

Despite many decades of efforts to alleviate rural poverty, the number of rural poor in developing countries is steadily rising. Amid the general gloom and doom of failed poverty-focused programs, one bright spot is the experience of the Grameen (rural) Bank in Bangladesh. The Grameen Bank represents a radical institutional innovation because it provides collateral-free loans and various social services to poor Bangladeshis yet maintains a loan recovery rate of 98 percent. Founded as an action research project in 1976, the Grameen Bank has diffused to 50 of Bangladesh's 64 districts. The bank now has over one million members, 92 percent of whom are women. Over the past 16 years, the Grameen Bank has created a formidable knowledge base and expertise to combat rural poverty. The present article investigates the process through which this new knowledge base was created, and how it has diffused in Bangladesh to alleviate poverty.

The Diffusion of Grameen Bank in Bangladesh

Lessons Learned about Alleviating Rural Poverty

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Despite many decades of development efforts by national governments and donor agencies, rural poverty is on the rise in developing countries (Rahman 1988; Wignaraja 1990). Although many new poverty-focused programs have been launched in rural areas, the benefits of these efforts have rarely reached those who were poor, isolated, powerless, physically weak, or otherwise vulnerable. Trapped in the "vicious circle of poverty," the rural poor worldwide continue to face economic, social, and political deprivation (Chambers 1986).

Authors' Note: The authors spent a total of six weeks in July and August 1991 visiting Grameen Bank headquarters in Dhaka and Grameen Bank village branches in Kurigram and Gazipur districts of Bangladesh. We interviewed over two dozen Grameen Bank officials and over 100

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One notable exception in the generally dismal array of poverty alleviation efforts worldwide is the *Grameen* Bank in Bangladesh. The *Grameen* (meaning "rural" in the Bangla language) Bank represents a highly innovative, flexible, and effective institutional mechanism to reach and empower the poor: it provides credit to the rural poor without any collateral and gives its members the flexibility to be self-employed and invest in various other income-generating activities. The new knowledge base and expertise created by the *Grameen* Bank to combat rural poverty has rapidly diffused within Bangladesh, and in recent years other countries have sought to use *Grameen*'s expertise in designing their rural poverty alleviation programs.

The *Grameen* Bank represents a radical institutional innovation that has transformed the idea of conventional banking by combining business with social engineering (Siddiqui 1984). It provides collateral-free loans and various social services to over one million poor, landless Bangladeshi households yet maintains a loan recovery rate of 98 percent. By spearheading a quiet socioeconomic revolution in Bangladesh, the *Grameen* Bank has emerged as an institutional model to alleviate rural poverty in developing countries (Ahmed 1985; Fuglesang and Chandler 1988; Hossain 1984; Siddiqui 1984).

In the present article we analyze the rapid spread of the *Grameen* Bank in Bangladesh from the research perspective of the diffusion of innovations. We investigate the process by which this institutional innovation as well as its accompanying knowledge base was created and how it has spread in and outside of Bangladesh. We examine the innovative institutional characteristics of the *Grameen* Bank and the mass media and interpersonal strategies used in communicating its programs. We investigate the socioeconomic impacts of the *Grameen* Bank in Bangladesh. Finally, we discuss the lessons learned from the *Grameen* Bank about the alleviation of rural poverty and its problems and limitations.

Many social scientists have used the idea of the diffusion of innovations as a framework for analyzing the creation and spread of new ideas and practices within groups, communities, and societies. *Diffusion* is defined as the process by which an innovation is communicated through certain chan-

Grameen Bank members to gain a deeper understanding of the *Grameen* phenomenon. We acknowledge the help of Dr. Muhammad Yunus, Mr. Khalid Shams, Mr. Muzammel Huq, Mr. Nurul Hoque, Ms. Maheen Sultan, Mr. Mohammad Liaquat Ali Khan, Ms. Mary Houghton, Dr. Everett M. Rogers, and Dr. Michael J. Papa in conducting our present research. Our research was supported by Ohio University's Office of Research and Sponsored Programs, School of Interpersonal Communication, College of Communication, and Center for International Studies. We also acknowledge the immensely useful comments provided by anonymous reviewers and the editor. An earlier version of this article was presented to the International Communication Association, May 1992, Miami, Florida.

nels over time among the members of a social system (Rogers 1983). Diffusion scholars argue that social change occurs when new ideas and practices are adopted by members of a social system.

The Social System of Bangladesh

An average of 2,000 people live in every square mile of Bangladesh. Of its 110 million people, 74 percent are illiterate and more than 60 percent are landless (Bangladesh Bureau of Statistics 1989). The 66 million landless Bangladeshis represent the poorest of the poor; most of them eke out a meager existence as unskilled laborers. Their average income is less than 50 cents a day (Theiler 1989). In 1989, the World Bank listed Bangladesh as the second poorest country; only Ethiopia was considered poorer.

Impoverished, landless Bangladeshis living in villages face myriad socio-economic problems ranging from unemployment, exploitation by landowners, and inflation, to the famine caused by natural disasters such as floods and cyclones. The poor Bangladeshis pawn land and jewelry for sustenance, often losing their valued possessions to moneylenders who charge exorbitant interest rates (Food and Agriculture Organization [FAO] 1987). Because they do not know how to approach banks for loans, the poor seek the help of middlemen, who often pocket part of their loans (Bangladesh Rural Advancement Committee [BRAC] 1980) and exploit those who have no collateral.

