies on GB throughout late-1970s to 1990s, most remarkable works basically highlighted the *classic* credit system, its growth, replications, success stories, and various positive impacts on borrowers and their family, organizational sustainability, and so on.⁹⁾ The author have concentrated much on understanding the organizational culture and grassroots managerial facets as well as the validity of major diversifications, viability of *classic* credit model and development paradigms, comparative study on regional branches of GB, and so on.

The basics of research exercises were just to observe the activities and functions of borrower-members, field functionaries and mid-levels managers as well as interviewed some of them on certain issues whenever confusions had been raised; and also sometimes investigated particular issues in details. However, initially, the prime eagerness were to understand — what lessons have been there from the programs in previous three decades until mid-1970s, and then how GB actually works, what people's views are, especially views of those for whom it is targeted, and views of the field functionaries, mid-level managers (*branch and area*), high officials (*zonal office and head office*), and top managers including Yunus—about their own organization, their future, etc. In early-2006, the author informally interviewed some borrowers of several micro-credit institutions (MFIs) including GB, mostly those are well known to the author; and also visited one GB branch and a Centre, in his home district (*Lakshimpur*), for better understanding of new GGS methods and related performances. All those, however, are not considered here for analysis. Eventually, some published and unpublished

documents have collected via personal links, and then some also retrieved from *Internet* sources.

Until now, many people, here and there, have been predicted various reasons behind the remarkable performances of GB.¹⁰⁾ No doubt there are many reasons; and for the capacity-building of GB, Yunus has added many novel props in traditional management process through *learning-by-doing* approach, e.g. the participatory induction trainings at grassroots. Towards such ends, here the core focus would be on understanding GB organizational culture, managerial facets, basically grassroots participatory aspects and trainings, and then the dynamic roles and leadership of Yunus. Initially, some overviews would be on faces of poverty in Bangladesh as well as organizational life-cycles concept for better understanding the Yunus's struggles and also institutionalization process of GB. No system is absolutely perfect, and surely GB is not an exception, notably if we heed on its parallel dual visions - the livelihoods improvement of the rural poor and to do business with them, a difficult task indeed, if its sustainability is a concern (Hossain, *et al.* 2000). GB activated the new GGS methods fully in late-2002, in fact revealed many internal weaknesses of previous GCS; and albeit, there are yet many confusions and critics with the new GGS; and some focus, thus, would be on GCS vs. GGS aspects.

II. FACES OF POVERTY IN BANGLADESH AND ORIGIN OF GRAMEEN BANK

The basic structures of any society - politics and good governance, economic policies, and knowledge in combination - shape socio-economic life and people's security. There is little doubt that the concepts of the national security and the people's security are interdependent and interlinked, i.e. state security cannot be achieved without ensuring people's welfare and security (*see* Hossain 2002d). So far, probably Yunus and few grassroots-initiators in Bangladesh and elsewhere have been well thought-out it for the depressed, albeit not yet by the capital city based policy-planners. Indeed, GB is a product of the dismal socio-economic, cultural, religious and political characters of Bangladesh; and the prime question is, how Yunus has made it possible?

Political and Bureaucratic Domains of Bangladesh

There will hardly be any denial that it is the political power that determines directly or indirectly the course of entitlements in a variety of ways. Politics in Bangladesh is yet far from being identified as the prime mover of the country, but it has become a 'profitable business profession' without investments instead of becoming a mission of bringing the society under a democratic discipline. That is why, total 84 per cent members of the last parliament (2001-2006) reportedly were businessmen, not real politicians — *indeed, most of them are big loan-defaulters of the nationalized banks, even multi-million US dollars have sent outside secretly by some of them; absurdly, they are the country's lawmakers (!)* — whereas respective figure was only 2 per cent in the first parliament that had formed in 1973 (Hossain 2007).

After 15 years of military rules (1975~1990), already another 15 years (1991~2006) has passed as

Bangladesh joined the parade of nations that seek to develop under modern democratic way, but greed and graft, violence and killings among financial powers and political parties have been at a peak in the country. In short, the juntas, regardless how popular they have had, basically destroyed the country's basic structures in various means.¹¹⁾ Even, in rural credit system, besides usual loan written-off prior elections under Juntas, to motivate poor voters huge amounts of politically-motivated subsidized credit also quickly had been pumped into the rural areas, *e.g.* Tk100 crore project (*i.e.* Tk1000 millions) in 1977 under the first military dictator had held for such purpose (*see* Hossain: 2002a). Under such cultures and circumstances, even the democratically elected governments - *basically beneficiaries of previous two dictators* - have been performing waste, as mentioned earlier (*note* 6). Here more focus on such basic poverty is *per se* out of the scopes of this paper.

Vital questions are - even over 3 decades had passed after independence of 1971, why the country has been ranked as the most corrupted for five consecutive years? And why most people have been under internationally accepted poverty line? Is it due to high population density, as many peoples' view are? No doubt, it is one- as already, the huge size of the population has been creating great difficulties in every sector of the Bangladesh from feeding and housing to providing of basic amenities.¹²⁾ In short, the robust causes behind are unwillingness and inability of political leaders to make economic development their top priority; and indeed, they are busy only with their own development! Relevant question also - where the lion-share of total foreign aids, in various means more or less US\$40 billions, since independence has gone?

The political corruptions gradually became deep-rooted with elite-dominated bureaucracy and all other organs of the society. Corruption experts say bribes are routinely offered— and taken— to push forward a water project, a new road, a sari business or a passport application. Even relief funds for victims of cyclones and flooding have mysteriously disappeared. For many people, what matters is daily life, and corruption is so deep-rooted here . . . that there has to be a painful transition. In the long term, it has to happen; and indeed, apparently, some initial progress are reportedly there under current military-backed caretaker government (MCG).¹³⁾ Even if, peoples are yet in the middle of many hopes and doubts. Beside appealing facets, apparently, many very appalling episodes are also there.¹⁴⁾

Socio-Cultural, Behavioral, and Organizational Spheres

If we consider the prime struggles of GB founder and other managers, especially the field functionaries, some other faces of poverty in Bangladesh need to be highlighted. It is surprising to many - how GB has been successfully operating countrywide by targeting millions of rural poor women in a socio-religious society, where traditionally banking interests are prohibited! In general, the rural people have strong religious faiths, albeit most illiterates are reckon to be blind,¹⁵⁾ and the women, half of the population, yet virtually are remained as hidden treasure! Basically, the most illiterates, regardless poor or rich, believe that '*God*' would feed them, and fortunately, they have been clinging to

large family size, typically 5–6 are very common.

There are many explanations of socio-economic and poverty situations; albeit, the people's behavior and culture to poverty in Bangladesh have been highly neglected by the researchers. Indeed, the pattern of interpersonal behavior in all levels inhibits the building up of solid institutional base, which is deemed necessary for all-round development in any society. Stereotypes of national behavior are always subject to debate and often dangerous to assert, even if there is usually strong truth in them. Indeed, the behavioral pattern would determine where the development be ease and not be.

Education and Character Formation: Universal education may be something of a prerequisite for overall socio-economic changes but without character formation elements (e.g. honesty, morality, behavior, handwork, etc.) desired fruits never be achieved. The economic growth in Japan has been deep-rooted from the Meiji Era (1868–1912), when compulsory elementary education first initiated. The dramatic growth during post war period has been equated with the collectiveness of people in development, above all, honesty and hard work of general public, because of character-formation of the kids, which even starts as early as baby-care center and then continue practice through primary education system (Hossain 2006). Sri Lanka and Kerala of India achieved near universal literacy, leading to better quality of life in many respects, and in those places other conditions are also gradually maturing for all round development. Bangladesh is yet far behind than the universal education for all, virtually around half of Bangladeshis are yet illiterate (*literate defined as, who can write name and address*); and in Japanese standard (9 years compulsory education), most likely, the illiteracy figure would be above 80 per cent. Further, surprisingly, the education system divided into 3 winds—Bengali, English (*basically for elites*) and Arabic (*Islamic, low curriculums*). The existing educational curriculums seldom include any character formation elements. Even, the main function of higher education is to differentiate between the *educated* and the vast rural classes—the *farmers, artisans, or laborers*.

The concept of education is not just the acquisition of knowledge; indeed, acquisition of abstract knowledge is deemed less important than the enhanced social role a person is expected to have when she/he has more education. Further, the party-based political polarization of most teachers and students, basically student politics has been jeopardizing the education system;¹⁶⁾ and the 4 years university courses usually required 6 to 8 years for completion! Thus, not surprising, Bangladeshis with little exception, have been using two birthdays due to official age-bar of entering job markets.¹⁷⁾ Absurdly, how a person, like Prime Minister (PM) could use not only 2 but 4 birthdays!¹⁸⁾ Even, her name is also at the list of best 20 Bengalis of all times!¹⁹⁾ Further, huge spending on higher education does not bring enough fruits to nation-building, as most of them ultimately become part of *brain-drain* in developed countries; and there are also slyness among many highly-educated ones.²⁰⁾

There are many endless jostling over socio-economic strata and official ranks, and accordingly interpersonal relations assume huge importance in life and are in constant flux. In Bangladeshi culture, everyone has his own interest in workplace, or most of them want to do things at a different time, or

want to be leader, regardless illiterate or literate; even if, in all levels, small community to national, there are yet severe leaderships crisis. Surprisingly, even many of highly literate peoples are proud of military dictator/s; and not even hesitate to say '*only army would be the right stakeholder for country's development involution*'! In fact, it is the most desirable case in Bangladeshi socio-cultural norms.

Individualisms and Atomistic Behaviors: The persistence of poverty is not so much from individual laziness, but from lack of social organization for productive work and very low value added of much work as well as people's behaviors in development. One of the main reasons of poverty is that they have not yet learned to work together or failed to mobilize vast depressed target-groups collectively. Most Bangladeshi can be said to be an individualist in the sense that he/she is pragmatic and opportunistic in behavior. The term individualism here is not defined as that has evolved in history of now-developed countries, specifically in European history. The Bengali is an individualist in the sense that he/she behaves atomistically to maximize opportunity through social relations, learns to find his own way in life, and does not depend much on either institutions or ideologies. He/she does not give much weight to abstract rules laid down by some bureaucracy, neither to the ideology of any authority, but rather to the reality of dyadic human relations. Everyone lives in a complex pattern of obligations and counter obligations, and he/she is expected to use the resources available to him/her and often to distribute them downward to fortify his/her position with indulgence. In daily social relations, the class consciousness is also limited as people tend to identify with their kin instead; and if there is a 'rich' man in one's kin circle, usually one will not oppose even for a wrong-doing! Yet would be proud of that fact, and typically also would consider that he is a potential source of patronage.²¹⁾

There is also no parallel in Bengal to the control the Chinese state exerted over behavior, whether Confucianism or in modern China.²²⁾ Bengalis would never allow themselves to be pulled ideologically in one correct direction, then a few years later in a contrary direction. By the by, is it possible for Bangladeshis to act collectively like Japanese? Sadly not; and probably, they even never be able to organize themselves as the East Asian societies do. Even if, Bangladeshis had been collectively riposted for languages movement of 1952 and then independence in 1971 or democratic movement of 1991, however they could not conceivably organize themselves for economic production like Japanese, Taiwanese, Chinese, Koreans, or Singaporeans, nor could they work together to achieve the profound changes that have occurred in above Asian newly industrial economies (NIEs) in the past few decades. It also is unimaginable that Bangladeshis would ever stand in formation like factory workers in Japan and sing the company song rather they would go on strike against it! In fact, whole social aspects and works places are characterized by the endless many rivalry and flux of micro differences in ranks.

Work Environments and Organizational Cultures: Some Bangladeshis say that the authoritarian behaviors of officers and/or exploitation by the elite classes are principal causes of persisting poverty in the country. There is not doubt that it does —but whether there is a pattern of hierarchical behavior that affects poverty and prosperity in the society as a whole. The widespread lack

of 'sincere'²³⁾ work toward institutional goals is one of the primary reasons for the failure of development projects in the country. They are scarcely motivated by the social environments of the bureaucracy. Public distribution of commodities, incomes, subsidies, aid, loans, and also marketing as a legal system of rights, contracts and guarantees, etc., are enforced by the power of the state. Much of the energy of such employees goes into just socializing, protecting themselves in the hierarchy, or arranging some scheme for personal advantage. The practical effect of rivalry about rank in organizations is that his/her chief is obliged to be authoritarian to control the flux of personalities and to protect himself/herself. While in political bureaucracies this is true in other countries too, nevertheless, not like as intense in bureaucracies and politics of Bangladesh.

Most government-run enterprises and development programs yet have been performing waste and becoming bankrupts due to politico-bureaucratic malfunctions. As explained earlier, an unholy alliance of politicians and bureaucrats has deep roots in the society, which continuously pollute the society in various means. As Maloney (1991) indicated-

The public officers are expected to profit from their position. The notion has been so deep rooted that many educated youth do not hesitate to tell I need a job not salary.

The inner meaning signifies how corrupt the operative machinery of the country is. When an officer has access to goods and others' labor through office, it is presumed he utilizes this access, and to some extent controls the assets that legally belong to his organization. For instance, when an officer has access to a car it is virtually presumed that he will use it for personal errands, and that is usually the case. This has become a part of socio-politico-administrative culture. In public banking, and credit programs too, there is a flat opinion - *no bribe no loan*, usually 10 per cent of desired amount!

Rural Heterogeneity and Economic Inequities

The rural poor in Bangladesh are not a homogenous group. They differ with respect to their socio-economic conditions, agro-ecologies, religious, and cultural patterns. They also have common features: (a) they are landless or have small subsistence holdings; (b) they are isolated from the mainstream economy; (c) they lack organization and leadership; (d) they have little capital or access to formal credit; and (e) they are wanting in marketable skills, and so on. Hence, they tend to be in a dependency trap, looking for subsidies and handouts, caught in the snares of fatalism and factionalism. These elements essentially translate into lack of capacity of the rural poor to change their own lot, but they are remediable, if social and political environments support them.

Economy of Bangladesh, as in most LDCs, is rural, subsistence, and virtually outside the market-economy. The poor actually live in a dual economy, partly informal and partly formal, and their activities outside the formal economy are significant. There are very little overlap and interaction between economy of the poor and the rich, but virtually nothing between the poorest and the rich (*Figure 1*).

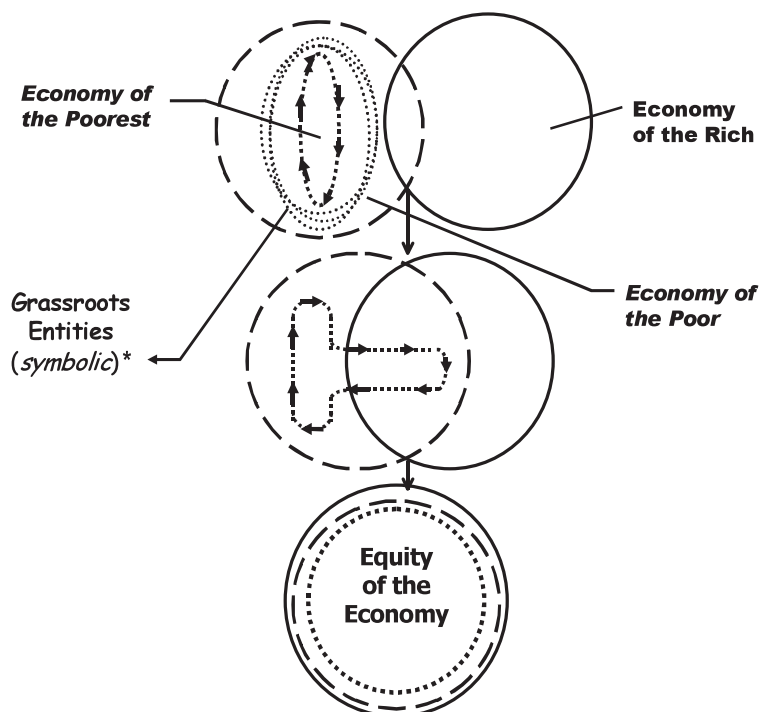


Figure 1: Equity of Economy – A Visualized Vision

Source: Hossain (1999: p64).

Notes: * Such as, 1). Sectoral entities, local government institutions, rural banking, and decentralized administration, etc.; 2). community organizations including agricultural cooperatives, credit associations, women associations, etc.; and 3). NGOs, NPOs, and voluntary organizations, etc. The idea here derived from Fuglesang and Chandler (1993): p236–7.

Subsistence and extremely low accumulation characterize the economy of the poorest. Low production, low prices, low incomes, low wages, low savings, and high unemployment plunge the rural populace deeper into debt and destitution. At the same time with minor exceptions, the poor do not find much of a market among the richer parts of the population for their own products. As other than farm sectors not yet developed sufficiently, the landless and near landless, tenants and non-farm labors are caught in a morass of poverty, from which they find it impossible to extricate themselves. Industrial sector, especially its producers do not get benefit from the huge market of the millions rural poor due to low purchasing power. In addition, billions of dollar in foreign aid in the name of poor are going into the capital-intensive urban projects, dominated by so-called predatory elites, the huge loan-defaulter (*as mentioned earlier*), with no or less benefit for the poor. This situation produces and reinforces continually a dualism in Bangladesh economy.

Most records may not provide an adequate picture of the savings/investment pattern of the rural poor as people prefer not to keep much of their savings in cash or in the bank, but to invest personally; and among the poorest small monies change hands very quickly because of subsistence

level, which usually create the economic illusion. Again, knowledge of rights and information about the way government's function is notably lacking in rural areas. This makes it hard for rural people to exert pressure for change in systems that have often actively discriminated against them both in the allocation of resources and in pricing policies for their produce.

Bangladeshis are not poor because they fail - to save, to invest their assets, or to think of the future; and in fact, the poor themselves too continually take a wide range of measures to alleviate their personal poverty, albeit not enough for their survival. They are poor, as they have been denied the rights to participate actively in existing government structures and organizations. Since 1970s, Yunus has been emphasis on creating local self-government institutions at the village level (see, Yunus 1976), and his prime vision was, as the smaller the local government territory is, the better the chance is for the poor to participate in decision-making. Even without having such environments, until now some initiatives, at least grassroots institutional settings of GB and some NGOs have shown us many myths on poor are not correct at all. Taking obstacles and many faces of poverty into reflections, the remaining parts of this paper solely concentrate on *modus-operandi of the GB* and related discussions.

III. ORGANIZATIONAL LIFE-CYCLE, POVERTY PROGRAMS, AND GB-MODEL

Organizations, either business or voluntary as with most systems, regardless private or public, go through life-cycles just as people do. For example, people go through infancy, childhood, and early-teenage phases that are characterized by lots of rapid growth. People in these phases often do whatever it takes just to stay alive, for example, eating, seeking shelter and sleeping, and so on. Often, the people tend to make impulsive, highly reactive decisions based on whatever is going on around them at the moment. Start-up any organizations are like this, too. Organizations come and go but little also survives.

Basic Stages of Organizational Life-Cycle

In the initial stage, group of people or someone individual gets the idea to do something about a problem in the community. The originator/s senses a mission and look for people as supporters for launching of new organization. If they do, the idea enters the stage of *Infancy*, which better be define as a stage for dreaming. The organization is screaming for feeding, which in under-funded, understaffed and vulnerable; and fortunately thousands of such initiatives die.