Women in rural Bangladesh are the most vulnerable. They are socialized as being inferior to and dependent on men (Chaudhury and Ahmed 1982). They perform such household chores as preparing meals, raising children, and collecting firewood, and outside of the home, they help men in raising and harvesting crops. Although their work is of immense value, it brings no economic or social reward. They are generally considered liabilities by their parents and husbands, and they suffer indignities without complaint. If one family member has to starve, an unwritten law dictates that it must be either the mother, wife, or sister (Yunus 1982, 1987a). Moreover, the continuance of the social practice of dowry giving and taking, although religiously and officially banned, takes a heavy toll on the Bangladeshi women and their families. Daughters cannot be married off easily unless dowry is paid to the bridegroom or his family. Sometimes women are abandoned by their husbands for not bringing sufficient dowry.

In sum, the poor, the landless, and the women in rural Bangladesh suffer grave social injustice and economic disadvantage. This situation led to efforts to find viable and *sustainable* solutions to their problems.

The Creation of the Grameen Bank

Muhammad Yunus, founder of the Grameen Bank, conceived the idea of a collateral-free social welfare banking from his observation of the poor people's (especially women's) ineffectual struggle for survival. After returning home from the United States in 1972 with a Ph.D. in economics from Vanderbilt University, Yunus began teaching development economics at the University of Chittagong in southern Bangladesh. His interest in rural poverty alleviation was greatly sharpened during 1973 and 1974 when the Bangladesh famine brought slow, painful death to several hundred thousand Bangladeshis. In 1975, Yunus and his graduate students conducted a survey in Jobra village (located on the outskirts of the University of Chittagong) to investigate the socioeconomic problems of poor rural women (Yunus 1987b).

Yunus discovered that poor rural women were involved in desperate attempts to augment family income: Many husked paddy for local elites all day in return for a pound of rice; others produced handicrafts and earthen pottery, selling their goods to traders at unbelievably low prices. Those who took cash advances from traders and local moneylenders earned the equivalent of 5 to 10 cents (U.S.) a day. Yunus realized that women could significantly multiply their income if they had small amounts of capital with which to buy raw materials. He concluded that the poor village women only needed small loans (equivalent to a few U.S. dollars each) to free themselves from their dependence on moneylenders and private traders.

When Yunus approached a local bank in Chittagong to secure loans for the poor women of Jobra village, the bank officials laughed at his "incredible" idea. They argued that poor people had no collateral and could neither fill out a loan application form nor sign their names (Theiler 1989). Yunus argued that inability of the poor to provide collateral and sign their names should not be a deterrent to extending them credit. To prove that the poor people were creditworthy, Yunus helped a poor woman obtain a loan of *Taka* 100 (U.S. \$2.70)¹ and became her guarantor. The woman repaid the loan in the given time, but the bank still demanded collateral to issue another loan. This episode convinced Yunus that existing Bangladeshi banks were doing little for their "most-in-need" customers: the 60 percent of the citizens who were landless, the 78 percent who were illiterate, and the 50 percent who were women (Mahmud 1989).

Yunus found the principles of conventional banking inappropriate in a poor country like Bangladesh. Banks demanded collateral and basic literacy from clients. Few landless people could meet these requirements. The banks discouraged women from doing business unless their husbands could serve as guarantors. To Yunus, the banks had miscalculated the economic potential

of the poor rural people (especially of women) and had underestimated the importance of nonagricultural activities in rural areas (Yunus 1979; Ray 1987). Preoccupied with creating employment for men only, the bankers had assumed that women were economically unimportant in the development of Bangladeshi society (Yunus 1987b); but Yunus could see that the skills of women in food processing, handicrafts, poultry raising, vegetable growing, and so forth, could easily be channeled into income-generating activities. He knew from his field research that the poor in Bangladesh were painstaking, hardworking, and much more capable of taking care of themselves than as portrayed in development textbooks. They needed no mercy or charity — only small loans (Yunus 1987b).

Yunus hypothesized that if the poor were provided with working capital and if adequate checks and balances were implemented, they could generate productive self-employment and free themselves from dependence on external assistance (Hossain 1988). To test this hypothesis, Yunus launched the Grameen Bank action research project in December 1976. The project's objectives were (1) to extend banking facilities to poor Bangladeshi men and women, (2) to eliminate the exploitation by money lenders, (3) to create self-employment opportunities for the poor, and (4) to empower the poor (Grameen Bank 1986).

The Diffusion of the Grameen Bank

The Grameen Bank action research project began in Jobra village of Chittagong as part of a local branch of the *Janata* ("people's") Bank, which on an experimental basis agreed to provide credit without collateral to the rural poor. The project demonstrated success from its early days. Loans were recovered in time, and the rural poor had begun to augment their income in various ways. In collaboration with the Bangladesh *Krishi* ("agricultural") Bank, the Grameen project soon expanded its operation to two other villages neighboring Jobra. In 1979, with the financial support of Bangladesh Bank (the central bank of the country), the Grameen Bank project launched a large-scale operation in Tangail, one of the most impoverished districts in Bangladesh. By 1980, seven nationalized banks were participating to operate 25 Grameen Bank branches in 363 villages of Chittagong and Tangail districts. In October 1983, with financial support from the Bangladesh Bank, the International Fund for Agricultural Development, the Ford Foundation, and others, the Grameen Bank action research project became a full-fledged bank: the Grameen Bank.

TABLE 1
The Widespread Reach and Performance of the *Grameen Bank*

<i>Activity</i>	<i>Cumulative Figure (November 1991)</i>
Reach	
Number of members	
Women	962,148 (92%)
Men	79,482 (8%)
	1,041,630
Number of centers	41,867
Number of villages covered	24,680
Number of operational branches	910
Performance	
Total loans disbursed	\$390 million ^a
Loan recovery rate	about 98%
Total group fund savings	\$26.6 million
Total emergency fund savings	\$6.5 million
Number of houses built	116,129

SOURCE: Grameen Bank (1992).

a. One U.S. dollar = 37 Bangladeshi *Takas*.

The knowledge base on which the Grameen Bank was founded was not created overnight. During the seven years (1976-1983) of the Grameen Bank action research project, Yunus and his staff wrestled with various problems, continuously improvised credit policies and programs, and expanded program activities through trial and error. For instance, in its initial years the bank approached only the poor people who lived near its branches; after 1982, it began reaching out to those who lived in remote rural areas. The Grameen Bank's social welfare constitution, which encourages members to practice family planning, send their children to school, not to give or take dowry, and so forth, was also adopted in later years after considerable experimentation on a pilot basis.

Since 1983, the Grameen Bank has evolved into a formidable organization headed by Yunus as its managing director. In 1987, the bank had 248 branches and 250,000 members, lending 33 million *Takas* (U.S. \$0.9 million). By November 1991, the Grameen Bank had grown to 910 branches with 1,041,630 members (of which 92 percent were women), lending the equivalent of U.S. \$390 million (Table 1). The Grameen Bank's branches were operating in 24,680 villages, covering 50 of Bangladesh's 64 districts (Grameen Bank 1992). The Grameen Bank has plans to expand its operations to 1,700 branches by 1995, covering all 64 districts of Bangladesh (Grameen Bank 1988).

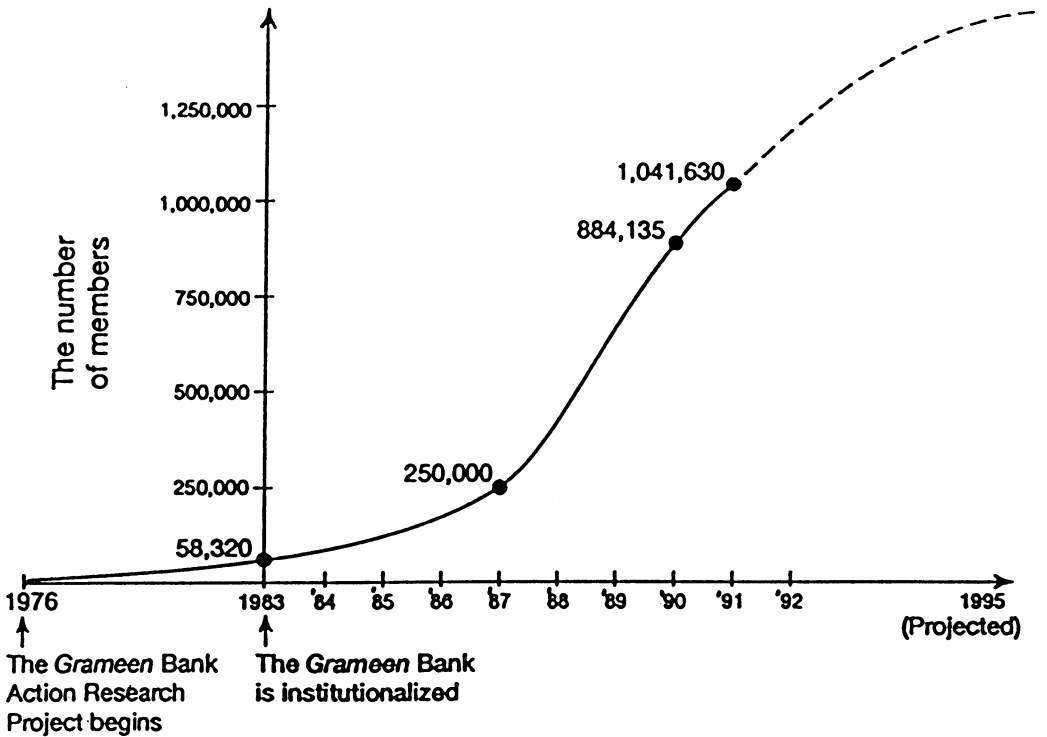


Figure 1: The Growth of the Number of Grameen Bank Members

SOURCE: Based on data provided by the Grameen Bank (1992).

NOTE: By 1991, the Grameen had 1,041,630 members, 92 percent of whom were women. The benefits of the bank are not limited to the members alone but are shared by their family members.