The next stage, the *Go-go*, where sees opportunities everywhere and may fall in founder trap. If the founder is prepared to relinquish power, depersonalize policies and establish independent systems the next stage is *Adolescence*. Where more time is spent for planning, policies, regularities, etc., and take time to establish an administrative base. At this point internal contradictions may occur and external consultants may be useful to integrate the various forces. It may or may not die depend on unity of the

top managers, basically initiator's roles and leadership.

Then the stage "*Prime*", where management may have clearer visions. It sets goals and objectives and meets them. Attention is turned to reducing internal conflicts and improving staff relations. Leadership and staff seek to enjoy the fruits of yesterday's labour. This signifies both an advance into *Maturity* and the germ of organizational decline; and the only remedy is decentralization. The point of *Maturity*, information overload becomes an increasing problem at head office. The organization is staring to lose the clarity of its vision. A major organizational renewal is required to develop a new sense of missions toward sustainable performances.

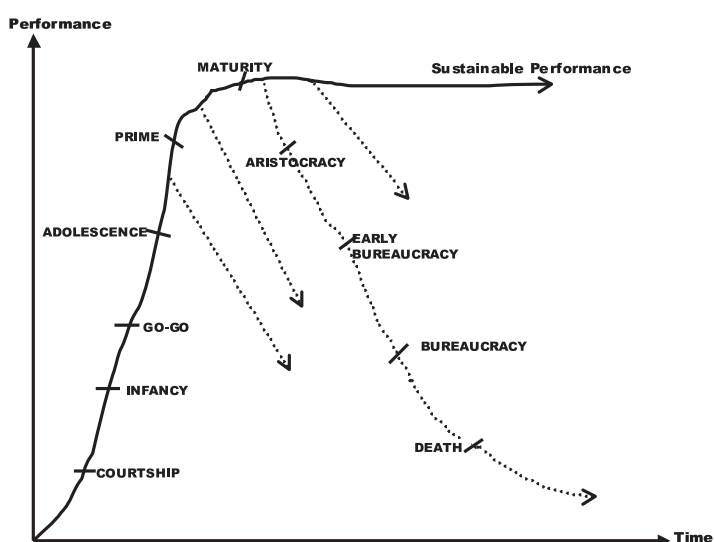


Figure 2: Concept and Stages of Organizational Life-Cycle

Source: Compiled from Hossain (2003a).

In organizational declining process,²⁴⁾ most usual so far, the *Aristocracy* is the next stage, where organizational climate become stale if the decline continues. Leadership fears for the organization's future, but does not express it. No one challenges leadership decisions. More and more funds are allocated to administrative control systems, human relations and trainings, rather than to innovations. The organization is on its way into *Early Bureaucracy*. Sooner or later bad news is going to start hitting—donors refuse funding, media attacks, etc., the good people are feared and either fired or leave on their own. If the organization continues to get funding in spite of its abysmal performance, it will move on to the stage of full bureaucracy. The battles are over, staff and leader agree on everything, but do nothing. Final stage is *Death*, but some bureaucracies never seem to get there.

There are thousands of failure cases in every society; and so far, most government-run rural entities in LDCs during last 5 decades either disappeared or institutionally performing worse or became bankrupts financially but yet institutionally have been continuing by absorbing heavy subsidies.

Conversely, whatever well-intentioned private efforts, either by groups or individuals, have been undertaken in last few decades, with little exceptions, usually did not able to overcome critical stages of organizational development, and there are varied reasons behind. Regarding rural poverty alleviations, there are dozens of examples in Bangladesh territory. Apparently some grassroots organizations have evidenced to be survive, as is the case of GB and some NGOs (see, Hossain 1999: p48–51).

Poverty-focused Programs in Bangladesh-Territory and Prime Obstacles

Historically, providing rural (*actually, agricultural*) credit to the rural peoples, in effect, had been an established rural development policy. There had been no organized efforts to contribute to comprehensive rural development or national growth through rural credit. Official intervention in the provision of credit was merely a means to fight - poverty, ignorance, exploitation and natural disasters.²⁵⁾ Subsidized loans were first introduced during British colonial period to help poor farmers survive droughts, floods and cyclones, and escape from local loan sharks. Since de-colonization from Britain to mid-1970s, the rural credit programs in the territory of Bangladesh had followed one after another and never worked well (see, Hossain 2002a and 2002f).

The history of the rural development efforts is replete with examples of extension staff who not go to the fields or who redirect the focus of their work from the client to their superiors (Hossain 2001a). In general, the widespread failure of many rural programs - due to functionaries simply not performing their roles or to the success of vested interest in fostering corruption - strongly suggests that these issues are among the core concerns of rural Participatory Development Programs (PDPs).

Most programs were unable to meet the dual challenge of institutional and financial sustainability, and seldom served the grassroots poor, particularly landless and women, due to the lack of collateral, suitable guarantor, distance from the rural areas, cumbersome banking procedures, the level-up of '*agricultural credit rather rural credit*', appropriate training, and so on. Some attempts during 1950s and 1960s to revive cooperatives failed to get the true principles of cooperatives - self reliance and self-management - accepted at national level, because the authorities were using the cooperatives as a way of pumping politically motivated subsidized credit into the rural area.²⁶⁾

Traditional co-operatives were not natural groups where people could trust each other; they did not function as self-help societies, although they were assigned development tasks planned outside the community and lacked motivations for savings mobilization. There had been many other weaknesses such as the problem of reaching the target groups, the problem of elbowing out the target people by the rural rich and elite classes, and non-recovery of loans, and the repayment problem. The most formal rural credit programs of the government were not designed exclusively for the poor, who lacked proper orientation and could hardly find access to credit services requiring knowledge and skill of accomplishing the formalities. Even, the credit programs operated through co-operatives could not effectively serve the poor largely because of the bureaucratic malfunctions.²⁷⁾ Moreover, the

credit delivery mechanism, the repayment system and the accounting system were not responsive to capacities and capabilities of the poor, to their communication skills, and above all, to their special needs and demands. Most importantly, the credit institutions often did not have the pool of trained personnel to work with the poor. The field officers of rural development programs were traditionally given a jeep and moneybag for distribution of credit without clear mandate (*see*, Khan 1980).

The most critical issue for management of organizational development is to identify correctly the current state in the life-cycle. Among poverty-focused PDPs of government and NGOs, there are certain similarities but there are also fundamental differences. In usual cases, the government-run organizations even become bankrupts financially but institutionally have been continuing by absorbing heavy subsidies; and under such circumstances, usually NGOs disappear. Without getting the complete GB pictures, it would be difficult to compare organizational life-cycle stages, as shown in *Figure 2*.

Financing the Poor and Origin of GB

All rural programs, until mid-1970s had many defects and limitations, no one could deny but there were enough scopes to improve. Even, most remarkable programs were abolished without any formal evaluation. By the late-1970s, GB founder had been started to do experiments with the rural poor to correct the top-down bias of the previous decades, which has proved, in many ways, as one of the best approach among global PDPs.

GB is a product of the dismal socio-eco-political characters of rural Bangladesh. The famine in Bangladesh in 1974 got Economics Professor Yunus wondering how the landless and near landless rural poor representing more than half of the country's population could be given a better chance to improve their livelihood. After some village experiments,²⁸⁾ he had been piloted the rural financing 'Action Research Project (ARP)' with a difference, where the project workers went to their poor clients in remote areas to give them loans for various farm and non-farm activities, through group formation. Due to perfect repayment records, the ARP transformed into the GB Project (GBP).

The public banks mainly funded the ARP and GBP, that had developed new ways to deliver rural credit without collateral and guarantor. GBP's rapid expansion and remarkable loan recovery performance (Table 1) were instrumental in allowing it by the government to emerge as a semi-autonomous rural finance institution with the name of GB under a special government ordinance in October 1983. Initially, various group sizes (members of 5, 10, 15, and so on) had been considered for experimentations; and ultimately, the group of 5 had been proved best manageable and effective.

Since then it has been successfully administering a unique program that leads small sums to the poor for income generation. Impressed by the performances of GBP since the late-1970s, the government of Bangladesh and donor agencies became especially interested in directly approaching the poor with micro-credit. While many NGOs initially took a negative attitude toward financing the poor, the GBP, influenced by the target approach of the Comilla Model (*see*, Khan 1979) started coming

Table 2: Project Periods of the Grameen Bank (*as of 31st December*)

Particulars	ARP			GBP				
	1976	1977	1978	1979	1980	1981	1982	1983
	<i>(In US\$)</i>			<i>(In Million US\$)</i>				
Loan Disbursed: Yearly	498	4,818	17,171	0.18	1.10	2.00	2.60	2.29
Cumulative	-	5,316	22,487	0.20	1.30	3.30	5.90	8.19
Repayment Rate (%)	100	100	100	100	100	100	100	99.87
Group Fund Savings #	0	0	0	0.01	0.09	0.19	0.25	0.51
Members	10	70	290	2,200	14,830	24,128	30,416	58,320
Groups	1	7	29	377	2,935	4,818	6,243	11,667
Centres	1	2	3	36	326	482	624	2,443
Village Covered	1	2	4	17	363	433	745	1,249
Employees	1	1	6	43	147	218	422	824
Branches	1	1	2	7	25	25	54	86

*Notes: # Balance of Members' Savings, ARP – Action Research Project, GBP: Grameen Bank Project.
 ARP amounts in US\$, whereas GBP amounts in Million US\$. Source: Hossain (1999).*

up with micro-credit for self-employment generation along with other inputs for social development (see Hossain 1988). Later almost all development NGOs had started collateral-free micro-credit programs, which became the single most common element of their activities. For instance, BRAC, the largest NGO in Bangladesh, besides huge investment in various rural development programs, had disbursed US\$150 millions as the micro-loans during 1997 (Hossain 1999: p49), whereas total disbursement during 2006 had reached to US\$626.7 millions; and during first 6 months of 2007, it has been disbursed US\$439.56 millions having 5.57 million borrower-members (see, BRAC 2007).

Classic Micro-credit System of GB: *Basic Credit Model and Operating System*

The credit for the poor seemed a contradiction and little was known among formal-sector financial intermediaries about how to avoid a requirement for physical collateral until 1970s, when GBP begun using Group Mechanism (*Peer Group Pressure*)²⁹⁾ as a substitute for collateral and guarantor to ensure effective repayments, even if it does not require the borrowers to sign any legal instrument.

Interested persons are asked to form groups of five like-minded people of similar socio-economic standing who enjoy mutual trust and confidence. Only one person from a household can be a member, and relatives must not be in the same group. Usually a collection of six (now eight) groups make up a *Centre*. Male or female groups separately form the Centre integrally linked up with a branch, the lowest administrative unit of GB. On an appointed day each week every one comes to the “Centre” and all banking businesses are conducted openly in the meeting in front of all.

GB had been concentrated with small amounts of collateral-free, affordable tiny loans, later popularly known as micro-credit for poverty alleviation.³⁰⁾ It was launched with the knowledge that, while not a panacea, micro-credit is a critically important tool to run rural tiny-businesses (enterprises).³¹⁾ The

Loan with a fixed term of one year, usually need to utilize within a week, and a repayment schedule of 50 equal weekly installments each of 2 per cent of principal; and interest at 10 per cent nominal or 20 per cent at declining basis (*initially it was 8% and 16% respectively*) is divided into 50 equal payments, which usually pay along with principal repayments.³²⁾ Loans are mainly given to individuals for non-farm activities without any collateral and guarantor, removing all the major obstacles in rural finance. GB also has been promoted a social development agenda called *16 decisions*³³⁾ to imbue members with overall development. Thus, GB is not simply banking but a development tool.

Each member must save Tk.1 (later Tk2) or US\$0.028 (but varied due to exchange rate fluctuations) weekly besides 5 per cent of the loan amount (group tax), which kept aside at the time of disbursement, and accumulated in the *Group Fund* (GF). Some others funds were *Emergency* and *Children's Welfare Fund*, etc. All funds deposited to GB and earned interest alike to the commercial bank's rate or more (8.5%). Usual practiced under GCS was, the group members take decisions about the use of the funds and GF savings, on their own, monitored by a GB worker. Sometimes GF had been also used to finance personal consumption needs and other economic activities with free of interests. However, over time reportedly many crises have risen with member-borrowers towards GF and other savings withdrawal.³⁴⁾ Branches borrow funds from the head office at a 12 per cent interest (*low-cost fund source of GB are: basically donors*) and relent to the borrowers at 20%, *in declining basis*.³⁵⁾

Group members and Centre members elect their own leaders, are supposed to change each year.

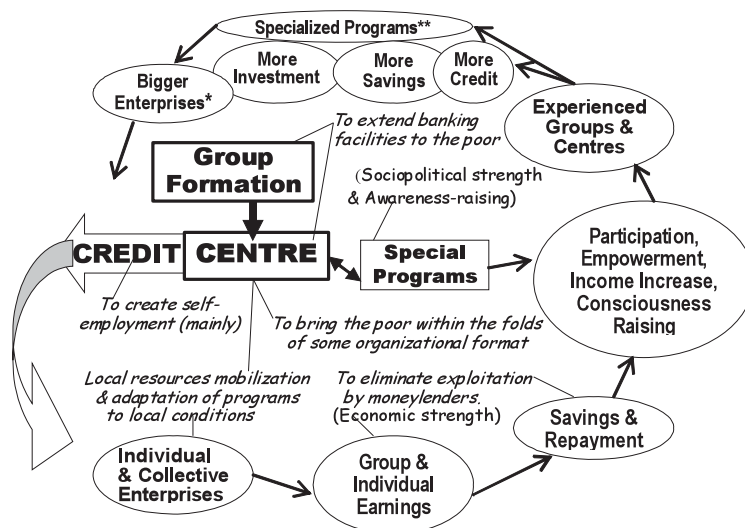


Figure 3: Visualized Visions of GB Basic Model

Notes: Grassroots Institutional Setting and Basic Objectives of GB

*Possible to use modern technologies, and **Includes programs for collectivization of the poor, and need to empower them socio-politically.

Source: Modified from Hossain and Takeya (1998a).

Group and Centre chiefs ensure attendance at the weekly meetings, payment of loan installments, and overall discipline, and conduct the program of the meetings. The main purpose and function of the “Groups and Centres” is to develop a process and the culture wherein both borrower members and GB functionaries engage in routine repetition of identical behavior by all 40 members, week after week - 52 times a year. So, *Group and Centre* definitely are their own entity; and by their own right they are independent organizations.

In GB system, borrowers are effectively brought into the organization to monitor and be held accountable for loans and other functions. For instance, the core element of GB operation is the decision on granting the general loan (now known as *basic loan*) that effectively pushed down to the level of those who have responsibility for loan repayment (see, *Figure 4*). Before a group receives formal recognition in GB, five members are closely observed for a few weeks (usually a month) while following the routine of learning to sign their names, understanding GB Credit System, and memorizing social agendas (i.e. 16 decisions), after which loans usually disbursed on a 2: 2: 1 basis.³⁶⁾ Moreover, Yunus has added many novel ideas in organizational culture; for instance, at the Centre level, the borrower-members and workers need to prides slogans for GB and also perform physical

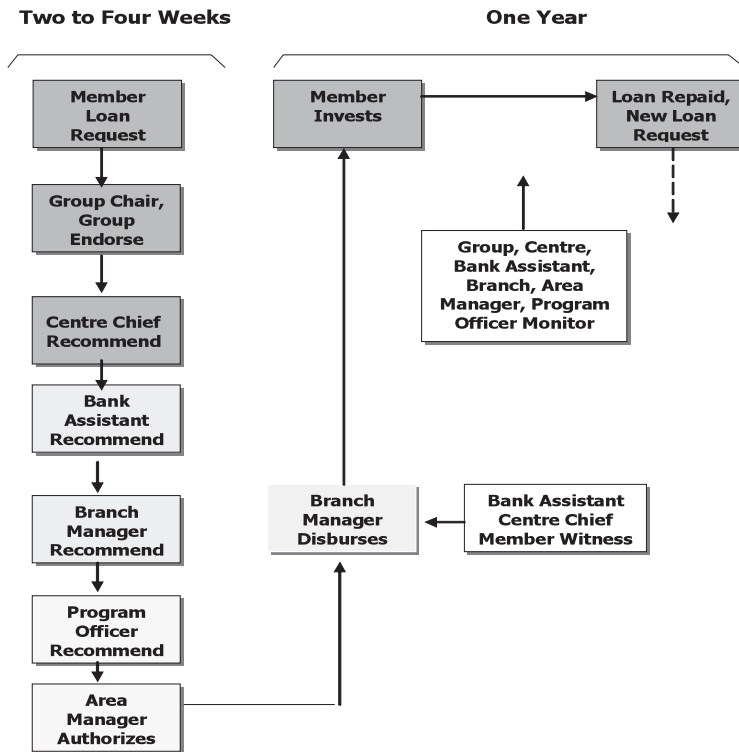


Figure 4: General Loan Decision Process under GCS

Source: Compiled from Holcombe (1995).

exercises like Japanese workers do; and organize social programs, like women awareness-raising many workshops at the Centres and Branches.³⁷⁾

The bank asserts that credit should be the essential right of the poor which plays a critical role in attaining all others human rights. It has been focused its efforts on landless and functionally-landless (LL&FLL) poor,³⁸⁾ vastly women, excluding those with household assets valued at more than the price of an acre (i.e., 0.404 hectare) of medium quality arable land.

Loans are basically given to individuals for non-farm activities without any collateral and guarantor, removing all the major obstacles of rural finance for the poor (Hossain and Takeya 1997). GB management is harmonizing in combination of both traditional scientific management and many neglected managerial features in development theories, which ensured a lot the poor to be bankable. For instance, one of the unusual characteristics of GB organizational culture is that its clients are effectively brought inside the organization structure (see Hossain and Takeya 1998a).

GB differs from NGOs in its approach to poverty alleviation. It believes that most immediate need of the poor is credit to create self-employment opportunities and then providing inputs like credit training,³⁹⁾ physical exercises, informal education, etc. GB has learnt much from other programs of the past; and in fact, prior GB, some elements of its Credit-Model successfully had been experimented under other programs with varied results.⁴⁰⁾

IV. DEVELOPMENT AND DIVERSIFICATIONS OF GRAMEEN BANK

After registered as specialized bank in late-1983, initially under “*learning-by-doing*” approach, GB concentrated much on efficiency of *classic credit delivery* system with social agendas for the poor borrowers, and then to do experiments on enterprises and organizational development along with its gradual growth of outreaches, coverage of operational areas, and new loan portfolios. In mid-1980s GB top management led by Yunus had started to designed programs for comprehensive rural development.