Typically the diffusion of an innovation, whether technological or institutional, follows an S-shaped curve (Rogers 1983). The diffusion of the Grameen Bank so far has followed the first half of the S-shaped curve (Figure 1). With new adopters added daily, the acceptance of the Grameen Bank membership is still ongoing. Its membership adoption decisions are optional, contingent on the felt need and wishes of its members. So, for the present time, we can predict the future direction of Grameen’s diffusion curve only on the basis of its plans (see Figure 1). At some future point, perhaps several years from now, the rate of adoption of Grameen Bank membership will presumably slow down, bringing into focus the top half of a typical diffusion S-curve. Exactly when that might happen is difficult to predict. In addition to spreading rapidly in Bangladesh, the Grameen Bank has inspired poverty alleviation rural banking efforts in Bolivia, Burkina Faso, Canada, France, Indonesia, Malawi, Malaysia, Mali, Nepal, Nigeria, Peru, the Philippines, Senegal, Sri Lanka, and the United States (Mahmud 1989). Most of these overseas replication efforts are at an early stage of implementation, and it is too early to talk about their success or failure.²

Innovative Features of the Grameen Bank

The Grameen Bank can be regarded as an institutional innovation on many fronts. It incorporates (1) a unique approach to development, (2) a new philosophy of "credit as a fundamental human right," (3) a client-oriented organizational structure, (4) a well-thought-out loan disbursement and collection procedure that ensures a near-perfect loan-repayment rate, (5) a vast portfolio of income-generating options backed with appropriate technical inputs, (6) an integrated package of social welfare services, and (7) various compulsory savings programs.

Approach to Development

The success of the Grameen Bank brings into question theories that regard development purely as a matter of economic growth or technological and industrial modernization. For example, national economic growth need not necessarily benefit the poor, nor does investment in technology and industry alone trigger and sustain growth (Yunus 1987a; Fuglesang and Chandler 1988). The Grameen Bank favors growth in per capita income of the bottom half of the population, especially those living below the poverty line (Yunus 1987a). Despite its radical approach, however, the Grameen Bank conforms to contemporary development theories that emphasize (1) greater equality in distribution of development benefits; (2) popular participation; (3) knowledge sharing; (4) empowerment to facilitate self-development efforts by individuals, groups, and communities; and (5) self-reliance and independence in development, emphasizing the potential of local resources (Rogers 1976; Korten and Klaus 1984; Singhal 1989). More specifically, the approach of the Grameen Bank conforms to the concept of "another development," which is endogenous, self-reliant, and geared to eradication of poverty (Fuglesang and Chandler 1988). The bank represents a promising intervention in gradually restructuring the Bangladeshi society into a more participatory and self-developing society, not through class struggle or revolution but through a peaceful process of socioeconomic change that is fostered and sustained by the efficient use of credit.

Credit as a Fundamental Human Right

The Grameen Bank represents a new philosophy: it believes that credit for self-employment is a fundamental human right of a poor person because it leads to the realization of other human rights (Yunus 1987a). Furthermore, because the poor do not have any collateral, credit must be made available

to them without insisting on any form of material collateral. The Grameen Bank's philosophy is completely consistent with the United Nation's Universal Declaration of Human Rights, which proclaims:

Everyone has the right to a standard of living adequate for the health and well-being of himself and his family, including, food, clothing, housing and medical care, and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control. (Lawson 1991, 1655)

According to the Grameen Bank, credit, at the very least, provides the poor with an opportunity to access these fundamental human rights through self-employment, income-generation, and savings.

Client Orientation

The Grameen Bank's organizational framework is dynamic and highly responsive to clients' needs. A four-tier organizational structure consisting of branches, area offices, zonal offices, and head office is in place. Branches are the field-level operational units located in villages, which have sustained contact with Grameen members and the rural poor. Area offices, generally located in district towns, supervise from 10 to 15 branches. Zonal offices supervise several area offices and are, in turn, directed by the head office in Dhaka. About 90 percent of the Grameen Bank's staff work directly with clients in villages. This proximity helps in assessing the clients' needs and in responding to them promptly and efficaciously.

Each Grameen village branch has a field staff of six bank workers including both men and women, and is headed by a manager. The field staff receive rigorous training and live in villages where they work, having regular and frequent contacts with clients. They aggressively serve as change agents, helping clients benefit from credit programs and investment options. They are highly committed to solving their clients' problems.

Loan Procedures

To obviate the need for material collateral, the Grameen Bank places the loan repayment responsibility on the clients in a unique way. To obtain a loan, an applicant must form a homogenous group with four other like-minded loan applicants of the same gender and of similar socioeconomic backgrounds (Yunus 1983). The group members belong to the same village but not to the same family. Six homogeneous groups in a village federate into a *center*. Center chiefs conduct weekly meetings, recommend loan proposals,

supervise loan activities, and assist the bank personnel in their field work (Yunus 1983).

As a five-member group, the new loan applicants meet once a week with the bank field-worker to understand the philosophy and procedures of the Grameen Bank, to establish trust among themselves, and to learn how to sign their names. After about four weeks of training, the group, by consensus, selects two members from among themselves to receive a loan of 2,000 *Takas* (U.S. \$55) each; this loan disbursement is subject to the bank worker's satisfaction with the group's ability to observe Grameen Bank's discipline and refund the loan in time. After several weeks, when the first two loanees have established their credibility by repaying their weekly loan installments in time, two other group members receive similar loans. The fifth person, usually the group chairperson, receives his or her loan when the second set of loanees have also established their credibility. A weekly loan repayment installment includes 2 percent of the principal amount and a fixed interest charge computed at the rate of 16 percent per annum.

The Grameen Bank has created a system by which group members, because they share collective responsibility to repay the loan, operate under a healthy dose of peer pressure and peer support. If one member defaults, the prospective loans of other members are in jeopardy; usually, however, if one member defaults on repayment for a genuine reason, the other members collectively arrange to pay the installment. The Grameen Bank thus creates an interpersonal network of mutual accountabilities on the part of its clients, replacing material collateral with a kind of social collateral (Singhal and Papa 1991).

Income-Generating Options

The Grameen Bank administers various loan programs, advising members on over 400 different individual income-generating activities and over 100 group business enterprises (FAO 1987). Individual businesses include paddy husking and processing, milch cow and poultry raising, spinning, sewing, and so on. Group business enterprises include fish culture, crop cultivation, poultry farming, trading, and building houses. By 1991, the Grameen Bank's house-building loan program helped 116,129 poor members to construct low-cost (about U.S. \$300) durable houses (Grameen Bank 1992). Technical inputs such as new varieties of seeds, information on new farming practices, and veterinary services for sick animals, supplement investment options. Through its vast portfolio of income-generating options, the Grameen Bank also provides various forms of entrepreneurial education and training to its members.

Social Welfare Services

The Grameen Bank provides the poor rural Bangladeshis with a package of social welfare services, strongly advocating that social development is inextricably linked to economic development. For example, the Grameen Bank provides education and training in family planning, personal hygiene, public sanitation, nutrition, child development, and so forth. The bank requires that in weekly meetings its members perform some physical exercise drills they have learned during membership orientation and recite sixteen slogans known as the "Sixteen Decisions." The slogans, which propagate an integrated philosophy of life, constitute the social welfare constitution of the Grameen Bank (Table 2; Fuglesang and Chandler 1988). As a result of Grameen's social welfare services, rural families that were long afflicted by ill health and illiteracy now live in improved housing, drink boiled or alum-treated water, and send their children to elementary schools (Tomas 1990).

Savings Plans

The Grameen Bank provides five savings schemes as a long-term strategy to empower its poor clients: the group fund, the emergency fund, the special savings account, the children's welfare fund, and the individual savings deposit.

The group fund consists of a per-member weekly contribution of one *Taka* (about U.S. 3 cents) and a group tax of 5 percent of the principal amount, which is deducted at the time of loan disbursement. This compulsory contribution to the group fund grows like *mushthi chaal* (meaning "a handful of rice" in Bangla), which many rural Bangladeshi women put aside while cooking a meal. The handful of rice is not dearly missed while that meal is consumed, but over time can grow into a considerable reserve. As of November 1991, the Grameen members had deposited an equivalent of U.S. \$26.6 million in the group fund (Grameen Bank 1992). Any or all members of the group can borrow from the group fund for special purposes, investment or consumption; otherwise, their money is invested in the Grameen Bank. Once a member quits the bank, he or she can withdraw only the personal deposits, losing accumulated deposits from his or her group tax. As a result, once they are inducted into the Grameen Bank, the members prefer to continue their membership. From the perspective of member participation, the group fund serves as an excellent motivator; it provides the Grameen members collective control over vital financial resources, independent of the Grameen Bank administration (Fuglesang and Chandler 1988).

TABLE 2
The Sixteen Decisions Known as the
Social Welfare Constitution of the Grameen Bank

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1. The four principles of Grameen Bank—discipline, unity, courage, and hard work—we shall follow and advance in all walks of our lives.
 2. Prosperity we shall bring to our families.
 3. We shall not live in dilapidated houses. We shall repair our houses and work toward constructing new houses at the earliest.
 4. We shall grow vegetables all the year round. We shall eat plenty of it and sell the surplus.
 5. During the plantation seasons, we shall plant as many seedlings as possible.
 6. We shall plan to keep our families small. We shall minimize our expenditures. We shall look after our health.
 7. We shall educate our children and ensure that they can earn to pay for their education.
 8. We shall always keep our children and the environment clean.
 9. We shall build and use pit-patrines.
 10. We shall drink tubewell water. If it is not available, we shall boil water or use alum.
 11. We shall not take any dowry in our sons' wedding, neither shall we give any dowry in our daughters' wedding. We shall keep the center free from the curse of dowry. We shall not practice child marriage.
 12. We shall not inflict any injustice on anyone, neither shall we allow anyone to do so.
 13. For higher income we shall collectively undertake bigger investments.
 14. We shall always be ready to help each other. If anyone is in difficulty, we shall all help him.
 15. If we come to know of any breach of discipline in any center, we shall all go there and help restore discipline.
 16. We shall introduce physical exercise in all our Centers; we shall take part in all social activities collectively.
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The emergency fund of the Grameen Bank is a kind of insurance pool established through the mandatory contributions from all members. When repaying the weekly loan installment, every member contributes about 25 percent of the weekly interest amount to this fund. The emergency fund provides insurance coverage in case of default, disaster, disease, or accidents. After the disastrous 1988 floods in Bangladesh, the afflicted members were aided by the emergency fund to rebuild their houses and income-generating enterprises. The special savings fund is composed of optional contributions by the members of a center and can be used for collective enterprises (for instance, buying a rice-husking mill or leasing a tobacco field for cultivation). The children's welfare fund mandatorily collects one *Taka* (about U.S. 3 cents) a week from individual members who have children to aid their children's educational activities. Finally, the individual savings deposit provides optional savings opportunities to the members. As of November 1991, the total balance of savings in funds other than the group fund was U.S. \$10.03 million (Grameen Bank 1992).