Fundamental Features, and Growth and Progress of GB

The credit delivery mechanism of the GB is based not on simple adaptation or on introduction of methods but on a process of *learning-by-doing* involving field functionaries and the target beneficiary people. GB has a purpose to decrease the big disparities of accessibility among social strata and turned the usual model of banking on its head by taking its services to the grassroots poor, rather than asking them to come to the bank. The fundamental features of GB are —

- *An organizational structure that ensures that client belongs to the bottom half of the socioeconomic hierarchy.*
- *A credit delivery system through group formation and weekly repayment, which is designed to be simple and adaptable to cater to the needs of the clients.*

- *A built-in savings mobilization component that enhances self-reliance and provides cover against business risks and natural calamities, and*
- *A self-employment mechanism that provides poor women an opportunity to assert themselves in the households and in the society, etc.*

Since 1983, Yunus has been motivated the borrower-members to buy at least one share of GB, now it became mandatory; and currently 94 per cent (43% in 1983) total equity of GB are owned by the member-borrowers themselves; and remaining 6 per cent is owned by the government. Further, in 13 members *Board of Directors*, besides Yunus, total 9 are from borrower-member themselves — members elect them every three years for running GB, whereas government-side represent three. Thus, virtually, GB became a bank of the poor and also they themselves are the major decision-makers under leadership of Yunus. So far, it is the most important brain-child innovations of Yunus to protect GB from political influences as well as internal abuse.⁴¹⁾

GB operation and related programs are highly diversified in response to the development needs of the clientele. It has already recognized women as an object of its development. The women members constituted 40 per cent of the total membership roll in 1982, while the comparative figure for IRDP (now BRDB: Bangladesh Rural Dev. Board) was only 8 per cent (*see*, Hossain 1999); and the women members exhibited 56 per cent of GB in 1984 that gradually increased to 97 per cent (Table 3). By this time, GB has recognized as a viable strategy to fight poverty; and during the month of September 2007, the bank has disbursed over US\$63 millions to near 7.4 million borrower-members all over rural Bangladesh through its 2462 Branches and yet maintaining as high as 98.40 per cent recovery rate (*see*, Table 1). GB not only experienced a rapid growth in physical facilities and coverage but also registered a significant increase in its volume of business and services on a sustainable basis; however, growth was very rapid under GGS that has been effective since late-2002 (Table 3).

Apparently, the remarkable performances of GB (*physical outreaches and financial growth*) in recent years are due to the drastic reforms of operational policies that started in 2000 but after two years of discussion and of intensive staff training that — its founder openly declared it in April 2002 for the first time, Grameen II or GGS has emerged (*see* Yunus 2002); and by August of that year every of the 1175 branches had adopted the new system. The basic study exercises had been done in Phase-I to understand GB management and organizational cultures, and then prime focused areas were on changing aspects of the bank and its family organizations including some observations on changed realities under GGS. For explanation-simplicity, we would consider here the pre-GB II period as Phase-I (Inception~1999), whereas post-GB II as Phase-II (2000~ now) of which (2000~late-2002) as transition periods. In short, phase-II shows that as the breadth of products on offer increases the utility to the users increases dramatically. Prior to concentrate on GCS vs. GGS aspects and related performances, we better provide some details on diversifications, structural reforms, and changed operational policies of GB.

Table 3: Growth and Progress of Grameen Bank*(All Amount in Million Taka)*

Performance Indicators	1984	1988	1992	1996	2000	2002	2004	2006
No. of Members (in million)	0.12	0.49	1.42	2.06	2.38	2.48	4.06	6.91
Female Members (%)	56%	86%	94%	94%	95%	95%	96%	97%
No. of Villages covered	2268	10552	30619	36420	40225	41636	48472	74462
No. of Employee	1288	7093	11772	12348	12427	11699	11855	20885
No. of Branches	152	501	1015	1079	1160	1178	1358	2319
Property & Assets	376.6	1836.8	6883.7	19572.8	19674.3	27272.0	33653.2	59383.6
Total Deposits*	38.3	324.5	2176.3	52011.9	6611.9	59424.2	20717.8	44342.3
Deposits of GB Members	38.3	285.4	1386.5	3782.9	5243.6	7305.08	13793.1	27322.9
(In %)**	100%	88%	64%	73%	79%	78%	67%	62%
Yearly Disbursement	304.4	1280.4	5203.7	11877.8	13961.4	15748.0	25591.4	34144.9
Net Profit or Loss (Year-wise)	4.25	1.17	(-)5.65	19.02	11.14	59.67	422.13	1398.15
Ex. Rate (US \$1 = Taka)	24.94	31.24	38.15	40.86	54.00	57.90	60.31	69.91

Notes: * Year-end balance, ** % of deposit means members' deposit as percentage of total deposit, and rest of deposits mobilized from rural non-GB members.

Grameen Classic System (GCS) and Development of GB: Phase-I (Inception ~ 1999)

Over time, many changes have been happened in GB's operating systems as well as organizational policies through *learning-by-doing* approach and various experimental means. Here prime focus would be on GB experiments and diversifications, savings and loan portfolios, and then institutionalization of GB, both in organizational and financial means.

Experimentations and Structural Diversifications: Since the mid-1980s, the GB also had started to think of comprehensive ways through which the poor can build a network for sustainable improvement of their livelihoods. Yunus and his expertise colleagues had much concentrated on the efficient use of low-cost and intermediate-level technologies as well as other available resources in broader agricultural sub-sectors. GB had been experimented various spin-off donors-funded projects throughout mid-1980s to early-1990s under its *SIDE* unit (*Figure 5*).

Carrying out all these initiatives under the GB became hazardous and unwieldy, so from 1989 it began to establish new off-shoots organizations, now known as GB family organizations aimed at linking the poor with all major sectors. GB founder also took initiatives to establish several other business companies without any experimentations — some solely for-profit, and some for profit but as a supporting entities of GB family — now all those basically known as Grameen Network companies. Grammen Trust (GT) was the first such separated entity in 1989 — that since then handled smoothly the most research and experimental projects and programs. GT has been replicating the *GB-Model* worldwide with donors' support, and basically it provides seed-money to new project and organizing

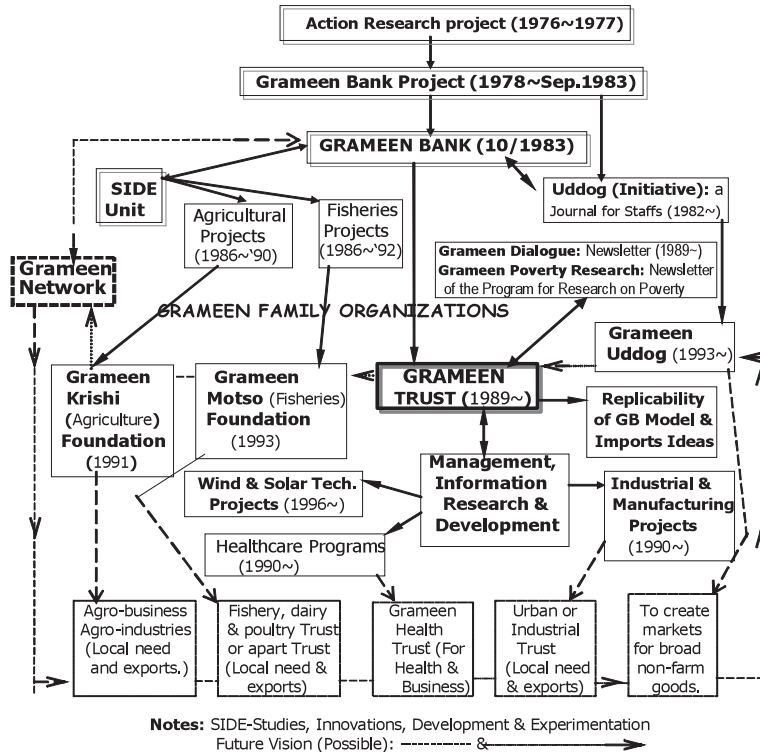


Figure 5: Diversifications and Experimentations of Grameen Bank

Notes on Grameen Family Organizations:

GB Offshoot Companies (Not-for-Profit): 1) *Grameen Fund* (1/1994); 2) *Grameen Krishi/Agriculture Foundation*: (1991); 3) *Grameen Motsho/Fisheries Foundation* (1993); 4) *Grameen Shakti/Energy* (1996); & 5) *Grameen Kalyan/Welfare*.

Grameen Network Companies (For Profit, but some are supportive to GB & some for business only): 1) *Grameen Trust* (1989); 2) *Grameen Telecom* (1997); 3) *Grameen Communications* (1997); 4) *Grameen Phone Ltd* (1997); 5) *Grameen Shikkha/Education* (1997); 6) *Grameen IT Park*; 7) *Grameen Information Highways Ltd.*; 8) *Grameen Star Education Ltd.*; 9) *Grameen Bitek Ltd.*; 10) *Grameen Uddog (Enterprise)*; 11) *Grameen Shamogree (Products)*; 12) *Grameen Cybernet Ltd.*; 13) *Gonoshasthaya Grameen Textile Mills Ltd.*; 14) *Grameen Software Ltd.*; 15) *Grameen Capital Management Ltd.*; 16) *Grameen Byabosa Bikash (Business Promotion)*; & 17) *Grameen Knitwear Ltd.*, etc.

Sources: Hossain (1999): p163; and update from GB Homepage.

training programs as well as deals the poverty-related research activities, etc.

In creation process, GB management had given first priority on agricultural sub-sectors; and after viable experimental results, its top management permitted to register those as GB off-shoot company. For instance, GB has created *Grameen Motsho* (fisheries) *Foundation*, after successful experimentations of several mismanaged fishery projects in late-1980s, including government-run largest JFF project (Figure 6). *Grameen Krishi* (agriculture) *Foundation* also registered as separate company in 1991 after several projects experimentations (see Hossain 2002e). Some programs and projects e.g. *health insurance for the poor*, are under experiment, as those not yet proved viable financially. In addition, GB

has been engaged in various community-based mitigation programs in collaboration with donors, e.g., Arsenic Project (Hossain 2002b and 2002c). It's most social development programs and projects also had separated as off-shoot family companies. For instance, Grameen Kalyan (well-being), a spin off company, created by GB, has been undertaking social advancement activities among the borrowers.⁴²⁾

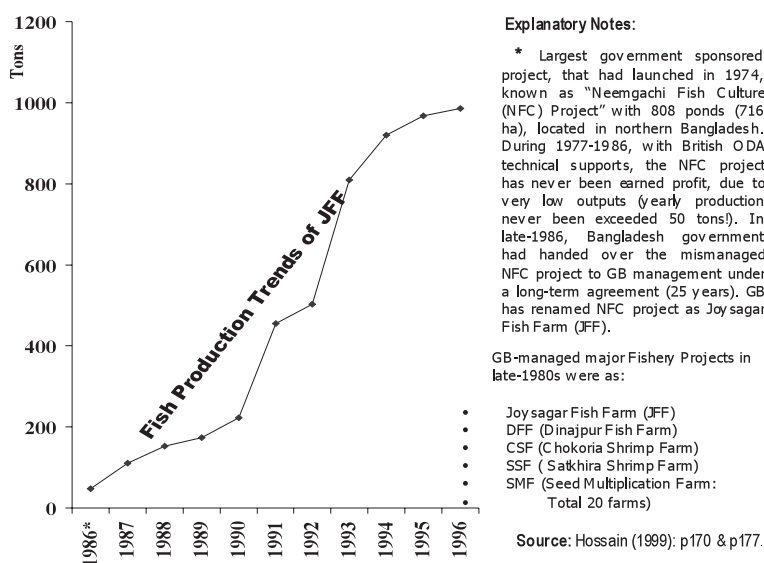


Figure 6: An Example of GB-Managed Experimental Projects

Most solely *for-profit* companies, where services are open for all - such as, Grameen Phone (GP), the largest mobile company in the country - became very viable economically. Besides doing business as usual, GP in collaboration with GB and Grameen Telecom—another entity in *Grameen Family*, also provides comparatively low-cost phone services to borrowers, popularly known as *Telephone-ladies* (Hossain and Takeya 2004). As of 9/2007, so far, GB has provided loans to 295,024 borrowers to buy mobile phones (*see* Table 1) and offer telecommunication services in nearly half of the villages of Bangladesh, where this service never existed before. Telephone-ladies play an important role in the telecommunication sector of the country, and also in generating revenue for GP. The *Telephone-ladies* run a very profitable business with these phones; and they use 16.5 per cent of the total air-time of GP, while their number is yet only 4 per cent of the total telephone subscribers of the GP (Yunus 2007).

The *Grameen Shakti (energy) Company* is also becoming popular because of easy access of modern technologies (e.g. *Solar and Wind power, etc., in extremely rural areas, where there is no electricity available at all*) to the door-steps of the poor. In total, now, there are over 2 dozen organizations (*Off-shoot and Network Companies*) in the Grameen Family, and also some experimental activities. All these entities in reality have been structurally separated but remain supporting to each others. Any detail explanations on all those companies are *per se* out of the scopes of this paper.

GB Organizational Structure and Multi-Steps Safety-Net: The organizational structure of GB has been undergoing adjustments at various levels due to rapid expansion as well as for operational efficiency. Growth was rapid, with more than 2 million group members most of them women enrolled by 2000 — when work began on the design of new GGS.

Besides decentralizations, major innovations under GCS (Phase-I) are as: a) Social security elements (*e.g. members' various savings, special funds, programs for women and disabled, etc.*), b) Group and Center level activities (*child school, awareness and socializations elements, workshops, skill-trainings, etc.*), c) Loan portfolios and induction trainings (*branch levels*), d) Organizational development and security elements (*top to bottom levels*); and e) Novel props in management and operational policies (*various funds, research and evaluation, internal audit, raining at grassroots, research, evaluation, awards, workshops, etc.*), and so on. Further, the Internal Audit Division (IAD) of GB, the effective and novel participatory innovations of 1990s, is a part of the internal control system, which was introduced to detect any error or fraud at the early stages, which is decentralized with an audit office in each zone having 3–4 experienced field officers, but remains independent of zonal-office's functions. All those multi-steps innovative options, as visualized through *Figure 7*, we have considered as *Safety-Net* not only to the poor borrowers but also for GB itself.

GB, nevertheless, has developed a “*centralized-cum-decentralized*” management structure with a cadre of dedicated professionals, who are capable of operating effectively on its own. Each unit including the *Centre* operates autonomously, but is a part of the whole (*see*, Hossain and Takeya: 1998a and 1998b). Initially, there were only *Head Office* and *Branches* — the lowest administrative unit of the bank that abided sole profit-responsibility from credit operation — integrally linked up with *Centres*. At present, the *IAD* is characterized by two-tier structure, the *central* and *zonal audit*; where central audit office supervises, advises, directs and provides necessary guidance to zonal audit offices.

Savings and Loan Portfolios: Under GCS for over 2 decades - GB took mostly obligatory savings from its members and stored them in accounts for individual members and in joint-owned ‘Group’ accounts, as mentioned earlier. The bank also offered some basic current and savings accounts to the general public, though not in great volume. In 1984, all deposits of the bank were from its members but in 2006, member's deposits accounted 62 per cent of all deposits (*see*, Table 3).

Classic micro-credit system of GB — the loan products and rules in force up to 2002 — offered at first one type of loan, the *General Loan*. Low-cost longer-term *Housing Loan* was introduced in 1984 that became popular among borrowers as a supportive innovation.⁴³⁾ Steadily, other loan products were added under general loan categories. Some loans, like *seasonal loan*, were introduced to ease the rigidity of the one-term one-schedule regime of *classic* micro-credit system, e.g. weekly repayment was changed to as *harvest-after repayment*, usually 3–6 months and sometimes even longer period. Others, like larger *family loan* and the much smaller some loans (*see*, *Figure 7*), responded to obvious needs of borrowers and rural areas (*see*, Hossain and Takeya 1998b).

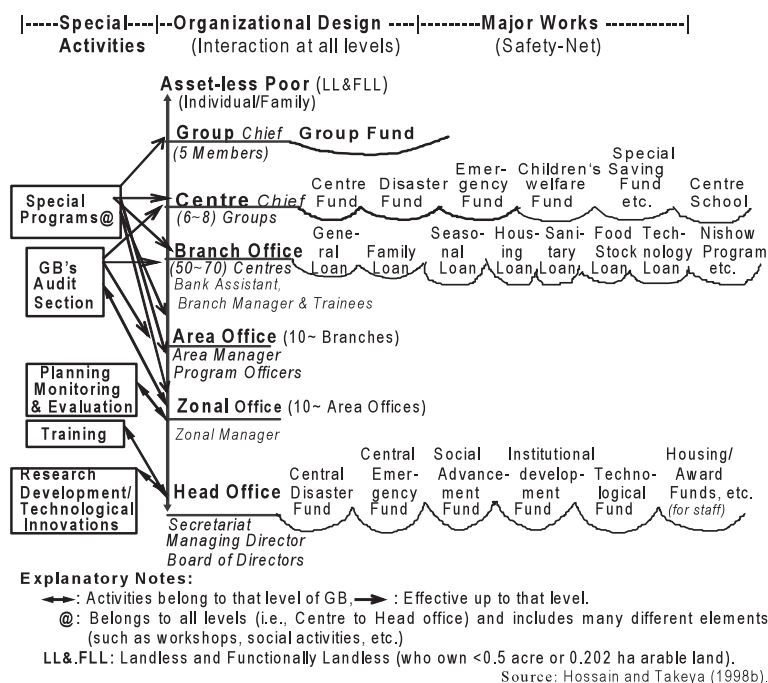


Figure 7: Grameen Organizational Design and Safety-Net with Multi-Steps

Due to creation of new loans *e.g.* seasonal, family, and some other loans, the drastic changed were in GB sectoral disbursements. For instance, since inception to early-1990s non-farms loans had been exhibited over three-fourth of general loans, whereas the crop sub-sector loans fluctuated between 1 to 4 per cent only but jumped to 35.6 per cent in 1993, even if, its target groups basically are LL&FLL poor women!⁴⁴⁾ It was right realization of the top managers of the bank that without agricultural linkages, the non-farm activities would not be effective enough for efficient business. In fact, low-quality rural non-farm products were not competitive enough with urban goods, and the local-market saturations became drastic, due to rapid business expansions of GB and other programs.

Grameen Generalized System (GGS): Phase-II of GB

In 2000 work began on the design of new system of GB, known as Grameen II or simply GGS by making some fundamental changes, especially in its loans and savings packages as well as some minor changes in operational and organizational policies. The key rescheduling system period was from late-2000 to mid-2002, and the full-fledged implementation started from late-2002.

Rationale of GGS: Natural calamities and human made catastrophes (*e.g.* Group Funds withdrawal-related crisis of mid-1990s; *see, notes: 34 and 46*) as well as various internal weaknesses exposed the vulnerability in *classic* credit system. Basically, the severe flood in 1998 affected many member and their households; and even if, GB *Safety-Net* packages were activated fully but had proved

not well-enough to tackle the vast crises that had been occurred during flood and post-flood periods. On-time loan repayment declined sharply, and many members failed to attend meetings. The new GGS has designed to tackle this situation; and its key weapon indicated the greater flexibility of its renewal products (savings and loans).

New Saving Packages: The new GGS of GB consolidated many of the lessons from experience, but goes beyond that by making some fundamental changes. Probably under GGS, most drastic reforms happened in Savings mobilization policies. *Extended member deposit services now provide* a wider range of savings opportunities for members; and the *Personal Savings* have been made far more flexible, and group savings accounts virtually have gone.