In sum, as a financial and social development institution, the Grameen Bank incorporates many innovative features: a unique approach to development, a new philosophy about the social role of credit, an overwhelming client orientation, innovative loan disbursement and collection procedures, an impressive portfolio of investment options, an integral package of social welfare services, and compulsory savings programs. Drawing on Rogers's (1983) diffusion theory, we argue that Grameen Bank members perceive these innovative features as being

- relatively advantageous to them, compared to their previously available options of alleviating poverty. The members clearly perceive the socioeconomic advantages of a Grameen Bank membership, such as the availability of credit without collateral, guidance and training in income-generating activities, enhanced household income, a healthier life-style, and more control over their environment.

- compatible with their existing values, past experiences, and needs. Members find the Grameen Bank's policies, procedures, and programs to be highly compatible with their levels of literacy, religion (for instance, Islamic traditions favor formation of same gender groups), and circumstances (for instance, the emergency fund for relief from floods and famines that are highly common in Bangladesh). Although Grameen's programs on emancipation of women might run counter to the prevailing social norms in Bangladesh, the bank emphasizes the important role of this inconsistency in bringing about social change.

- noncomplex, that is, relatively easy to understand and use. Members clearly perceive the noncomplex nature of Grameen's programs and procedures reflected in the availability of a bank near their doorsteps, minimal and uncomplicated paperwork, and clear-cut procedural guidelines and by-laws.

- observable, that is, the results of the bank's activities are highly visible. The results of Grameen's programs are easily observable in the form of better agricultural productivity in the fields, newer and cleaner houses in the villages, and healthier children.

The relative advantage, compatibility, noncomplexity, and observability of the Grameen Bank's programs and procedures help members to form a favorable perception of this institutional innovation, helping to speed further its rate of adoption in Bangladesh.

Communicating the Innovation

The innovative features of the Grameen Bank's socioeconomic programs are communicated to potential members through mass media and interper-

sonal channels. Because the reach of the mass media into rural areas is generally limited and illiteracy is high, interpersonal communication channels play an important role in the spread of information about Grameen Bank's programs and policies. The bank's employees, field staff, and existing members effectively use interpersonal communication networks to enroll new members (Singhal and Papa 1991). Also, the message content of the Grameen Bank plays an important role in the wide acceptance of its membership (Singhal and Auwal 1992).

The Grameen Bank's field-workers often walk or bicycle several miles to inform the poor in remote villages of its credit programs and procedures (Tomas 1990). In recruiting new members, the bank staff ensures that members of a group are not related to one another. This procedure works against possible misappropriation of loans by the group members and helps disseminate the message of Grameen Bank to a wider group of people (outside the circle of family and relatives). As we discussed previously, a prospective loanee has to find four other homophilous (of the same gender, socioeconomic status, mind-set, and so on) loan applicants to qualify for loans. Group solidarity and homophilous interpersonal communication networks help move the skeptics from a state of indecision to action (Rogers and Kincaid 1981), that is, to motivate the persons undecided about joining the Grameen Bank to enroll as members. Such a lateral diffusion of Grameen Bank's membership occurs at various levels: from a member to nonmember, from a village with a Grameen center to one without, from a subdistrict where the Grameen operates to a neighboring non-Grameen subdistrict, and so on.

The Grameen Bank's promotional messages, disseminated through both mass media and interpersonal channels, have a universal appeal. The central message stresses that credit without collateral is available for the poor. Several peripheral messages focusing on mottos of hard work, discipline, courage, mutual help, and resistance against dowry strengthen the central message enhancing its effect (Petty and Cacioppo 1981). The Grameen Bank's central message is reinforced by the sixteen social welfare decisions, which the members recite as slogans during their weekly meetings. The aim of these carefully designed messages is to facilitate social change.

Socioeconomic Impacts of the Grameen Bank

Several existing research studies show that the Grameen Bank has socioeconomically empowered the poor, landless, women, and other vulnerable groups in Bangladesh (Fuglesang and Chandler 1988; Ghai 1984; Hossain 1986, 1988). By extending credit and credit use training to members, the

Grameen Bank has increased their income and provided them with a better quality of life (Balkin 1989; Singhal and Auwal 1992).

Shahida Begum, who was abandoned by her husband during the eighth month of her pregnancy, is one such beneficiary of Grameen Bank's programs. Shunned by society and her parents because of her broken marriage, Shahida was helpless. She took a loan of 1,500 *Takas* (U.S. \$40) from the Grameen Bank to raise poultry and buy paddy for husking and reselling. When Shahida repaid her initial loan, the Grameen Bank provided her with bigger loans. Her business boomed. Now Shahida has her own agricultural land on which she raises crops. She earns a steady annual income of 16,000 *Takas* (U.S. \$432) and has built a house with a Grameen Bank housing loan. Shahida's daughter attends school and one day will go to college.

The Grameen Bank demonstrates that poor people can use credit effectively. A 1985 research study found that, over the twenty-eight-month period that the bank had been in operation, working capital use increased by 74 percent, and working capital loans increased by 200 percent among Grameen Bank's members. In adopter villages, the per capita income of Grameen Bank members was found to be 40 percent higher than that of nonmembers (Balkin 1989).