Under new system, each member opens a *Personal Savings* account, into which she may pay whatever she likes that depends on the value of her loans from the bank (*usually subject to minimum 2.5% of loan value*) and withdraw whatever and whenever she likes, for any purpose, subject to being up-to-date in her loan repayments. Member also opens a *Special Savings* account by depositing another 2.5% of the value of loans issued, and until it is three years old it is illiquid. After three years withdrawals may be made, subject to a minimum balance of Tk2000 (about \$30). Both savings deposits earn interest at 8.5 per cent annually, a higher rate than passbook savings in commercial banks. Borrowers of GB loans deposit into a credit-life *insurance savings* fund. These savings are held in the member's name and the principal returned without interest when she leaves the bank. Meanwhile, the interest is used to repay loans held by members at their death, so that heirs inherit the full value of any savings held but do not inherit the debt.⁴⁵⁾ This scheme was extended to cover spouses living at home.

A completely new savings instrument is available now but becomes obligatory if the member holds a loan of Tk8000 (roughly \$115~130) or more, known as the *Grameen Pension Savings* (GPS) — a commitment-savings account based on the commercial banks' '*Deposit Pension Scheme*', long popular among middle and wealthy classes in Bangladesh. A fixed sum per month, minimum Tk50 (< US\$1) is deposited for a five or a ten year term, after which principal and interest at a generous rate (*annually 12% for 10 years or 10% for 5 years*) are released, either as a lump sum or as monthly income. Finally, GB has become a true intermediary by mobilizing deposits from the general public, not just from its members, *known as Public Deposit Services*. And so, by end of 2004, total deposits (*both from members and non-members*) exceeded the value of loans outstanding for the first time in the bank's history.

Refined Loan Portfolios: The main weakness of GB's *Phase I* was the rigidity in the loan scheme — members had no choice but to follow a strictly prescribed schedule of borrowing and repaying, and 'once a borrower fell off the track, she found it very difficult to move back on'(Yunus 2002); and loan repayments rates began to fall worryingly.⁴⁶⁾ The multiple loan types led some members into over-indebtedness, and the single-term single-schedule '*General Loan*' became hard to manage as loan sizes and thus weekly installment sizes grew. Even under 'general loan' rules, installments could not be pre-paid and the loan could not be paid down ahead of due.

GB now offers only four major loan-types, such as, *Basic Loan* (a replace of past *General Loan*), Housing Loan (*same equal weekly installments but repayment-terms 10 years reduced to 5 years*), Higher Education Loan, and Struggling Member's Loan (*loans for beggars*). Larger loans for business use are available. Loans may be 'topped up' mid-term, or paid off early. Joint financial liability is formally banned though members still undertake to help each other in other ways. Again, there is no obligation to borrow for members. Borrowers in repayment difficulties have their loans now rescheduled into '*Flexi Loan*' i.e. *over due loans* inherited from previous GCS of GB.⁴⁷⁾

Table 4: Outreaches and Performances under GGS of GB (2002~2005)

Particulars	2002	2003	2004	2005
Total members # (In millions)	2.48	3.12	4.06	5.58
Active members # (In millions)	2.08	2.87	3.70	5.05
Loans disbursed (in millions taka)*	15,869	21,467	25,873	39,183
Total employees #	11,699	11,846	13,038	16,142
Loan employees # **	7,448	7,495	7,925	9,166
Loan portfolio per loan officer (in million taka)	1.78	2.25	2.65	3.22
Active borrowers per Branch # (Year-end)	1,766	2,402	2,722	2,912
Cost per borrower (in taka)	714	614	509	544
Productivity per loan officer	291	399	487	579
Portfolio growth rate (all loans) %	1.99%	26.48%	24.72%	39.66%
Return on equity (ROE) %	2.93%	10.63%	8.98%	21.22%
Operating self sufficiency (OSS) %	102.00%	111.10%	109.88%	115.65%
Financial self sufficiency (FSS) %	99.60%	107.88%	105.70%	110.40%
Yield on gross portfolio (nominal) %	17.98%	18.51%	18.89%	19.24%
Cost of funds ratio %	5.19%	6.18%	7.15%	7.38%
Portfolio at risk ratio (PAR) %	1.77%	2.84%	2.94%	2.57%
Operating expense ratio	11.19%	10.52%	9.22%	9.87%
Personnel expense/Loan portfolio	8.70%	8.12%	6.88%	6.92%
Capital adequacy ratio	9.70%	19.30%	16.51%	13.41%

Notes: *All loans including long-term Housing Loan (Principal amount) ** Field Functionaries, those who are directly involved with loan operations (disbursement, monitoring and collection).

Sources: Compiled from Grameen Communications documents (July-2006), etc.

Under GGS methods that fully implemented in late-2002, apparently GB has been performing like a commercial bank, as the new system represents a revolution in the way that the bank does business. To do so, the bank has concentrated much on rapid increase of outreaches and liquid assets from rural

areas, not necessarily from borrowers only. Table 4 shows the remarkable performance trends for post-reform succeeding years, basically indicators under some broad categories – *such as Outreaches, Loan portfolio quality, Efficiency and productivity, Sustainability/profitability, financial structure, etc.* In short, among reasons behind such quick recovery, most important are: ‘Public deposit services – not just for its members’, ‘Extended member deposit services’, ‘Improved loan contracts’, and so on.

The basics of group formation, group and centre role, loans process and delivery, weekly repayment, installment collections, etc., of the *classic* credit model as well as grassroots interactions among functionaries and borrower-members have remained almost same. GB does not require any collateral against its micro-loans as before; even if, under new system, there is no form of joint liability (*peer group pressure*), i.e. now group neither give any guarantee for a loan to its member nor responsible to pay on behalf of a defaulting member. Repayment responsibility solely rests on the individual borrower, albeit, yet the Group and the Centre oversee that everyone behaves in a responsible way. In fact, without organizational development in Phase-I, basically decentralized-decisions and grassroots participatory management facets, it was impossible for GB to absorb such drastic changes.

V. ORGANIZATIONAL CULTURE AND GRASSROOTS PARTICIPATORY FACETS OF GRAMEEN BANK

When we discuss about any PDPs, a broad range of structures and human affiliation comes to mind depending upon target. In shaping the performance of any grassroots PDP, the response of employees is as critical as that of beneficiaries. In particular, building up capacity of poverty-focused PDP depends largely on the quality of the people that are engaged in the delivery of program services. In any organization that encourages the empowerment and participation of staff to undertake poverty alleviation work, the motivation and commitment of staff are paramount. The scientific and bureaucratic traditions of management practices, in fact, suffice in sustaining good performance of employees, and are complemented with high self-image of task fostered through ideological articulation of task, appreciation of task rationale, supportive services and purposive organizational climates.

Decentralized-Decisions and Motivations in GB Organizational Culture

There have certainly been huge social gaps between better-off program functionaries and the depressed beneficiaries due to caste-like socio-cultural environments of Bangladesh; in fact, the situations are worse in rural-settings. The traditional management practices alone might not work perfectly at the present socio-cultural gaps as well as politico-bureaucratic corrupt environments of Bangladesh. Moreover, those directly engaged in rural activities need various skill-trainings for running their small-enterprises, since their goods/products must be seen to be of high quality, if they are to expand into faster growing markets.

This should be complemented with a high self-image of tasks fostered through ideological articulation of each task, appreciation of its rationale, supportive services and a purposive organizational climate with mechanisms to make policy enforcement sensitive to grassroots experience in ways to motivate them. Motivation is a concept with roots in the discipline of psychology, which is derived from the satisfaction of human needs at different levels. Thus, the management approach of any PDP requires additional props to generate excitement and satisfaction among employees, which are necessary for sustaining good performance.

GB management is harmonizing in combination of both traditional scientific management and many neglected managerial features in development theories, which ensured a lot the poor to be bankable (Hossain and Takeya 1998b). One of the unusual characteristics of the GB organizational culture is that its clients are effectively brought inside the organization structure, where borrowers are call members not clients. The main purpose and function of the “*Groups and Centres*” is to develop a process and the culture wherein both borrower members and GB functionaries engage in routine repetition of identical behavior by all 40 members, week after week - 52 times a year. This period allows for group members to develop close relations with each other and be certain about their decision to join. It also installs a sense of importance and confidence in members who realize that they have earned membership only after a long process of screening. Credit decision-making is highly decentralized; and the lowest managers or lending officers are given clear guidelines and procedures. The author’s earlier study also argued that matching training with local socioeconomic conditions (*see* Hossain: 2001a), in particular with traditional apprenticeship schemes and with prevailing local market forces, is likely to make GB type schemes more sustainable.

GB Field Functionaries and Grassroots Participatory Aspects

Larger rural development institutions in the LDCs are creation of governments. Their core approach includes planning, policy analysis, and project appraisal, which specify inputs to be delivered for expected outputs within a set period; and their officials are related to government leadership, not to the grassroots poor. Most importantly, the credit institutions often did not have the pool of trained personnel to work with the poor. In general, the widespread failure of many rural programs - due to functionaries simply not performing their roles or to the success of vested interest in fostering corruption. Again, most programs were not responsive to capacities and capabilities of the poor, to their communication skills, and above all, to their special needs and demands.

Specifically, rural development demands a social fabric of association; and the drive to promote participation should be seen as the expression of development democracy at the grassroots, where it should begin. This should be complemented with a high self-image of tasks fostered through ideological articulation of each work, appreciation of its rationale, and supportive services and a purposive organizational climate with mechanisms to make policy enforcement sensitive to grassroots

experiences, as is the case of GB (*see*, Table 5).

Table 5: Grassroots Interactions of GB Field Functionaries and Top Managers

Particulars	Prime Responsibilities and Grassroots Interactions
Centre (where 8 groups i.e. 40 members gather); GB Worker or <i>Centre Manager (CM)</i> : Each CM handles 5 Centres)	A GB worker looks after 10 Centres under the supervision of 'Branch Manager'. In working days, a worker attends daily two Centres' meeting, each two times, - usually in the morning for collection of savings and loan installments, and again same area in the afternoon to check the utilization of loan and performance of ongoing activities - basically a personal visit to the house of the member concerned in non-payment cases that he had noted during his first visit.
Branch Office <i>Branch Manager, and Workers(6-7), other staff (& trainees, if any)</i>	Besides usual banking tasks, a Branch Manager visits different Centres in the morning, wherein he examines physical utilization of loan money. He also checks the performance of branch workers on the spot. Branch workers spends less time at the Branch office; and sometimes they also works in holidays, basically Saturdays, to update their weekdays' works (found during field exercises throughout 1990s).
Area Office/ <i>Area Manager and Program Officers, etc. (Total 5-6 staff)</i>	Area officers usually supervise 10 branches; and they perform only a limited number of actual banking functions as their functions are mainly coordination and management as well as scrutinizing loan proposals. They are engaged in Centre and Branch activities for 20~25 days/month.
Zonal Office/ <i>Manager and Officers, etc. (Around 35 staff)</i>	Zonal Manager (ZM) and officers usually travel field offices regularly. One of the key tasks of the ZM is to bring the expectations among all field functionaries in line with the philosophy and policies of GB. He himself spend around 8 days/month in the field levels by visiting the Area and Branch offices; and sometimes he also attend at the Centre meetings to maintain direct contact with GB members.
Head Office/ <i>GB Founder, Top Managers, Officers, etc.</i>	Due to decentralized tasks, the <i>Head Office</i> usually does not concern itself directly with the operational follow-up of field activities, but plays the most important role to uphold the spirit and purpose of GB among its staff through active communication with the field staff and even sometimes with centre members. However, in initial stages, top managers spent huge times at the grassroots. For instance, Yunus himself had spent 100~150 days/year visiting field offices including the centre, and talking to the staff members throughout 1980s to early-1990s.

Notes: InPhase-II some facts and figures may differ.

Source: Compiled from Hossain (1999).

Traditionally, most grassroots works loads are on the shoulders of branch level functionaries as they are directly involved with loan operations. However, in GB system, besides their respective assigned duties, top to bottom everyone somehow needs to keep interactions with the depressed at grassroots. For instance, area and zonal officers come to know the performance of centres and all branch-level functionaries, and even typically they know the exact number of individual borrowers in a branch who are irregular in loan repayment.

The grassroots interactions of GB functionaries not only limited to loan operations but many other activities related to social agendas as well as activities related to socialization and familiarizations

of local conditions. For instance, prior to opening a new branch, the bank deputes a two-manager team (*a designated branch manager and another trainee*) to undertake detailed consultations with the local people. The first task of the branch manager is to prepare a socioeconomic report covering the geography, economy, demography, communication, and political power structure of the area. After one to two months of grassroots contact, a widely publicized meeting is held to announce commencement of the operation, and the two-manager team then starts enrolling members. In this process, all employees are able to perform properly and also to grow a direct relationship with the poor.

GB Field Functionaries: *Some Reflections from Field Exercises*

The basic concept of GB organizational culture is that the performance of the rural program depends on the quality and capacity of its people. An earlier study (*see*, Jain 1996) argued that if a small, though Significant section of its large workforce stops working hard as stipulated, or starts indulging corrupt practices, the acclaimed success of it would soon disappear. During 3-stage field exercises in 1990s, the author took some notes on GB field functionaries; and some elements supposed to be surprising for non-Bangladeshi; for instance, traditionally, as a job-scares and densely-settled territory, most recruitments of development programs are unrelated to their educational backgrounds.

Among interviewed officers between 1994–1998 in all 3 field exercises, more than half of the GB field officers (*total 81*) educational backgrounds were other than traditional banking professions (Hossain and Takeya 1998b). So far, common understanding is, subjects related to Social Sciences usually would well-fit with the GB-type PDP, however, many officers we have found other than Social Science disciplines. For instance, total 37.03 per cent of all officers had found Literature and Arts (*e.g. Bengali, English, History, Psychology, etc.*), and 18.52 per cent Natural and Material Sciences related (*e.g. Physics, Chemistry, Biological sciences, etc.*), where as 44.44 per cent were from Social Sciences (*e.g. Economics, Agricultural Economics, Sociology and Social Welfare, Geography, Statistics, etc.*). Some officers informed that few of their colleagues even reportedly are medical doctors and engineers, etc., even if there was none in our samples. As field workers, with little exception, are mostly college graduates (*12 years schoolings, similar to Japanese high school graduates*) we have not considered their educational backgrounds.

There have certainly been huge social gaps between program functionaries and depressed beneficiaries, as mentioned earlier. GB also maintains various forms, reportedly 35 different types, to update day to day all its activities related to banking operations, social agendas, and so on. We have been tried to understand how GB management actually deals all such issues; and during 3rd stage field exercises in late-1990s, besides comparative studies on regional branches (*see*, Hossain and Takeya 1999), we have tried to find the clues behind. Surprisingly, most field staff, when asked why they worked hard (*usually 10~12 hours, even sometimes over 15 hours*⁴⁸⁾), said that it is a matter of habit, which they have developed through many interactions with the target groups at the centre and branch

Table 6: Reasons behind ‘Hard Works’ - Opinions of the Field Functionaries

Questions to Field Staff	Interview Records *	
	Officers (N=27) **	Bank Workers (N=41)
<i>Why Do You Work Hard?</i>	* <i>Habit: 70.37%***</i> * <i>Pressure from Superior, etc.</i>	* <i>Habit: 82.9%***</i> * <i>Pressure from Superior</i>
<i>If offer same pay-scale in another bank or similar government or NGOs job, whether he/she would leave GB or not?</i>	No: 76.00% <i>Reasons:</i> Enjoyable/ interesting Job (36%), Promotion Chance in GB (21%), Not get retirement benefits (14%), etc. Yes: 24.00% <i>Reason:</i> Hard Work in GB	No: 45.96% <i>Reasons:</i> Enjoyable, Interesting, Good relation with borrowers, Husband/wife also GB worker (4.8%) Yes: 54.04% <i>Reasons:</i> No promotion chance (46%), Hard work in GB (8%)

Notes: N=No. of Respondents; * Based on records of field studies (Dec./1997 to Jan./1998); ** Interview includes Officers include 18 Branch Managers, 8 Area Officers (5 Program Officers and 3 Managers), and 1 Zonal Manager; and ***Developed through training and many other interactions with the target groups at the branch and centre levels.

levels, especially during 1-year grassroots trainings.

The field level works of GB are severely hard-grinds, even staff get same salary-scales of public commercial banks (*but lower than Private banks and NGOs*). However, when asked if some one offer them less hard-grind job whether they would stay with GB or not (?), most functionaries surprisingly have desired to stay with GB having varied reasons (*see, Table 6*). Apparently, their existing secured job and related benefits — *basically those who have been with the bank for several years*, had a prime concern behind to stay with the bank. Their common opinions and also author’s understanding were that real education and training could not be completed only at schools. The author argued that the one-year *grassroots induction trainings* of GB that bound for all employees (*except some specialized ones*), is the primary reason for the program’s success (Hossain 2001a).

Grassroots Induction Trainings and Drop-out Rates

Socio-cultural knowledge and traditional skills needed in socially sensitive development programs can only be obtained at the workplace. In fact trainings have been functioning as the *lifeblood* of the bank, and it emphasizes self-learning through guidance from seniors and practical experiences at the grassroots. The intensive training is an important requirements for this purpose, which makes a cultural habit for each individual member to follow organizational norms. The *group and centre* composition as well as GB’s loan processes are critical in this regard.

The important GB philosophy is, all staff must receive their basic field trainings initially and then remain probationary (*learn by observing and doing*), both for 6 months at grassroots levels, where centres and branches are located. Sometimes this is even true for officers in charge of specialized functions, such as computer centre. Each staff thus comes to understand the nature of abject poverty.

As part of temporary appointment, each trainee, fresh from the university or college, is put through induction training programs. The first six months, divided into three phases (table 7), emphasized on self-learning in local situations and reducing social gaps among rural depressed and better-off functionaries, having small classroom components. Around 85% of the training times are spent at grassroots, which had been in practice till 1987; and trainees are given the worst idea of what they can expect.

Table 7: Time Allocation of Induction Training
(First Part: 6 Months with 3 Phases)

At the GB Training Institute (Fixed days)	At the Branch Office (Approximate days)
2	56
7	56
7	56
7	—

Source: Fuglesang and Chandler (1993).

In the 2nd part of grassroots training, the trainees are sent to branch offices for 6 months as a trainee centre or trainee branch manager, where they must master with branch activities and different record-keeping formats (*total 35 different forms for record keeping, as mentioned earlier*). After this practical training-cum-work, they have to sit for the scale or regularization examination organized by the respective Zonal Offices, when Branch Offices recommendation is counted. On the basis of the scale examination, both written and viva voce and evaluation, the trainees' jobs are regularized if they are found competent enough; otherwise, training period would extend for another term.

Trainees usually stay with veteran staff during their training phases (e.g., sharing the same house and using common kitchen, etc.). Generally, the branch staff comprised young people and new entrants therefore find it easy to develop a feeling of comradeship-like brotherhood. At the branches, bicycles are the only transport available for them on the basis of a personal loan from GB. Trainees, however, are instructed not to use bicycles for their work in visiting groups and centres. In this way, trainees share the experience of rural life and understand the hardship faced by the poor without transport. Each trainee needs to write detail case studies of two borrowers (*female and male*) covering family history, personal experience, condition of living, etc., (see Hossain 2001a). He also must master with GB procedures and branch activities. The daily routine at the centre meeting, which among other things involved reciting slogans in praise of GB, added to the great feeling of pride in their proposed work.