On the social dimension, the Grameen Bank has positively influenced the status of women in Bangladesh. The female bias in Grameen's membership (that is, 92 percent of its members are women) is not accidental. The Grameen Bank aggressively targets women members (1) to raise their status in society, (2) to make them economically independent of men, and, more generally, (3) to supplement existing family income. Grameen has also discovered that, in comparison to men, women are more seriously committed to its programs and they save more and default less on loan repayments (Balkin 1989; Tomas 1990). Thanks to Grameen Bank's programs, women are now treated with much more respect at home and outside (Huq 1985). Cases of wife beating among members of the bank have reduced significantly, and women's mobility (outside of homes) has increased drastically (Khan 1982). Women now travel to other villages to work. Parents now can get their daughters married without dowry.³ The adoption of family-planning practices among illiterate women members of the Grameen Bank is significantly higher than the national average (Balkin 1989). Grameen Bank's women members also lead healthier lives than do their nonmember neighbors (Khan 1982; Rahman 1989a).

The Grameen Bank imparts various kinds of physical and psychological training to raise the self-esteem of women. One result of this training is that women who previously hid their faces in *saris* now salute visitors and Grameen officials in a crisp, military style (Helmore 1989). This regimentation of women, however, is not consistent with existing social norms in rural

Bangladesh. The Grameen Bank's position is that such inconsistency is necessary for women to change their perceptions about themselves.

The intended, desirable effects of the Grameen Bank tend to eclipse certain of its unintended, undesirable effects. For instance, the growing economic emancipation of women affects family ties, which are traditionally very strong in rural Bangladesh. Women members of Grameen serve as role models for other poor women, inspiring them to work outside of homes to earn incomes. Although women's emancipation is unquestionably desirable, some critics are worried that, for example, women's emancipation may come at the cost of family harmony. Some Bangladeshi businessmen have called the Grameen Bank "a gimmick" and some others think it is a highly "simplistic" formula that diverts attention from basic rural problems. To the bank's detractors, Yunus, the founder and managing director of the Grameen Bank, answers that the Grameen Bank is only *one* "way to begin a process of change" (Theiler 1989).

Overall, the Grameen Bank's role in alleviation of poverty and social injustice in rural Bangladesh has been exemplary. While providing poor people with income generation opportunities to alleviate their poverty, the bank attempts to empower them with the knowledge and training to fight injustices perpetrated against them. Over time, the Grameen Bank members have developed a strong countervailing force to withstand and neutralize the exploitation by landowners, moneylenders, and other powerful groups (Rahman 1989a, 1989b).

Lessons Learned from the Grameen Bank

The Grameen Bank experience demonstrates that an innovative financial institution can successfully address the special needs of the poor, illiterate, and other vulnerable groups by involving them in a participatory process of social change (Fuglesang and Chandler 1988). Here we outline the lessons learned from the Grameen Bank about alleviating poverty and social injustice.

1. The Grameen Bank demonstrates that several common myths about development initiatives need to be dispelled (Fuglesang and Chandler 1988). First, the rural poor are not "unruly rustics" who need "superior" authorities to solve their conflicts. With a little guidance, the poor can organize themselves and make decisions to solve their own problems. Second, rural banking can be a simple and viable business enterprise without the prerequisite of collateral. An insistence on collateral excludes the poor from sharing in the benefits of credit. Third, a rural power structure dominated by local elites and moneylenders need not stand unsurmountably in the way of providing

development benefits to the poor. Fourth, literacy is not a precondition for the poor to participate in viable business enterprises. Finally, as exemplified by the several thousand Grameen Bank field-workers, educated youth in developing countries can work in rural areas for their people's development, putting aside the attraction of lucrative city jobs.

2. The Grameen Bank experience does underline the need for some form of outside intervention for alleviation of rural poverty. The rural poor need access to the means of production (like credit, capital, and technical know-how) that an outside agency can help provide. The Grameen Bank sets a delicate balance between outside intervention and indigenous grass roots problem solving (Singhal and Auwal 1992).

3. The Grameen Bank demonstrates the importance of focusing on the poorest of the poor to limit the interference of existing rural power structures and to neutralize the vested interests of the local elites (Shams, Heyzer, and Getubig 1990).

4. The Grameen Bank demonstrates the crucial importance of creating specialized delivery channels to carry poverty-focused programs to the rural poor (Shams, Heyzer, and Getubig 1990). The Grameen Bank does not wait for the poor to come to its doors; instead, its personnel go out to meet the poor at their doorsteps.

5. The Grameen Bank demonstrates the importance of creating simple procedures compatible with the skills of the rural poor. Most of the poor Bangladeshis are illiterate. Without assistance, they do not know how to fill out loan application forms or to sign their names. The rules and procedures of the Grameen Bank are uncomplicated and explained in a language that the illiterate poor can understand.

6. The Grameen Bank demonstrates the importance of fostering homophilous peer networks to boost trust, confidence, and mutual help among the poor. These homophilous peer networks ensure adequate checks and balances for the smooth functioning of the bank.

7. The Grameen Bank demonstrates that extending credit to the rural poor is not enough; technical inputs to use the credit are also essential.

8. The Grameen Bank demonstrates the importance of closely monitoring a rural poverty alleviation program. The Grameen Bank officials guide the poor to use loans for appropriate income-generating activities and closely monitor loan use. In the absence of guidance and supervision, the poor could misuse the funds. Yunus emphasizes that credit without discipline becomes charity that destroys rather than helps the poor (Shams, Heyzer, and Getubig 1990).

9. The Grameen Bank demonstrates the importance of establishing workable and enforceable loan recovery procedures for a financial institution's long-term viability. The Grameen Bank does not give loans at the same time

to all the members of a new five-member group. Two members of a new group first receive loans. Their loan use and weekly repayment need to be satisfactory to ensure loans for other group members. Once the group proves to be creditworthy, and the first loans are repaid over a one-year period, the group members become entitled to a second loan. Also, through a weekly repayment schedule, the importance of loan repayment is reinforced fifty-two times a year.