The training participants became so engrossed in the centre and branch-level activities that they socialize and familiarize themselves to community and internalized the organizational norms, which

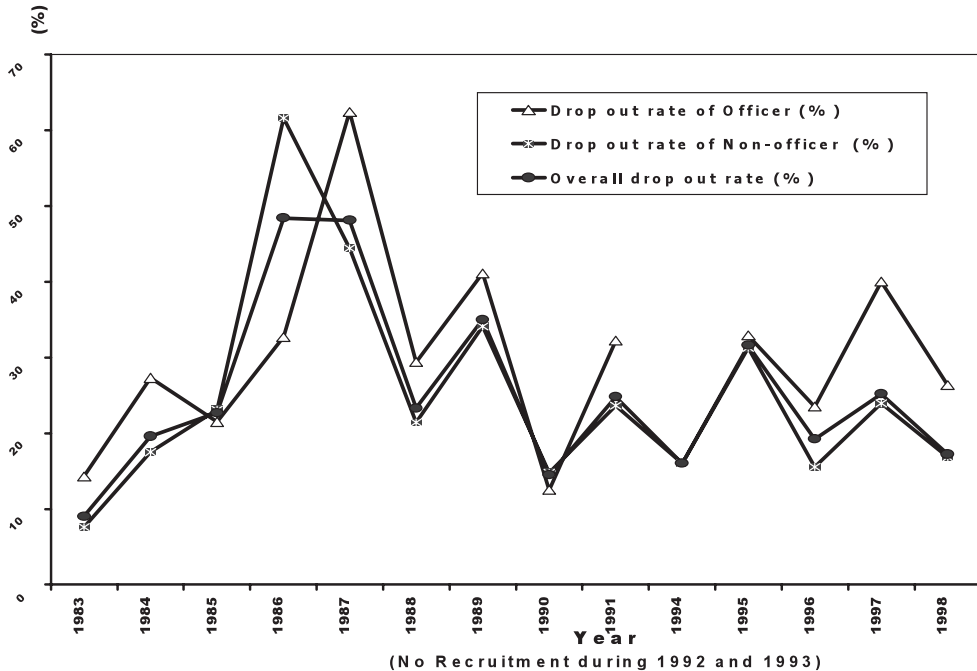


Figure 8: Grassroots Training's Dropout Rates (Phase I)

Notes: One Year Induction Grassroots Trainings (6 months to understanding Socioeconomic and Cultural dynamics in rural areas, and 6 months as Probationary Period to mastering GB operation)

Source: Hossain (1999).

became part of their personal value system. The hardship (physically hard grind) during the training phases led to a significant dropout rate (Figure 8). Even if employment opportunities are scarce in the country, typically around half of the trainees have been leaved the service prior the end of their 1-year training, however, the dropout rates are usually high in first 6-months of understandings poverty situations and local conditions (Hossain 2001a).

The most startling fact, since the launch of *Phase-II*, the bank outreaches, both in physical coverage and financial service provisions, have been very rapid. For instance, growth in GB membership during 2002–06 periods, became above 2.78 folds; and for the same period, total new staff also increased to 1.78 folds. It is near impossible task to trains such huge new comers under same strict and standard training means of the Phase-I.

Apparently, there are some relaxes both in training and recruitment process. Induction training period remains one-year as before but for grassroots familiarizations and socialization with the poor, trainees now spend only 3 months, instead of previous 6 months; and the bank now concentrated much on absorbing basics of the banking procedures and loan operations. So far, we have managed to collect data-set for 2001 to 2004, and also partially some information for 2005 and 2006. Yet, during 2001–2004 periods, total dropout rates among officers had been fluctuated around 50 per cent, and whereas among

Table 8: Recent Dropouts in Grassroots Training (Phase II)
(First Stage: 3 Months and second stage 9 months)

Year	Officers (Branch Level)					Workers (Centre Manager)				
	Total Trainees	Dropout				Total Trainees	Dropout			
		Before Final Posting (3 months)		Total Dropout (1 year)			Before Final Posting (3 months)		Total Dropout (1 year)	
	#	#	%	#	%	#	#	%	#	%
2001	165	51	31%	63	38%	1948	372	19%	577	30%
2002	110 (12)	29 (5)	26.36% (41.67%)	58	53%	1230 (177)	344 (61)	10.24% (34.46%)	586	48%
2003	89	34	38%	45	51%	1108	283	26%	439	40%
2004	360	n/a	n/a	177	49.17%	1723	n/a	n/a	482	27.97%
2005	622 (85)	n/a	n/a	93 (23)	14.95% (27.06%)	2921 (398)	n/a	n/a	441 (116)	15.14% (29.15%)
2006 *	737 (114)	87 (22)	11.80% (19.30%)	n/a	n/a	3183 (460)	288 (69)	9.05% (15.0%)	n/a	n/a

Notes: * Data only for Jan.-July 2006. Figures in the parentheses are female trainees. n/a – not available. Before Final Posting means, posting-after 3 months field training. Total dropout includes joining to prior-regularization (as GB-staff) time dropouts (1 year).

Sources: Based on unpublished documents collected from GB and its Training Institute.

workers between 30~48 per cent (*see*, Table 8). Even if, during 2005~06 periods, the highest number of trainees had been recruited in the history of GB; but the dropout rates amazingly decreased, both in officer and worker categories!

V. VIABILITY OF DEVELOPMENTAL PARADIGMS OF GRAMEEN BANK

GB has introduced two value paradigms in economics — a financial system and a system of social values, i.e. banking business with poor and their poverty alleviation or livelihoods improvement. Apparently, it looks very difficult to parallel-manage of such dual visions. In an earlier study, we have concerned on two issues for long-terms self-sustainability of GB (*see*, Hossain and Takeya: 1997) as:

- (1) *The degree of institutionalization, for the program means maturity and standardization of the operating and management process, which for staff means job security, and for beneficiaries means continuity of the program benefits; and*
- (2) *The financial viability of the program to ensure continuity of its operational activities on a self-reliant basis.*

A complementary approach of dealing with sustainability at the organizational level is to identify and

manage risks in all aspects of operations, i.e., lending, funding and administration. This is the task of good leaders and managers; precedent and tools from established financial market are available to those who would adapt or construct them in financial relationships with the poor people. Efforts to enhance decentralization of business procedures, particularly in the authority to approve liquid assets, however, are often resisted in financial institutions because of a concern about preventing misappropriation of funds. To some extent it has been compensated for through systematic decentralization and must overcome the hard time for institutional sustainability.

Degree of institutionalization of GB

GB organizational culture is recognized to be critical and salient feature of an organization's functioning; and it has brought in new management style, determination and drive at the grassroots. The bank management is harmonizing in combination of both traditional scientific management and many neglected managerial features in development theories, which ensured a lot the poor to be bankable (Hossain and Takeya 1998b). The organizational structure of GB has been undergoing adjustments at various levels due to rapid expansion as well as for operational efficiency. So far, the author already has highlighted such aspects of GB.

Organizational Viability of GB: The strengthening of credit schemes to provide financial facilities to the rural poor requires appropriate institutional development and a conducive policy environment that ensures decentralized participation, sanctions against insiders who abuse it, capacity-building in financial management, cost-reducing innovations, and accounting practices in order to transform 'micro-credit programs (MFPs)' into 'micro-finance institutions (MFIs)' (see, Hossain *et al.* 2000).

In 2006, GB has operated with 36 Zonal Offices, 238 Areas Offices and 2321 branch offices including 2 sub-branch Offices. It has worked out a detailed information-recording and feedback system to correct errors simultaneously. Decentralized decision-making has a potential for reducing costs and increasing efficiency, and it requires transparency and accountability, as well as sanctions against insiders who abuse it. The *IAD* is an effective innovation towards such end; and at present, it is characterized by two-tier structure, namely *central audit* and *zonal audit*. Currently, the head office became like a Central Bank to all strata of GB—Zonal, Area and Branch offices; and the central management deals with the policy body, as mentioned earlier, consists of 13 Broad of Directors. Since reforms process completed in 2002, GB has been performing in ways that it apparently does businesses.

The *Phase-I*, surely had been hard-grinds period for the field-level staff due to variety of tasks on their shoulders, and the new system consolidates many lessons of *GCS* experiences. Most field functionaries were familiar with the old system due to more than two decades long interactions; and suddenly they were forced to transforms 2 decades long all materials into new system even by less than two years.

When reforms started in late-2000, branch staff faced the huge tasks of converting old-style

numerous loans (except *Housing Loans*) into the new ‘basic loan’ format, and of converting loans in serious arrears into ‘*flexi loans*’ the new rescheduling system. Branch level staff also had transferred the old group funds and personal savings into 2.25 million new personal savings and the same number of special savings accounts. Indeed, these huge tasks have been carried out very quickly and also efficiently. In fact, without organizational development in *Phase-I*, it was impossible for GB to absorb such drastic changes.

Viability of Classic Credit Model and Operating System: The *classic* credit system of GB has been replicating effectively not only in Bangladesh but in many other cultures, both developing and developed countries. As a learning organization, when faced problems, it has been responded rapidly with a number of innovative safety features to ensure people’s participation and to improve the quality of services and performance, such as, loan portfolios, different level funds and special activities. Moreover, many independent studies, in fact above hundred of, have been indicated the various economic and socio-cultural impacts on poor borrowers and their families as well as on rural and national economy (e.g. Hossain: 1988, Wahid: 1993, Pitt and Khandker: 1995, Khandker: 1996, Goetz and Gupta: 1996, Hashemi: 1997, Alamgir: 1998, Hossain *et al.*: 2000, etc.). According to a recent internal survey of GB⁴⁹, 64 per cent of borrowers’ families have crossed the poverty line. Many studies have been highlighted women empowerment aspects of GB system, for instance, Hashemi *et al.* (1996) had focused on 8 different dimensions of women empowerment at the family and community levels. We better not to concentrate much on such impacts facets, as those are available elsewhere.

GB system also makes the borrowers familiar with election process. They routinely go through electing group chairmen and secretaries, centre-chiefs and deputy centre-chiefs every year. They also elect board members from themselves for running GB every three years. This experience has prepared them also to run for public offices since late-1990s. They are contesting and getting elected in the local governments. In 2003 local government (LG) election (*Union Porishad: UP, usually a cluster of villages*) in Bangladesh, total 7442 GB members contested in the reserved seats for women, 3059 members got elected. They constitute 24 per cent of the total members elected in the LG seats reserved for women UP members, where as during 1997 total 1753 members got elected to these reserved seats; and GB founder is hopeful that members would get more seats in future elections.

Self-Sufficiency of GB and Financial Viability of GB

The author has considered the self-sufficiency of rural credit programs in four different steps, as mentioned in *Table 9*. Initially, the bank has been succeeded in establishing cooperation with the Central Bank and several donor organizations. Throughout 1980s, GB had been much dependent on donors; however, gradually it has been decreased such dependency. The Phase-I of the bank could be comparable with first 3 steps — *i.e. Level-I (project periods to mid-1980s), Level-II (mid-1980s to early-1990s), Level-III (early-1990s to end of Phase-I)*, whereas Phase-II to now is comparable with *Level-IV*.

Table 9: Level of Self-Sufficiency in Rural Credit Programs

Steps	Subsidy Amount	Source & Type of Funds for On-lending	State of Revolving Fund	Operating Expenses Paid
<u>Level-I:</u> Traditionally highly subsidized program	High	Grants or soft loans from donor agencies	Value erodes rapidly through delinquency & inflation	Continuing grants
<u>Level-II:</u> As level-1, but better managed	Same	Borrowed at concessional but near-market rates from donor agencies	Slow erosion of Fund	Partly by interest income, partly by grants
<u>Level-III:</u> Approaching Sustainability	Approaching Zero	Same	Fund stable in real terms	Interest income
<u>Level-IV:</u> True Sustainability	Zero	Raised at commercial rates from formal financial institutions and clients savings	Fund stable in real terms	Interest income

Note: Adopted from Otero and Rhyne (1994).

In 1995, GB had decided not to receive any more donor funds. Since then, it has not requested any fresh funds from donors. Last installment of donor fund, which was in the pipeline, had received in 1998. We have calculated its self-sustainability, known as SDI value, until 1996, the immediate year when it had decided not to take anymore fresh fund from donors in 1995. The SDI indicator had been shown the decreasing trends (Figure 9); and in 1987 GB was mostly dependent on subsidized donors' fund for its operations but gradually dependency decreased; and the SDI value 0.19 in 1996 indicated that GB was 81 per cent self-sufficient that time. Since then, besides regular repayment installments, GB has been used rest of donors fund only for institutionalization of GB e.g. computerization of branches, but not for loan operations. As of 9/2007, total 36 zones of GB out of 39, had been connected with the head office, and with each other, through intra-net. This has made data transfer and communications very easy. Currently, GB finances 100 per cent of its outstanding loan from its deposits.

Since then, gradually GB had been paid back rest of donor funds, and the overall borrowings also drastically reduced. The borrowings in 2000 had as high as Tk10629 millions but reduced to Tk1855 millions in 2006; and again in 2004 for the first time in bank's history, the total deposit had exceeded the outstanding loan (*see*, Table 10). So far, the financial indicators, since implementation of Phase-II in late-2002, has been indicating the positive trends, and in 2005 the operating and financial self-sufficiency were 110.40 per cent and 115.65 per cent respectively (*see*, Table 4).

Since registered as specilized bank in late-1983, with little exceptions, GB has been earned profits every year;⁵⁰⁾ and in 1998 the net profit was Tk104.3 million or roughly US\$2.15 million(Figure 10).

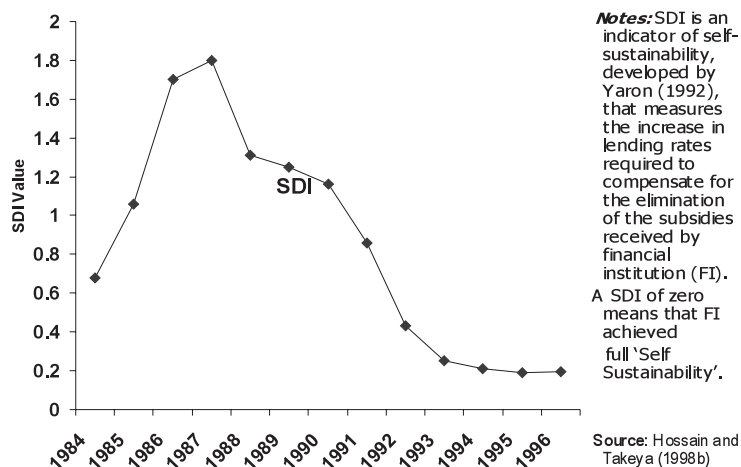
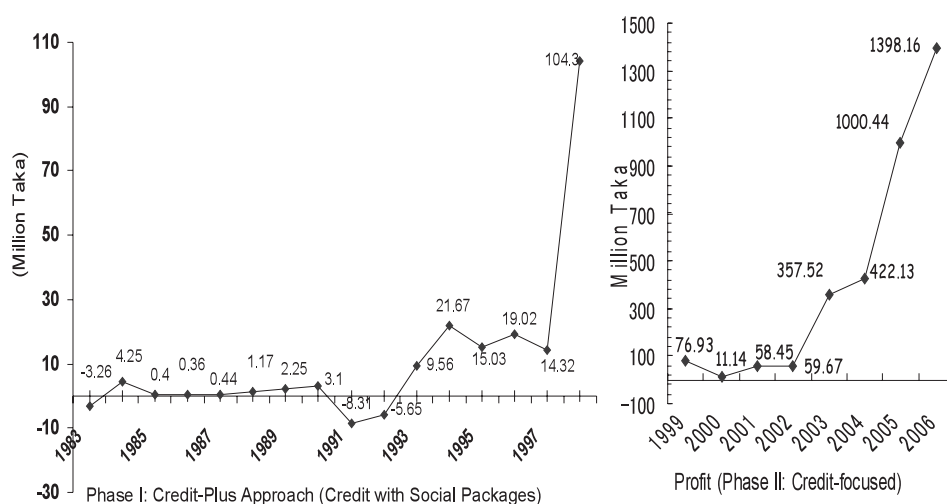


Figure 9: Subsidy Dependence Index (SDI) of GB



Notes: Year-wise Average Exchange Rates (US\$ 1=Taka):

Tk23.80 (1983)	Tk24.94 (1984)	Tk25.96 (1985)	Tk29.89 (1986)	Tk30.63 (1987)	Tk31.24 (1988)	Tk32.14 (1989)	Tk32.92 (1990)
Tk35.68 (1991)	Tk38.15 (1992)	Tk39.14 (1993)	Tk40.00 (1994)	Tk40.20 (1995)	Tk40.86 (1996)	Tk45.45 (1997)	Tk48.50 (1998)
Tk51.00 (1999)	Tk54.00 (2000)	Tk57.00 (2001)	Tk57.90 (2002)	Tk58.45 (2003)	Tk60.31 (2004)	Tk65.79 (2005)	Tk69.91 (2006)

Figure 10: Year-wise Profit and Loss of GB

Explanatory notes: 1999 as part of Phase-I, whereas 2000–2002 better be consider as transition period of Phase-II.

Sources: Phase-I: Hossain (1999) and Phase-II: Compiled from GB Data Series.

However, the profits had been downward for succeeding few years due to late-1998's devastating flood (note 6), a great upset indeed was for GB, when millions of GB-funded enterprises either completely lost or severely affected. To support the affected borrowers, the bank management had

activated all of its safety-net elements, and also had been postponed weekly loan-repayment for months. After disruption of months by the flood of 1998, life of many borrowers has returned to little normalcy with restoration of utility services by the bank. Since then much more efforts have been for business-promotion, especially rapid increase of operational outreaches (see, Table 10).

Table 10: GB Performances in Pre and Post Reforms Period
(All amount in taka millions)

Particulars	Part of GCS: Phase-I		<i>Transition Period</i>			GGS: Phase-II			
	1998	1999	2000	2001	2002	2003	2004	2005	2006
Own Fund (OF)	2348	2491	2530	2623	2800	9515	6358	7554	9419
Loan & Advances (L&A)*	16210	14382	13180	13061	13400	16824	20846	28897	34145
OF as % of L& A	14%	17%	19%	20%	21%	57%	30%	26%	28%
Borrowings	10836	11640	10629	9781	6978	4213	2896	1917	1855
Deposit	5222	5551	6115	7169	8952	13306	20833	31771	44342
Loan Balance (prior write off)	15810	13910	12660	12780	12690	16100	20080	28080	33230
Bad Debt	64	227	224	906	545	778	1590	2000	1726
Bad Debt Recovery	7	6	11	47	105	133	154	852	641
Deposit to Loan Ratio	33%	40%	48%	56%	71%	83%	104%	113%	133%
Deposit to Borrowings Ratio	48%	48%	58%	73%	128%	316%	719%	1657%	2390%
No. of Retired Staff **	271	450	1502	961	708	593	453	350	598
Pension Benefit	111	202	686	508	354	340	268	296	551

Notes: GCS—Grameen Classic System, GGS—Grameen Generalized System, OF—Own Fund, L&A—Loan and Advances; * All loans (Before Provision); ** Cumulative No. of Retired Staff and their Pension benefits during (1984–1997) were 301 and Tk83 millions respectively.