10. The Grameen Bank demonstrates the importance of establishing poverty alleviation programs that engender bottom-up, cumulative, and sustainable development. Initially, the members are given loans only for income generation purposes. After they have repaid several loans, they receive other loans for housing improvement and schooling of children. So the Grameen Bank believes in a gradual, bottom-up, cumulative process of individual and community development.

11. The Grameen Bank demonstrates the importance of establishing a rural poverty alleviation program in which the members are encouraged to sustain their participation over a long period of time. The Grameen Bank knows that a onetime loan is usually not sufficient to alleviate an individual's poverty. An assurance of subsequent loans provides an incentive for timely loan repayment. Also, the group, emergency, and individual savings schemes encourage members to sustain their membership.

12. The Grameen Bank demonstrates the importance of communicating in trust and maintaining openness in all business. Collateral is replaced by mutual trust and strengthened by the openness of all banking activities. All Grameen Bank records can be inspected by its members (Shams, Heyzer, and Getubig 1990). This openness helps minimize corruption and promotes the members' confidence in the bank.

13. The Grameen Bank demonstrates the importance of imparting rigorous, practical training to its personnel. It strongly believes that a dedicated, committed staff is essential for continued success.

14. The Grameen Bank demonstrates the need for keeping development programs aloof from partisan politics. Although it is difficult to be completely apolitical, the Grameen Bank avoids conflict with political groups and tries to elicit support from the government for its many programs. Yunus argues that politics and interorganizational rivalry can neutralize the noble, poverty alleviation efforts of any agency (Shams, Heyzer, and Getubig 1990). The bank tries to be politically impartial and financially autonomous.

15. The Grameen Bank demonstrates the importance of integrating elements of both a centralized and decentralized diffusion system in administering a large-scale poverty alleviation program (Singhal and Auwal 1992). The bank is centralized in its policy-making functions and is decentralized

like a franchise business in its operational procedures in the field level. Although the top management makes and provides a corporate vision, decentralization at the field level encourages popular participation.

Problems and Limitations

Despite its record of success, the Grameen Bank has certain problems and limitations.

1. The financial autonomy of the Grameen Bank is dependent on the availability of funding from various international donor agencies. As the Grameen Bank activities expand in Bangladesh, this dependence on external funding is likely to continue (Rahman 1988).

2. Like any organization, the Grameen Bank faces problems associated with growth (Singhal and Auwal 1992). The task of maintaining and monitoring current programs becomes increasingly complicated in the face of new expansion activities. Grameen Bank officials face an enormous challenge: can the Grameen Bank programs continue to expand and yet maintain the present high quality? Furthermore, despite its continued expansion, the Grameen Bank can cover only a small percentage of the estimated 90 million poor people in Bangladesh.

3. The Grameen Bank has not yet developed new programs for older clients who have taken loans several times and have substantially increased their resource base (Rahman 1988). Should the Grameen Bank continue to provide loans to older clients? If so, until when? Or should it expand horizontally to cover more people?

4. In government and political circles, the Grameen Bank is too closely identified with its founder, who has built this organization brick by brick, often shielding it from bureaucratic tangles. For its long-term political viability, the Grameen Bank needs to develop strong future leaders who can step in when Yunus retires.

5. Because of its apparent success, the Grameen Bank faces tremendous pressure for rapid replication in Bangladesh and other developing countries. The Grameen Bank should guard against the pitfalls of too-rapid replication both at home and abroad.

Conclusion

As rural poverty continues to rise in developing countries, so does the disenchantment with existing poverty-focused programs, which thus far have

met with only limited success. The need for implementing innovative, effective, and sustainable institutional mechanisms for socioeconomically empowering the rural poor is greater today than ever before.

The Grameen Bank represents an institutional innovation that, despite certain limitations, seems to be successfully alleviating poverty and social injustice in rural Bangladesh. The Grameen Bank has proven that individual and group business enterprises can be developed and sustained by providing collateral-free credit to the poor, landless, women, and other vulnerable groups. Rural poverty can be alleviated by augmenting capital resources, incomes, and savings of the rural poor.

Since it began in 1976, the Grameen Bank has created a formidable knowledge base and expertise to combat rural poverty. This knowledge base and expertise has rapidly diffused within Bangladesh. In recent years, many countries have sought to use Grameen's knowledge base and expertise in designing their rural poverty alleviation programs. Their challenge will be to adapt Grameen's knowledge base to their local sociocultural-political milieu. As the problems of rural poverty continue to overwhelm national governments and donor agencies, the experience of the Grameen Bank in Bangladesh suggests one possible way of making this world a better place to live for billions of rural poor.

Notes

1. In 1992, one U.S. dollar was equivalent to 37 Bangladeshi *Takas*.

2. Gibbons and Kasim (1991), Hulme (1990), and Jika (1990) discuss Grameen Bank's overseas replication efforts.

3. The Grameen Bank members intervene creatively to fight such social ills as the tradition of dowry. Once, when a bridegroom demanded a bicycle as dowry, the bank members bought a bicycle and during the solemnization of the marriage told the bridegroom: "Take either the bride or the bicycle." The bridegroom took the bride.

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