Sources: Compiled from various documents of GB

Under GGS methods that fully implemented in late-2002, apparently the bank has been performing like a commercial bank, as the new system represents a revolution in the way that the bank does business (see Table 10). For instance, 2003 was the first full year of Phase-II (GGS method) when the bank has earned net-profit TK 357.52 millions, a six-fold increase over 2002; and in 2006, GB's net-profit has reached to as high as Tk1398.16 million (or US \$20 millions). So this surge in profit looks like a good return on the decision to launch GGS method.

The improvement of bank's financial performance is real, and is related to the greater attractiveness of Phase-II's wider range of more user-friendly products (loans and savings) as well as deposits in much greater volume.

Many borrowers are moving ahead in businesses faster than others for many favorable reasons,

such as, proximity to the market, presence of experienced male members in the family, etc. GB provides larger loans for *business expansion* now popularly called as *Micro-Enterprise Loans* (a new version of previous *Family Loan*) for these fast moving members. So far, as of 9/2007, over 1.21 million members took *Micro-enterprise Loans* and a total of Tk26.61 billion (US \$ 411.28 million) has been disbursed under this category (see, *Table 1*). And there is no restriction of loan size, and the average loan size is Tk21928 (US\$ 320); and maximum loan taken, so far, has reported as Tk1.2 million (US \$ 19,897) that was used in purchasing a truck, operated by the husband of a borrower (Yunus 2007). In 9/2007, upon application, Bangladesh Government permitted GB to open urban branch; and having better marketing linkages, surely it would be helpful for the bank not only to do businesses with urban poor but it would be able to bring also “urban to rural reverse-flow of resources”, if GB, through some urban branches, provides also normal banking facilities, especially deposit services for non-members and non-poor.

Organizational Maturity of GB, and Dynamics Roles and Leadership of Yunus

Organizations come and go but little also survives, as is the case of GB under strong and dynamic leadership of Yunus. If we understand the any problem perfectly, as Yunus usually predicts, we are half-way to solve it. Indeed, remarkable performance of the bank is due to many *brain-child* innovations of Yunus in GB organizational culture through *learning by doing* approach; and he has been carefully tackled the many faces of poverty in Bangladesh. Towards such ends, no doubt, the works of Yunus is tremendous one in many respects, and for which he has been evaluated and awarded in unbelievable means.

In whole life-cycles of the bank, neither socio-cultural or religious, nor politico-bureaucratic, and nor even natural environments yet been in favor of GB founder. Yet it is surprising to us – how GB has been operating countrywide successfully by targeting millions of rural poor women in a socio-religious Islamic society, especially where traditional banking interests are prohibited or at least the most rural people’s believes are so! Out of 3 decades of the bank life-cycles, almost half, in fact the most critical stages toward organizational maturity, Yunus had been dealt juntas. He had taken all benefits of two dictators but never joins to none of the junta’s political winds due to dream for the development of his own organization, the GB.⁵¹⁾ He had been very successfully harmonized his university job with his many novel rural development ideas; and motivated some of his colleagues and students to stay with him for the whole ARP and GBP periods, as long as 7 years, without any conflicts, and many of them are yet with him. Basically, he has been strong control on GB management but easily relinquished tasks with his expertise colleagues whenever essential—indeed, the most important characteristics of Yunus and his leadership.

No doubt, during late-1970s to early-1980s, the bank successfully had been overcomes the primary stages (up to *Adolescence*, see *Figure 2*) of the organizational life-cycle. Yunus had been motivated

policy-planners to get permission of transforming GB project into as a specialized bank in late-1983. Thus, he had overcome the most critical organizational stage the '*Prime*'; and also quickly resigned from his university position to cultivate his new dream, *i.e.*, much concentrated on institutionalization of GB. Due to his dynamic roles and leadership as well as many international and influential links helped him to manage huge low-cost funds from the donors throughout 1980s for broader-scale replications of GB *classic* model, not only in Bangladesh but many other locations.

The corruptions are severe in elite-dominated politics and bureaucracy, which have been deep-rooted in all other organs of the society. His some novel innovations in traditional management process were effective to overcome many traditional internal and external misdeeds. Yunus had taken some especial measures for the institutionalization of GB, and he had learned many lessons from the past rural programs, even if all of those not necessarily and whole-heartedly recognized always. Albeit, he had been aware enough about vast past failure cases, especially much on organizational death processes and bureaucratic malfunctions that helped GB to stand on strong organizational base.

Some novel management props, such as *Borrower-led Board of Directory and Shareholdings System* of GB are basic safeguards of external abuses under nasty politico-bureaucratic corrupt environments; and the decentralized IAD has been proved effective to reduce internal errors correction and organizational mal-functions. The *Grassroots Induction Trainings* for local familiarization and socialization among functionaries and targeted beneficiaries, and so on, were essentially helpful for the institutionalization of GB, both organizationally and financially. His well-designed guiding mechanisms for the investigators and visitors (*note 9*) helped him much to get international attention and generous donors supports. Apparently, GB has reached into *Maturity* stage in mid-1990s, and since then top management has been engaging in adjustments of GB programs for sustainable performance, as was the GGS system that activated from late-2002. As on 31 December 2006, out of total 2321 branches 1580 earned net profits. The remaining 741 branches were not profitable yet; however, it must be taken into consideration that during the year the bank opened 574 new branches. So far, if we consider many faces of poverty in Bangladesh, not only economic but also socio-cultural and behavioral as well as bureaucratic and political jargons, notably in recent years, no doubt, the Noble Peace Prize 2006 is the only image-up event for Bangladesh.

There are some criticisms against Yunus roles and leadership. Some people argued that he is a business man, and simply he has been doing-businesses in the name of poverty alleviation. Some even have tried to indicate that the numerous GB family organizations, actually were not essentials at all, and his involvements with many of those entities (*mostly as Chairman*) also had raised few bad-smelling and narrows questions by some peoples, even if there are no concrete evidences.⁵²⁾ Some of his acts and exercises immediate-after Nobel Prize, *e.g. his open letters to the nation regarding his eagerness to enter into politics and also sudden declaration of possible new party, namely People's Power (or Nagorik Shakti), etc.*, have been raised many questions among many people, even if he has withdraws

those through another letter! Moreover, as some people have argued, he has been favoring American strategic interests in Bangladesh and also indicated that his Nobel award some how are linked with such objective/s.⁵³⁾ We better not to concentrate much on his personal issues rather focus on what lessons we have learned from his organization and his works for the poor.

Whatever the criticisms against Yunus, he is different than most of the literate Bangladeshis in many respects. At least, he should get full-credit, as he was not part of *brain-drain*, even if, he had scopes to do so.⁵⁴⁾ He is also very unusual character among educated, as besides his university job he also had been captivated most times with the poor (*see, note 28*). Even if chief executive, he had been spent approximately 100 to 150 days a year visiting field offices including the Centres, and talking to the staff members and poor borrowers during 1980s to early-1990s (*see, Table 5*). Those visits were not for supervision, but to ensure that all (staff) understand the perspectives and policies articulated by GB.

We have to think that no human-being is absolutely perfect and no system as well so. Most positive and striking quality of Yunus is great tolerance in his mind as he never entered into any conflicts with anyone, nor even responded to those who have been annoyed him, personally and sometimes even baselessly. Many internal critical crises of the bank, he has been tackled, basically by himself, so nicely without any mass-media focus. So far, the author's personal impression is, he has usually remembers most peoples, those who somehow have involved with GB, even several years later, and sometimes even by name, even though there are thousands of visitors every year in GB. For instance, during the second visit in 1996, after near two years gap, surprisingly he had remembered the author, even by name! Field level some officers also avowed so, as some of them had similar experiences. Indeed, it is surprising, and also most essential elements to motivate people, especially for those who involved with business. Moreover, he has added many novel ideas, either of his own or imported, in GB culture, such as, physical exercises, slogans for social and its organizational prides, motivating elements for staff e.g. his personal new-year cards to all branches, and so on. All in all, Yunus has inspired, over years, the development of an organizational culture quite unique in its approach to practical problem-solving.

Prime Constraints and Criticisms: *Old and New Perspectives of GB*

GB itself, and the concept and methodology of *classic* micro-credit grew piecemeal, as lessons were learned and new ideas emerged. The bank has given the vast poor a chance to take the first small-step out of poverty but there are also certain limitations of its operations (*see, Hossain 1999: 248–54*). Several studies indicted that GB has been failed to target the most hardcore poor. For instance, among eligible households for membership, total 38 per cent are left out of its *Safety-Net* (*see Hashemi 1997*). GB addresses issues of women's control over credit and economic contributions to their families but the male counterparts (husband, sons, or relatives) have controlled portions of women's loans, while women borrowers bear the liability (*see, Goetz and Gupta 1996*); and so on.

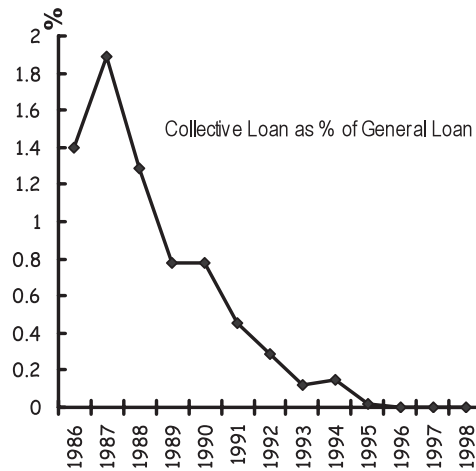


Figure 11: GB Collective Loans

The entrepreneurial spirit released in the small or informal sector is not yet enough to pull the country out of poverty, but it does help divert individualistic opportunism from petty rivalries about rank and personality, to production and improved subsistence. In Bangladeshi culture, one of the main reasons of poverty is that the peoples have not yet learned to work together or policy-planners have been failed to mobilize them collectively. GB, even if, well known worldwide as a successful micro-credit provider through small group formation, however, yet it has been unsuccessful for collectivizing the poor in Bangladesh. For instance, since mid-1980s, the bank management took various measures for collectiveness of the poor. One of the initiatives was to provide larger loans to all of the centre members for bigger projects. However, such collective loans never became popular as the percentage not reached 2 per cent of general loans disbursed, which even gradually disappeared after mid-1990s (Figure 11). Conversely, in *Phase-I*, *Family Loan* became popular among GB members (see Hossain 1999), which supposed to renamed as business expansion or *Micro-Enterprises Loan*, actually run-by male-family members of the female borrowers. Above aspect, however, shows the individualistic and atomistic behaviors of Bangladeshis, as the author argued earlier.

Usually many people have been argued that the bank charges very high interest rate to the poor borrowers; even if GB has been denying it and also argued that the current interest rate is yet lower than the government-run programs.⁵⁵⁾ Another criticism is - even if, members purchased 94 per cent shares or GB-equity but the net-profit never been distributed among them. Previously entire fund had been transferred into *Revolving Fund* (Phase-I); and under *Phase-II*, now it has been transferring into a *Rehabilitation Fund*, created to cope with disaster situations. This is done in fulfillment of a condition imposed by the government for exempting GB from paying corporate income tax. It is no doubt a plus point to the bank, but not so to the poor borrowers. One-way the bank is not paying any corporate tax to government, and another way tax-after portion of net-profit also not distributed to the poor

shareholders. However, borrowers now come under an insurance coverage by being a shareholder of it, even if, insurance coverage Tk1500 (or around US\$22) are only available to the family of any deceased member,⁵⁶⁾ not to all, nor even it covers any business risks.

Most members of GB and other Micro-credit programs are women, and many hand their loans to husbands, sons or brothers to use. During exercises of 1990s, it was found that more borrowers took loans for mixed uses, and for assets, than for business purposes. Sometimes they borrow but on-lends them all to others who lives in the same village, etc. The new GGS has designed to tackle many weaknesses of the *Phase-I* or *GCS*; and its key weapon indicated the greater flexibility of its products (savings and loans). In fact, as there are many flexible elements in the new system, there are many new non-dodge old factors gradually coming, those most rural programs had been faced prior mid-1997s. The *Phase-II*'s changes and also relax operations have made the micro loans much more attractive, causing many new households to seek membership, mostly non-poor. For instance, one study in 2005 on 52 GB members, who joined since the new rules came into force, applying the rules strictly, had found that 46% households were from non-target groups of GB.⁵⁷⁾ Even most of GB members actually not yet fully understand the changes that have occurred under *Phase-II*, and the bank also not supplied any written documents to the borrowers; and they just follow the field workers' guided prescriptions.

Micro-credit services in Bangladesh are now reaping economies of scale and becoming highly profitable, sparking a new round of competition between GB and other large Micro-finance institutions (MFIs), such as, BRAC (*over 5.57 member-borrowers in June-2007*) and dozen of other NGOs - those also have over half million to several millions member-borrowers. In early-2006, the author has informal interviews and observations on 21 micro-credit borrowers from 4 different MFIs including 11 from GB. Among all 21 samples, at least 11 had found as non-target members including 6 from GB, under the criterions of target groups sated by GB and other 3 MFIs. It was also found that many of them even have multiple memberships, so far beside their known one; and at least 12 had detected with more than one membership, either with any one of the rest of 3 MFIs or other small programs; and among 11 GB members, six such cases were found. They join for many and often multiple reasons, not only for business promotion, but for everyday money-management and consumption, and to save, and so on. Surprisingly, the author has found some clues that at least 3 out of 21 borrowers, those sometimes even have been engaged in traditional money-lending business, with 7 to 10 per cent interests per month, and all three have multiple memberships with other programs and have either easy access of huge micro-loans or other sources of money (e.g. remittance), and they surely are not-poor.

MFIs competition suddenly made them much more desirable than they had been before, who joined earlier GB, BRAC and other larger MFIs. Usually who once became a member of any MFIs she/he remains with the programs for ever, if not leave by herself/himself; and MFIs usually offer attractive options to stay with the programs. This 'MFI-aware' category is growing by adding newcomers

including many not-poor, attracted by loan portfolios and new sets of savings, especially new GPS of GB.⁵⁸⁾ Volatility of membership (*frequent opening and closing of accounts with numerous MFIs*) are reported high and is growing higher, perhaps highest in areas characterized by both poor economic performance and strong competition between MFIs. Thus, simply adding up the numbers reported by the MFIs themselves leads to gross over-reporting, because MFIs may exaggerate their numbers, because they rarely distinguish accurately between active, inactive and lapsed members, and because such a method takes no account of multiple membership in two or more MFIs.

VI. OVERALL DISCUSSIONS AND CONCLUDING REMARKS

Villagers are poor in Bangladesh and elsewhere, as they have been denied the rights to participate actively in existing government structures and organizations. GB is a product of the dismal socio-economic, cultural, religious and political characters of Bangladesh. The author has tried to figure-out major faces and root causes of poverty in Bangladesh. Stereotypes of national behavior are always subject to debate and often dangerous to assert, even if there is usually strong truth in them.

There is little doubt that the concepts of the national security and the people's security are interdependent and interlinked, i.e. state security cannot be achieved without ensuring people's welfare and security. Yunus and few grassroots-initiators in Bangladesh and elsewhere have been well thought-out it for the depressed, not by the capital city-based policy planners. No doubt, the work of Yunus is tremendous one in many respects, and for which he has been evaluated and awarded in unbelievable means; and no doubt, the Noble Peace Prize 2006 to Yunus and GB is the only image-up event in recent years for Bangladesh.

Financing the Poor and the GB: Lessons Learned

Surely, in 1970s context, when little was known among formal-sector financial intermediaries about how to avoid a requirement of collateral or guarantors, the *classic* credit model of GB was an excellent piece of work; and there are a set of reasons behind the success stories. Yunus's many novel innovations in traditional management process are lessons for many of us, especially for the policymakers. The traditional management practices alone might not work perfectly at the present socio-cultural gaps as well as politico-bureaucratic corrupt environments of Bangladesh. There are thousands of failure cases in every society; and regarding rural PDPs there are huge examples in Bangladesh territory, mostly government run programs throughout late-1940s to mid-1970s; and reasons behind are numerous.⁵⁹⁾

Yunus has successful traced out all those and led GB towards desired shape in 1990s. Most importantly, it experiences shows that poor are bankable, and it is also possible to do business with the poor on a sustainable basis. Strengthening of credit schemes to provide a financial facility to the rural

poor requires appropriate institutional development and a conducive-policy environment. The people's participation and training agenda at grassroots level for the functionaries of the GB-type programs is extremely important, as they are responsible for service delivery, which must be built around people's needs as well as local conditions. Usually, rural credit programs need staff trainings in ways by harmonizing with local familiarization and socialization with the target-beneficiaries as well as their capacity building in financial management, cost-reducing innovations and accounting practices in order to transform them into real financial institutions.

The author argued that the basic reasons behind remarkable performance of GB were due to the dynamic roles and leadership of Yunus, to develop efficient organizational policies and also many novel innovations of his own, those are designed to steer organizational behavior of its large number of functionaries and borrowers along a credit-responsive ways. In fact, without organizational development in *Phase-I*, it was impossible for GB to absorb the Phase-II's drastic changes, basically the tasks of converting old-style millions of documents *one by one*; and indeed, the branch level functionaries have been carried out all those huge tasks very quickly and efficiently. GB practice leads to a process replacing old orthodoxy with new ideas, and today's development paradigms in most LDCs are based on micro-credit, people's participation, self-help management and peer-group monitoring, etc.

Uncertainty and Some Alternative Measures

No doubt, the micro-credit plays central roles for rural livelihoods improvement, however it is not the medicine to cures all social ills. Rural poverty now is a complex, multi-dimensional phenomenon and the poverty process that entraps the poor is highly dynamic. In disaster-prone areas, like Bangladesh, where people always survives with uncertainties. Many people, perhaps most in some areas, experience transient poverty as their incomes and expenditure rise and fall depending on a host of factors—the climate, seasonality, crop prices, relationships with landlords, access to work in urban areas or remittances, health status, paying for funerals and weddings and other factors. Even better-off, say middle-income households, anytime have chance to drop below poverty line due any sudden shocks e.g. cyclone, floods, river-erosions, human-made catastrophes, and so on.

Most past practice of poverty-reduction has been, and much contemporary practice of most MFIs including GB is based on the narrow materialist conceptualization. The task of poverty-reduction is seen as ensuring that a household meets its minimum material or physiological needs. From this materialist perspective a household's inability to meet such needs is viewed as being due to either:

- (a) *Having a stable income that is below the appropriate income, consumption or expenditure poverty line,*
or
- (b) *A sudden shock that causes a household's income, consumption or expenditure to drop below poverty line.*

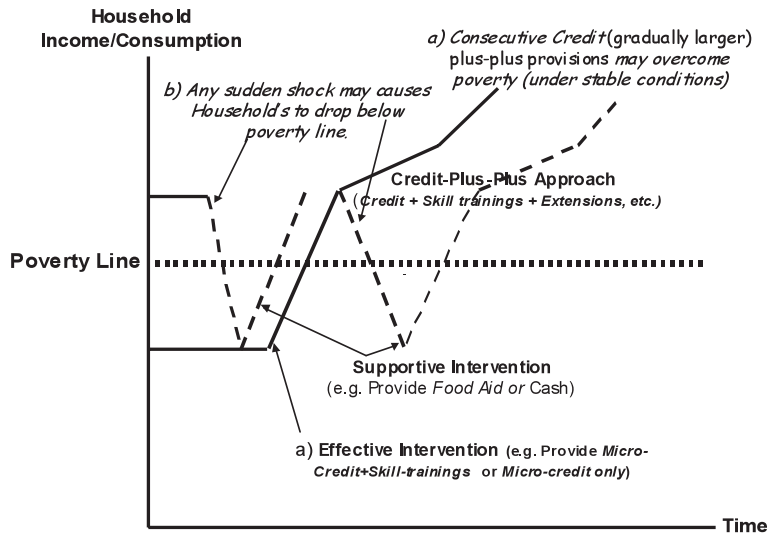


Figure 12: Poverty Reduction Dilemmas: Supportive and Effective Interventions

Source: Modified from Hossain (2003c)

In the former case, the policy prescription has often been for a single intervention that raises the productivity or earning of the household so that the household escapes from poverty (*Figure 12*). This is the story that has been commonly associated with *classic* micro-credit as the claim that once a poor woman has access to a loan for micro-enterprise, with or without skill-trainings, her income will increase, because of the high returns on her investment, and her household gradually will become non-poor after consecutive loans (*see, line “a”*). Poverty-reduction, according to this idea as visualized a ‘one-step’ process that is irreversible.

In the later case, an unexpected shock, then the practice has been to view the household suffering a temporary decline in income or access to food. The situations may be true both for poor and better-off borrowers (*as borrowing basically not comes with insurance or any suitable means*) as well as for non-borrowers or even non-poor households (*see, line “b”*). At the simplest level of analysis, this is overcome by a grant to the household (*usually of food but sometimes in cash*) so that the temporary shortfall is overcome and the household returns to its previous level of income and material well-being (*Figure 12*). Such ideas make program design relatively simple and lie behind many poverty-reduction initiatives. However, in the similar cases like *mind-boggling* 1998’s flood — *when GB had been activated all its safety-net options have proved not sufficient enough*. In *Phase-II* of GB, there are some measures to tackle such situations, even if, many of its previous safety-net options are no longer available, e.g. *food-stock loan* and so on (*Figure 7*). Apparently, the new system of the bank represents a revolution in the way that the bank does business. In doing so, the bank indeed has been in competition with other MFIs to expand its outreaches and also harmonizing itself-with some old-aged problems, such

as mixed-up poor and non-poor as well as robustly has entered into old criticisms, e.g. failed to cover the hardcore poor (*even if, the beggar loans, a supplement*). As a flagship institutions of rural finance, the drastic changes in Phase-II of GB and related crisis factors would be a big question for its worldwide replicating projects.

More elaborate understandings of poverty have not only expanded the number of dimensions that may be considered but have also pointed out that poverty needs to be seen in dynamic terms. It is commonly assumed that the hardcore poor are also chronically poor; and they need different means for poverty-reduction (see, Martin 2002, Martin and Hulme 2003). The dominant approach to poverty-reduction targeted at the hardcore poor has been food transfers which although vital only provides short-term food security—usually time bound and once over, the overall livelihood situation and prospects of those receiving them change little. An alternative approach for hardcore poor may need a two-step model, the livelihood protection and livelihood promotion (*Figure 13*), which seeks to prevent a decline in living standards (e.g. hunger and starvation), and promotion, which aims to eliminate deprivation (commonly by raising incomes).

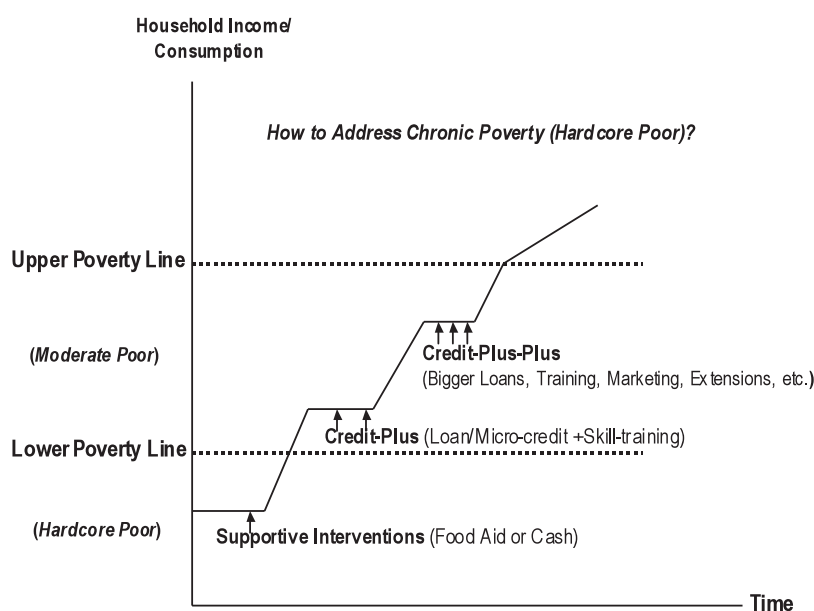


Figure 13: Poverty Reduction as Process of Livelihood Protection and Promotion

Source: Modified from Hossain (2003c)

It sees new links with other areas of development activity; at the heart of the change is a renewed focus on people, basically the poor, in the rural areas. Particularly people and lands are interrelated—and as a densely settled terrain, the more people are the less land there is for each person in Bangladesh. These are the basic resources, and most of the grassroots organizations' planning

evolves around them. GB and most of the NGOs, those targets at poverty eradication prefer their own perception of the need for the worm's-eye perspective and move with their nose close to the micro ground. Most programs have been concentrated much of action towards *People's Power* and ensuring liquid resources to the poor, especially in materialistic mode rather than comprehensive means.

GB and many NGOs may be capable of implementing projects rapidly, and they may be able to deliver services to people in remote places who may not be reachable through direct government delivery. There are many missing elements in their approaches; and along with credit, access to other resources as well as improving other conditions are essential for sustaining success, where government should play prime roles. The *Figure 14* supposed to be a helpful way of seeing the wholeness of the micro development effort. For sustainable *rural livelihoods improvement*, institutions and legislation are very important to authorizes and secure functional program implementation and management.



**Figure 14: Endurable Rural Planning: New Looks
on Worm-Eye Views**

Source: Compiled from Hossain (1999)

The interaction of political, economic, and socio-cultural inequalities shapes the institutions and rules in all societies. The way these institutions function affects people's participation and their ability to invest and prosper. Unequal power shapes institutions and policies in Bangladesh that tend to foster the persistence of the vicious initial conditions. The essentials conditions for sustaining growth basically depend on some basic reforms of organizations and government structures. No doubt, decentralization even is not a panacea, if implemented wisely can yield significant benefits that can be viewed in various streams—political, administrative, and organizational reforms—to strengthening, restructuring, and reforming *local government* sensibly for revenue opportunities and bottom-up development where value is derived from face-to-face interaction between people and service providers, and first task should be assigning more powers and responsibilities to the community peoples.

Concluding Remarks

Poor people participate easily and willingly in development—if social and organizational environments are designed in ways conducive to their participation. Moreover, poor have always been researched and evaluated by rich, never by themselves. Yunus has tried to develop some reverse trend than the traditional ones; and give them a chance for their self-help development in various means, e.g. provided ownership of the bank and also invite them as top executives. GB and the concept and methodology of micro-credit that it has elaborated through its 3 decades of work, have contributed to enhancing the chances of peace by reducing poverty. No doubt *classic* micro-credit and all other innovations are great lessons for the policy-makers.

If we consider organizational life-cycle stages, GB most probably have reached in *Maturity* stage, however still may need to pass hard-time, especially in absence of Yunus's leadership. Since late-1990s to recent past, many reforms have been occurred in products and operational policies; and probably there would not be any crisis in near future to do business with the poor. However, the poverty-alleviation issue under current means would always remain questionable. The growth of micro-credit activity has been strong this century, as all of the MFIs engaging in vigorous expansion and competition. It is, however, essential to concentrate more on qualitative measures of service provisions rather than increase the quantitative outreaches. Apparently, among MFIs, estimating the number of members has never been easy in an industry that lacks a credit bureau or other reliable way of tracking users of financial services. Development of some mechanisms towards such end is essential.

Eradication of poverty is a longstanding and stubborn challenge. There is no given prescription for solutions, which are valid over time, between countries and even between different areas within the same region in any given country. Rural peoples, especially most poor Bangladeshis, know very well that vicious-cycle of natural and human-made catastrophes have occurred in the past, and will come again.⁶⁰⁾ They usually tend to be in a dependency trap, looking for subsidies and handouts, caught in the snares of fatalism and factionalism. So far, the most essential needs is, to look for a more secured system to overcome business risks, especially an effective insurance policy is essential to protect micro-enterprises from sudden shocks. Even if it is not easy task at all, but need to be look for ways, if we are honest enough to fight poverty.

Surely, GB-type programs and NGOs are essential for poverty relief; however, poverty would not be root-out from society without comprehensive policy approach and collaboration of all relevant stakeholders where government should play central roles. First step towards such end is local resources mobilization (LRM) including collectivization of the rural people, and then give them necessary guidelines and assistances until they are ready to overcome their problems by themselves. Each rural community may perhaps play a key role as an intermediary agent between individuals, households and external agents. Government-NGOs-Business enterprises collaborative works may be helpful for solving some grassroots problems and also could bring financial flows in rural economy, and

some remarkable examples are reported in case of Thailand (*see*, Hossain and Takeya 2004b, Hossain *et al.* 2006).

So far, without institutional commitment and reforms, strong legislation, public support and community people's active participation, the broad application of any development principles cannot be undertaken. Albeit, most leaders of now-LDCs not necessarily unaware about it but they are busy with self-development rather than their citizens. The challenge for statesmen, academics, policy makers, and administrators is to take the measures that give hope to the poor and to foster an enabling environment under which they can improve their lot.

End Notes

- 1) Bangladesh was part of British India, as East Bengal (EB); and under a strange religion-based partition of Indian Territory in 1947, the EB became part of Pakistan having no common culture and no common border with over 1000 miles apart! Independent Pakistan then had two parts - West Pakistan (WP), now as simply Pakistan, and East Pakistan, the present-day Bangladesh that became independent in 1971 after a bloody 9-month war with then the WP.
- 2) If we consider poverty is a function of income level, any employment that increased the income of the poor helped to reduce poverty, where self-employment could play very important role. It has to be fully understood that there will be no situation of full employment if we are speaking only of conventional (wage) employment. For some views on self-employment, *see* Robertson (1990); and for related issues, *see* Ekins (1990).
- 3) During 1994–1999, the author had been involved with GB because of his research exercises under graduate studies (M. Sc. and Doctoral programs). Since then, in addition to his research exercises in rural areas of Thailand, Cambodia, and Japan on grassroots participatory facets, local governances, rural livelihoods security, poverty and finance, etc., he has been highlighting the changing aspects of GB and its off-shoot family organizations.
- 4) Since late-1970s, Dr. Yunus had been received other national and international honors including the ITU World Information Society Award, the Ramon Magsaysay Award, World Food Prize, etc., for a total of 63 <http://en.wikipedia.org/wiki/Muhammad_Yunus#Nobel_prize>. He has also named as one of the 30 greatest entrepreneurs of all time by the Business Week (USA: 27June'07) <http://www.businessweek.com/smallbiz/content/jun2007/sb20070627_564139.htm> (Retrieved: 20.08.'07).
- 5) For instance, M. A. Muhith, an Economist and former Finance Minister of Bangladesh in 1980s — who was a helping-hand to transform Yunus's experimental project into a full-pledged bank in late-1983 (Hossain 1999, p146), once had predicted as — *Professor Yunus and his institution hopefully would get Nobel Prize, either in Economics or Peace, most probably in Peace category* (see, The Daily Independent, Dhaka: 28.09.1997)! Even, former US President Bill Clinton in his book and also in many occasions had predicted such, e.g., in his speech at the University of California (29/01/2002), he had talked as: *Hillary and I first met Muhammad Yunus when I was Governor, and he inspired us to create a micro-finance program in Arkansas based on his Model; — . I have thought for years that he deserved the Nobel Prize* (<http://muhammadyunus.org/content/view/39/60/lang/en/>; Retrieved: 2 July'07).
- 6) There were a number of major natural disasters in Bangladesh during the life span of GB (1976~), but the 1998 flood was the worst of all. Nearly half of the country submerged for ten long weeks; and water flowed over the roof-

tops for a prolonged period. GB borrowers, like many other people of Bangladesh, lost most of their possessions including their houses — indeed, the mind-boggling situations, both for the bank and its member-borrowers. GB management had been activated all its *safety-net* options and also decided to take up huge rehabilitation programs by issuing fresh loans for restarting income-generating activities and also to repair or rebuild their houses.

- 7) Nation's image have been damaged severely under last democratically elected 4-party (*2 are heirs of two military regimes; and other 2 are Islamic party — were against country's independence in 1971, basically war-criminals; but later beneficiaries of country's first junta, as he gave permission to re-start religion-based politics*) coalition government (2001–2006). For instance, in 2005, for the 5th successive year, Bangladesh has ranked as the most corrupt country in the global Corruption Perception Index (CPI), whereas became 3rd in 2006 and 7th in 2007. However, it does not means corruption is decreasing, as CPI scores were almost same but ranks changed due to increasing number of countries in the lists (see, TI in generalized reference). There had been severe abuses and human rights violations in the last regime, e.g. severe minority-abuses (those supported the opposition party) immediate after victory in general election of 2001, and then the country has been recognized as most in-effective administrative state, and Islamic fundamental nation due to countrywide hundreds of bomb-blasts with huge casualties, creation of special elite-forces for unlawful killings, and so on. (Hossain 2007).
- 8) Author has been observed incredible eagerness on GB system among foreigners at various international gatherings. Conversely, honesty speaking - albeit sorry to say, he had many bitter episodes with some highly-literate Bangladeshis during his studies on GB and rural poverty! Some had been argued even as GB model's right place is waste-box, some had compared Yunus as traditional money-lenders and/or corrupt, and even the author himself had been faced personal verbal attacks by some educated ones, those who have no actual ties with the rural poor! It would be better not to share those personal bitter experiences here.
- 9) GB had been guided the major investigators and visitors (*basically foreigners*) — *initially either by Yunus or his expertise colleagues, and then by the international section of GB*, to focus on economically better-off regions, like Branches proximate to Dhaka and other major cities. There had been some strong rationales behind; in fact, Yunus's such guiding “*brainchild*” was appropriate and essential to attract vast donors for broader-scale replications of GB model.
- 10) For instance, an earlier study mentioned 13 different reasons for the sustained performance of GB, known as “Essential Grameen” (see, Gibbons and Kasim: 1990): p2.
- 11) Military dictators had been used Islam for their narrow political gains; and even their amendments had replaced *Secularity* status of the country's new constitution of 1972 with *absolute trust and faith in the Almighty Allah* (God) as well as Juntas allowed religious-based politics! The religion sentiments have been used robustly for narrow personal and political gains, even by the succeeding democratically-elected governments! Juntas even halted the trial process of brutal criminals - - *killers of Founder of Nation and his family members as well as later 4 other top leaders had killed even inside jail* - -, by promulgating an ordinance! The first dictator even had ensured lubricated jobs to those criminals in the country's foreign missions, and so on!
- 12) After independence of 1971, Bangladesh has absorbed around 80 millions additional peoples, however, proportionately by less harming the nature; and it should keep in our inward-mind that the country yet performing better than before in many respects; and even most social indicators are far better than the now-Pakistan. No doubt, GB and thousands of NGOs' roles are remarkable.

- 13) Bangladesh's MCG, which assumed power in 11Jan. /2007 following the months of unrest, is responsible for the crackdown. It declared emergency rule, banning political activity and protests, and it said determined to root-out corruptions by any means necessary before allowing elections to be held, probably in end-2008. Now, though two former female Prime Ministers (PM) - rival politicians who have dominated this country's politics for 16 years — are behind bars, awaiting trial for allegedly siphoning off country's millions of dollars, as argued by the MCG. Also incarcerated on graft, tax-evasion and corruption charges are 170 members of the ruling elite, along with an estimated 15,000 political under-bosses, government officials and businessmen (see, Wax 2007).
- 14) Gradually many criticisms have been coming from the civil society due to - some unauthorized arrests and tortures (*e.g. arrest of some prominent secular-minded professors, and yet they are in jail without any explanations*); and some foggy acts (*e.g. foul-smelling initiatives to create new party/parties, as the juntas usually do*); and also bizarre events (*e.g. allowing unlawful killings by the special law-enforcers*, and so far already 175 people reportedly were killed in the first 10 months of 2007, *even if not so frequent, like the illogical inventor - the last coalition government (2001 ~ 2006)*, favoring war criminals and so on! Establishing "Rule of Law" in any unruly means surely be impossible. So far, arrests of only politicians and also some god-fathers will not be enough neither for national security nor for people's livelihood improvement; but surely, some concrete measures are essential to ensure an environment "*Rules must Rule everyone, including Rulers*". Besides economic policies and political reforms, some basic reforms needed in core operative organs, e.g. creation of independent Judiciary, Election-commission, Anti-corruption entity, and so on; and also need to banned the religion-based politics. Indeed, the MCG has decided (during submission of this paper) to activate separate Judiciary from 1 Nov. /'07; and apparently a good symptoms for establishing the *Rule of Law*. However, many peoples yet have doubt about it. We better wait and see the related developments.
- 15) Albeit, faiths and blindness are two sides of the same coin; and the religious practices and faiths may be essential for personal and societal peace but faiths without universal education as well as cult-like faiths (blindness), would create worse havocs to the society. As a whole, Asia is the breed-house of all major great religions, and in general most people have been holding strong religious faiths. Conversely, Asian is the most conflicts-oriented continent; basically, the politico-religious conditions in South Asian have been jeopardizing the societal peace, peoples right and values, and so on.
- 16) A good number of students before the expiry of their education (those who have link with politics) have also managed to become very wealthy persons in recent times. Some of them even have their own houses, cars, etc., and not as inherited property but acquired from their *own earning*! But being students, they do not have any legal sources of income for purchase of these assets. It's a question, but nobody asks!
- 17) Of course, the registered one is false, usually shows one to several years younger-and most cases date of birth are 1st day or last day of any months, uses for job-hunting and official purposes; and the real one's uses are limited to birthday party and so on. Even, the facts are done by or at least overlooked by their teachers and parents!
- 18) PM of (1991-96) and (2001-2006) - the widow of the first military dictator cum President of Bangladesh; and reportedly she has been used at least 4 birthdays until now! Those had been published several times in major Newspapers but best of knowledge never been opposed! Besides original one (as had confirmed by her father), the 2nd one had used in high school certificate, whereas 3rd one in her marriage registration! The 4th birthday, she has been using since 1991, when she became PM for the first time. Then after she has been celebrating 4th one gorgeously, because it has intentionally selected in the assassination-day of founder of the nation - only to hurtling her opposition leaders, especially the daughter of Founder of the Nation — who was also PM (1996-2001). Bangladeshi many intellectuals including university teachers, not even hesitated to celebrate such false birthday!

- 19) Another female PM is also in the list! The British Broadcasting Corporation (BBC) along with its Bangla division, conducted the survey (11Feb. ~ 22nd Mar./2004) among its audience to elect the “20 Greatest Bengalis of all time”. The BBC announced the names gradually, from the 20th place on to the up. Who had selected them? Of course, not by the poor but by the rich and educated ones, those who usually use computer!
- 20) As a most densely-settled agrarian country, it is usual that many peoples would stay abroad for their livelihoods, especially those, who are not able to manage suitable job in home, etc. In fact, there are currently around 8 millions Bangladeshi expatriates worldwide. However, many qualified persons after getting their degrees in abroad — *appallingly those who hold permanent positions in governmental organs or public universities, and are usually on-leave for higher studies or trainings with basic salaries from their home institutions* — become part of *brain-drain* in developed countries; and some of them even neither returned the taken-amount, nor even noticed to their host institutions!
- 21) In traditional Bengal, there was not an entrenched and inviolably hereditary landed class as in many old peasant societies. Certainly there were the Zamindars (landlord) who held tracts of land on behalf of the regime. Also, in every micro-community Muslims and Hindus functioned in caste-like blocks largely determined by landholding and heredity. But due to the frontier nature of Bengal their dominance shifted with various political winds, while the peasants expected that whoever was in authority would behave according to the Bengali principles of patronage, and that is why peoples to give support or vote to even brutal criminals or biggest loan-defaulters.
- 22) As argued by Maloney (1991) — an American anthropologist who spent several decades in South Asia, especially in India and Bangladesh — “Nor would a Bangladeshi mother say, as a Chinese mother said on television, that I am raising my baby for the State”. This is not because the Chinese ‘love the country’ more than Bangladeshis, but because the Bangladeshis are more atomistic in behavior.
- 23) In Bengali-culture English has given the word ‘sincere’ a unique shade of meaning. It is often stated that someone is ‘not sincere’. The implication may be lost to someone who has not observed that the majority of employees in bureaucracies, in fact are not sincere in working for the abstract goals of the organization.
- 24) For organizational life-cycles to death, based on NGO management, see, Fuglesang and Chandler (1993: p277).
- 25) The great Famine of 1878, which killed as many as five million in British India as a whole, was followed by a legislation which brought together the existing patchwork of legal measures dealing with credit, debt, and poverty. Moreover, the Agricultural Loan Act of 1885 set up “Taccavi (distressed) loans” in Bengal - loans for peasants struck by natural disasters. The credit cooperatives first tried in the opening years of last century, were designed to organize and educate their members as well as to give them access to financial services. But except some private local initiatives, the formal credit cooperatives never worked well. By 1947, there were 26,664 rural credit cooperatives in Bangladesh territory and they provided almost all formal financial services in rural areas. This trend continued for two decades and a half with varying success or failure (Hossain 2002a).
- 26) Initially many administrators thought of Taccavi loans (note 25) as a form of relief, and repayment was not always enforced. In the context of different peasant movements in Bengal area the British lawmakers came to see that improving peasant conditions would be one of the best ways of persuading peasants to remain loyal to the government. The present day politicians in Bangladesh also seem to believe in the approach and the government frequently exercises loan write-offs (see Hossain 2002a and 2002f).
- 27) As mentioned earlier, no bribe no loan - usually 10% of the loan has been reported in Bangladesh. Yet it is a biggest crisis in government-run rural programs. Author had testified it in late-1990s by sending few rural poor in a local public bank, and then also in a government-funded poverty-focused project.

- 28) During 1973~75, Professor Yunus established his own rural study programs for students at his enrolled university campus as well as nearest two villages in southeastern Bangladesh. He entered into farmers committee and established 'Nabajug Tehbhaga Khamar (new era 3-share cultivation scheme)' for which he was honored the president award in 1978 (however, some argued, it was an immediately created approach by then the military dictator to motivate Yunus to join his newly formed political front!). In doing those, Yunus studied the rural problems; and in 1976, he has personally initiated the non-farm lending idea for the landless poor by providing approximately US\$30 to 42 villagers without collateral or guarantor of any kinds. From this experience came the idea of ARP for generating self-employment and he approached the idea to local public banks but rejected. After much persuasion, a local branch of one public bank was authorized to provide credit to the poor at an interest rate of 13% a year, when Yunus gave guarantee for full recovery.
- 29) In the peer monitoring system, the lenders create an environment of interdependence in which each borrower has an incentive to monitor the performance of other members regarding utilization and repayment of the loans (see, Wahid/ed. 1993): 23~32.
- 30) Loans of US\$50 to US100 are common (and even sometimes US\$5 or less) in the LDCs, and US\$500 to US2500 or more in middle-income and developed countries.
- 31) The common definition of micro-businesses indicates those involving/employing 5 peoples or less.
- 32) After 1984, the *Loan* re-named as *General Loan* due to creation of the *Housing Loan* — a long term (10 years ~) and low interest rate (5%, later 8%) loan for better performing borrowers. Initially, loan repayment sometimes was 52 weekly installments (50 weeks for loan, and rest of 2 weeks for interest and balance, if any). As of GB, loan interest rate 10% annually in declining basis stood 20% due to weekly repayment.
- 33) The loan programs of GB are centered around the "16 Decisions", which require borrowers to pledge that they will send their children to school, grow vegetables round the year, plant trees, keep the families small and the environment clean, use sanitary latrine and safe drinking water, do physical exercise, repair houses and work towards not living in dilapidated houses, avoid dowry in marriage, work collectively and for mutual help. And above all, maintain the four main principles - Discipline, Unity, Courage and Hard Work (Hossain 1999).
- 34) For instance, in 1995, a large number of GB borrowers stayed away from centre meetings and stopped paying loan installments and organized protests because of demanding a change in rules to allow withdrawal of "group tax" component of "group fund" at the time of leaving the bank. As of GB founder, husbands of the borrowers, inspired and supported by local politicians organized it. It continued for months. At the end, top management resolved the problem by creating some opening in GB rules, but in the mean time its repayment rate had gone down lowest in the history of the bank. If one borrower stopped payments, it encouraged others to follow; and many borrowers continued to abstain from repaying their loans even after the matter was resolved.
- 35) In 10% flat rate of interest on loan, as of GB management, in declining basis becomes 20% due to each week's repayments of 2% loan. However, the actual effective cost on borrowers supposed to be much higher due to group tax (5% loan money) and other savings in GE, etc. For instance, when loan interest rate was 16%, the actual effective cost to borrowers against each loan had calculated as 33.3% (see, Hossain: 1988, p46).
- 36) Usually, the poorest two members receive their loans at first. When they successfully make their installments for a few weeks, the second two are eligible to get their first loans and then the group leader.
- 37) So far, in Phase-I, GB had been organized 17 different types of workshops—e.g. 1 to 7 days workshops on its 16-decisions of social agendas, female and maternal workshops, Health and nutrition workshops, Water and Sanitation workshops, Literacy trainings workshop, Mother and girl workshop, Exchange Technology workshops,

and 1 to 7 days workshops for Livestock development, etc. (see, Fuglesang and Chandler, 1993). Again, in 1994, total centre school run-by groups were 14,804 having over 396 thousands students, and marriages without dowry reportedly were over 30 thousands, etc. For trends in achievement of some social development until 1994 as well as for short lists of workshops and related progress during 1982–1996 period, please see Hossain (1999: pp 154–6, and also Appendix-I, table 5.2: pp175).

- 38) Functionally landless in Bangladesh defined as who owns no more than 0.5 acre (0.202 ha.) of arable land; and it is considered not adequate for subsistence. In Bangladesh, around 60% of the rural peoples are LL&FLL.
- 39) The GB management usually considered granting loans to the LL&FLL people and women after credit operation training without any skill training, as the GB argued that poor know best which activities could generate additional income and how to make good use of credit. Although, we think the various skill trainings both for borrowers and field level functionaries are deemed necessary for business plan and quality products.
- 40) For instance, like GB, the KSS members of IRDP (now BRDB) were obliged to attend meetings and save every week. Moreover, the 10 Commandments of PARD (Pakistan Academy for Rural Dev.) and the 17 Promises of BRAC are the ancestors of the 16 decisions of GB (see, Rutherford 1995). The different group formation for credit provision for the poor and related issues also had tested under 9 organizations in Bangladesh as part of the USAID-supported program, known as *Asian Survey of Agrarian Reform and Rural Development* (ASARRD), which started operation in March 1976, even prior the ARP of GB (see, Hossain 2002a). For detail reviews of history of rural credit programs, please refers to Hossain (1999, chapter-I, pp. 35–48).
- 41) For instance, in early–1990s, a small group of GB employees in Head Office had been tried to open political party-based trade union but Yunus had denied. As a result, head office became deadlocked for couple of days; even they forced to stay Yunus inside his office for 3 days. Immediately Board of Directors had declared its illegal and highest court also ruled in favor of board-decision, and later those employee leaders lost their job, as board of directors had decided to do so. However, instead of trade union an employee welfare association was created.
- 42) Initially, GB had created an internal fund called Social Advancement Fund (SAF) by imputing interest on all the grant money it received from various donors. SAF has been converted into a separate company to carry out its mandate to undertake social advancement activities among GB borrowers.
- 43) The housing program of GB was honored *Aga Khan International Award for Architecture* in 1989. Maximum amount now given for housing loan is Tk15000 (US \$219) to be repaid over a period of 5 years (until 2002 was for 10 years) in weekly installments; and total 6,49,412 houses have constructed with the housing loans, averaging Tk13,172 (US \$ 192). A total amount of Tk8.55 billion (US \$ 204.62 million) has been disbursed as housing loans. During the past 12 months (from October'06 to September'07) 11,404 houses have been built with housing loans amounting to Tk 106.26 million (US \$ 1.55 million).
- 44) For more details on agricultural linkages of GB, please refer to Hossain (2002e) or Hossain and Takeya (2001).
- 45) This insurance fund was created by the interest generated in a savings account created by deposits of the borrowers made for loan insurance purpose. Each time an amount equal to 3% of the loan amount is deposited in this account. This amount is transferred from the Special Savings account; and if the current balance in the insurance savings account is equal or more than the 3% of the loan amount, the borrower does not need to add any more money in this account. If it is less than 3% of the loan amount, she/he has to make it equal.
- 46) As mentioned earlier that repayment rates had dropped drastically as many borrowers stopped to pay weekly installments in late–1995 due to protests of easing the group fund savings withdrawal (see, *note 34*). The overall repayment rates for the succeeding 2–3 years were much lower than the usual. For instance, repayment rate for

- 1995 was 99.28% but decreased to 96.22% in 1996, whereas in 1997 drastically turned into as low as 93.18% (see Hossain 1999: p153, table 5.1.2), indeed, two lowest rates in the 3 decades history of GB.
- 47) When GGS started in 2002, loans in arrears were converted to flexi status and are being either paid off or written off, a process nearly completed by the end of 2004, strengthening the portfolio.
 - 48) Include additional hour work (without pay) at night in each branch office due to yearend closing. We observed it in branches of three different locations, as part of our third phase exercises; on GB field activities during Dec.1997~ Jan. 1998. (see Hossain and Takeya 1998a).
 - 49) Every year GB staff evaluates their work and check whether the socio-economic situation of borrowers is improving or not. They evaluate poverty level of the borrowers by using ten indicators as: 1) The family lives in a house worth at least Tk.25000 (around US\$350) or a house with a tin roof, and each member of the family is able to sleep on bed instead of on the floor; 2) Family members drink pure water (boiled water or water purified by using alum, and arsenic-free tube-well water purified by tablets or pitcher filters; 3) All children (> 6 years old) are all going to school or finished primary school; 4) Borrower's weekly loan installment is Tk200 or more; 5) Family uses sanitary latrine; 6).Family members have adequate clothing year-round use, and also nets to protect themselves from mosquitoes; 7). Family has sources of additional income (e.g. vegetable garden, fruit-bearing trees, etc.), so that they are able to fall back on these sources of income when they need additional money; 8). The borrower maintains an average annual balance of Tk5000 in savings accounts; 9). Family experiences no difficulty in year-round 3 square meals a day, i.e. no family member goes hungry any time of the year; and 10). Family can take care of the health; and if any member becomes ill, family can afford to take steps to seek adequate healthcare.
 - 50) Initial loss (1983) was because of various establishment costs, as it had registered as a specialized bank in 10/1983. From the beginning, GB has been following same government salary-scales and providing other benefits to its staff. In mid-1980s, GB profits show down ward trend due to certain salary increase (25%), and the heavy losses during 1991 and 1992 were due to sudden new pay-scales of early-1990s (roughly 33% salary increased). GB was bound to do so for its organizational sustainability (Hossain 1999: p235-6).
 - 51) Yunus Probably has sympathy for the first military dictator, as Junta had carefully listened to his ideas, and also helped him much for implementing those, even if those were for the dictator's own political gains, not for country's development nor even personally for Yunus himself. The well known Village Government (VG, known as Gram Sarkar) concept was his own idea (see Yunus 1976); and he had visited village after village with the first military dictator but when his development-oriented VG ideas had raped by the dictator for his own political gains, Yunus had decided to resists himself from it, and even he had denied the offer of the military ruler to join his political front (see Hossain 1999, Appendix table 4.1, p.146). Even if, I personally think that Yunus's VG concept would not be suitable as local government unit, as it is too small and too many in numbers (e.g. GB itself has covered total 74462 villages by 2006) and also village sizes varied drastically. However, some big villages or in some cases, cluster of villages could be mobilize for economic activities (e.g., for rural cooperatives or community organizations, etc.). In fact, the Union Parishod (usually a cluster of villages), would be better, both for administrative and productive purposes, as already infrastructures and elected representatives are there.
 - 52) Usually, some may hoist questions about many collaborative partnerships under corrupt politico-bureaucratic environments of Bangladesh; and it perhaps keep enough windows for top-level managerial misdeeds, basically financial type. Sometimes very small friction of project bribe, such as 0.1 per cent bribe (or known as project commission) makes multi-million US\$, those usually enter into the secret foreign bank account/s. There are uncountable examples in Bangladesh. Further, the BPI ratio of the TI addresses the propensity of companies

from top exporting countries to bribe in emerging markets — *e.g. the BPI 2002 revealed high levels of bribery by firms from developed countries including Japan, USA and France, etc. (see TI-BPI 2002)* — although many of those countries had signed the *Anti-Bribery Convention of OECD* — which outlaws bribery of foreign top decision makers and public officials. Most cases of top-level bribe-transitions happened outside the respective country. It is not easy to detect all, not always even in presence of independent ombudsmen. There are many direct and upper-level contracts between corporatists of international origins and top managers of Grameen system (GB and its 2 dozens family corporate). However, without any evidence, anyone should not blame particular one; and its better be to concentrate more on major works, and criticisms by individuals also should be limited to the related works.

- 53) Some peoples think, besides long American company-lobbying for country's natural-gas (*basically to export in India*), the US strategic objective is to establish army-base in deep-sea areas of the Bay of Bengal, and it is also well-known that USA has been seeking for privatization of the Chittagong Sea Port to US company, etc. Usually the Nobel Peace Award comes with politics Apparently, some peoples even have tried to find clues from some of his speeches in pre and immediate after Nobel Award periods (*those had reported in newspapers*). There may or may not be some reasons behind but probably any wrong-doing would not be ease in this territory, as people collectively protect those, even if people are not collective enough yet for their economic activities. However, many of us strongly believe that the Nobel Prize had been due to Yunus (*see, note 5*).
- 54) He had job in American university and his first wife was also from there (*who left Yunus alone in mid-1970s, as denied to stay in rural areas*), yet he had decided to stay with the poor. He is not like many educated elites, those who had prestigious jobs in home country but became part of *brain-drain* (*see, note 20*) or have been dreaming to do so. So far, lion shares of the country's foreign remittances Come from the labor-classes, not from the elites.
- 55) As we mentioned earlier that total burden (interest plus mandatory savings) would be much higher (*see, note 35*). However, the 20% in declining rate, so far, is not high for the MFIs due to huge operating costs. For example, suppose a US\$10,000 loan disbursed to one rich or to 100 poor; and in later case, total costs would be quite higher in terms of loan proposals, disbursement, monitoring and installment collections, and so on.
- 56) Total deposits in the loan insurance savings-account stood at Tk3, 972.88 million (US\$ 57.91 million), as of September 30, 2007. Up to that date, total 70,758 insured borrowers died and a total outstanding loans and interest of Tk462.90 million (US \$ 7.27 million) left behind was paid off by the bank under the program.
- 57) For some earlier views on *Phase-II* evaluations: see *MicroSave Briefing notes on Grameen II: #1 ~ #9*, by Rutherford *et al. (Generalized reference)*.
- 58) GPS is a powerful magnet to households who enjoy regular income or remittances. GPS became popular because they value it or conversely also because GB insists on a GPS as a condition of loan taking. Even if, the GPS is not offered to non-members, but the better-off actively seek ways to get access, since the GPS pays interest rates (8.5%) well above those paid for a similar product in the commercial banks. The same rates are also for *Public Deposit Services* (PDS). These rates may need to fall if GB becomes too liquid with GPS and PDS deposits, and diversified fund management may become a more urgent task for the bank.
- 59) Most rural programs usually had been disappeared in Bangladesh territory either any or combination of some of the following reasons: (1) Conflict among initiators (leadership crisis); (2) Financial constraints, e.g. no-donors; (3) Week institutionalization, e.g. highly-centralized structure (crisis of tasks sharing); (4) Due to internal and external abuses (e.g. corruptions or mismanagements, fund-withdrawal, etc.); (5) Most cases because of week programs designs (miss-targets, low-returns, etc.); (6) Even wide range of methods have been pioneered to ensure people's participation in development, however, with little exception most programs for decades in real sense were not

- participatory; and (7) Basically, the history of the rural development efforts is replete with examples of extension staff who not go to the fields or who redirect the focus of their work from the client to their superiors, and so on.
- 60) There are at least 71 major natural disasters within last 100 years, and of those, the deadliest natural disaster was the cyclone of 12th Nov. 1970, in term of roughly one million human casualties. When the country has been overcoming shocks of 2007's flood — the severe one after 1998 flood (*note 6*), then the latest disaster, a monster cyclone named as 'Sidr' that ripped through the country's southern shoreline in early 16 Nov. 2007 (*prior the final submission of this paper*), wreaking deadly havoc on more than a dozen districts. By 26 Nov., the death toll had reported to 3243 having 1180 others missing, hundreds of thousands became homeless, and also near half million livestock killed. In fact, the latest cycle was stronger than 1970's, as if there had not been any wind blowing at 240km/hour in this territory. The relatively low death tolls however were due to it ripped on mainly forest areas.

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