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GRAMEEN DIALOGUE

Newsletter Published by the Grameen Trust, Bangladesh

October, 2001

Building Social Capital by Grameen Bank

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There has been an explosion of interest in the issue of social capital. Researchers were aware of the concept and have used it previously even though they might not have called it as such. The current resurgence of interest really began with the publication of R. Putnam's earlier book *Making Democracy Work: Civic Traditions in Modern Italy.* Putnam compared the performance of local governments in Northern and Southern Italy and found that they performed better in Northern Italy. As an explanation for the divergent result, Putnam suggested that social capital i.e., "features of social organization, such as trust, norms, and networks" were responsible for the better performance of local government in Northern Italy.

Inside

Creating trust in the ability of the poor to repay loan is monumental in the context of the history of agricultural credit in Bangladesh. Historically, society as a whole had a condescending view of the poor and in particular their ability to repay loans. In addition government sponsored credit programs created a legacy that suggests that it is morally wrong to insist that the poor repay loans. Prior to Grameen Bank, there wasn't a single bank that would lend money without any collateral and especially to poor, illiterate, landless women. The poor always had to depend on friends and relatives to meet their credit needs. There were formal sector institutions that mainly catered to the needs of the small and medium farmers and required collateral. Grameen's other contribution was the creation of trust in institutions that deal with poor people's money. Rural Bangladesh is replete with failed attempts to provide credit to the poor. As is true in most government and donor sponsored credit schemes, the rich and powerful and their clients usurped the credit. Most of these attempts were biased towards small farmers. Since more than half of the rural population are landless, the focus on agriculture led to financial exclusion of the poorest of the poor.

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Creation of New Norms

Grameen Bank's trust in poor borrowers and the reciprocal trust of the borrower, were instrumental in changing the norm about credit relations in rural Bangladesh. Once these norms were established they became part of the preferences of the borrowers. This created a positive externality in that others benefited from these established norms. Other institutions that followed Grameen Bank did not have to invest much energy in impressing upon their members to repay on time. A further benefit of such norm is exhibited in the repayment statistics of credit-granting NGOs in Bangladesh and especially when one compares these with the repayment statistics of government owned banks and other financial institutions.

Grameen Bank also helped to create the norm of credit discipline. It believed that nothing should be given for free to the poor. In the face of tremendous pressure, Grameen never forgave any loan. This was extremely difficult given the low recovery rates and frequent write off of agricultural loans by the government. The biggest threat to Grameen's existence came in the year 1991. In that year the newly elected government decided to forgive all loans

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from government banks that were under 5,000 Taka (about $ 125). As Professor Yunus explained, "Though the policy may sound as though it would benefit the poor, in reality almost 100 percent of these loans were made by government banks to land-owning, wealthier members of the population. But because most of our loans were also under 5,000 Taka, many Grameen borrowers thought that their loans had been forgiven. It was extremely difficult to explain to our borrowers why the rich people in their village were getting their loans written off, but they were not." Grameen Bank had to get on with the arduous task of convincing the borrower to repay their loans. So strong is the norm against default especially among female members, that they will borrow from informal market at a higher interest rate to keep their credit record clean with group lending.

Grameen has created the norm of group lending. The groups consist of five people and initially the loan is extended to two members and based on their repayment performance, two more members get the loan and the chairperson of the group is the last one to receive the loan. The main motive behind organizing the borrowers into groups is to use peer pressure or "social collateral" to guarantee repayment since all members are jointly liable for the loan. In addition, the group is supposed to be a support mechanism for the members in need. Members view group formation and using the group for disbursement and collection as a reflection of accountability and permanence.

The norm of group liability, regular attendance, staggered and accelerated lending appears to be replicable in most cultures with the exception of atomistic society such as the United States. Researchers have attributed the lack of success in the United States due to weak social capital of the poor and poor enforcement of loan discipline compared to Bangladesh. When the Grameen model was replicated in other countries without adherence to the strict principle of Grameen model, it failed miserably. Rehabilitation entailed returning to the essential principles of Grameen. Seibel describes the case of a Grameen replicator, ASHI, in the Philippines. When the repayment rate dropped to 58%, rehabilitation entailed returning to the essentials of Grameen model. AIM, another replicator in Malaysia had to do the same thing to improve performance. However, work by Jain suggests that joint liability is rarely enforced in Bangladesh. Imran Matin reports that joint liability is enforced mainly via staff pressure and infrequently by completely reversing the contract—members with good repayment records are rewarded instead of being penalized to counter the demonstration effect of becoming irregular.

Grameen Bank also established the norm that credit is not charity. During the flood of 1987 that affected the northern part of the country, aid organizations asked the bank to help distribute relief to flood victims. To inculcate the norm that it is not charity, the bank started a revolving disaster fund. The fund was capitalized by selling the food supplied by the aid agencies at cost with the condition that the borrowers will replenish the fund when the situation improves.

Transparency and Accountability

By holding center meetings in public, the bank has created the norm of transparency in financial transactions. In these meetings, group chairperson collects repayment from members and hands it over to the bank worker who makes the entry in the ledger book. This precludes the possibility of misappropriation of funds by the staff and bestows a sense of ownership to the members. Given the amount of money handled by the staff, the incidence of embezzlement of fund by them is quite rare. In recent years many staff have beeb attacked and physically assaulted on their way to the branch office after holding center meetings to collect funds. In many cases the staff tried to safeguard the funds at the cost of serious physical injury to them.

Currently each Grameen member owns one share of the bank. By virtue of this ownership, the borrowers own 93 percent of the shares of the bank and the borrowers elect nine out of twelve members of the Board. These nine members of the Board are elected via direct election by all the borrowers of the bank. From its inceptions the bank insisted on borrower's ownership of the bank. This form of governance where the borrowers own the bank and has their representations in making all major decisions of the bank, is an absolutely new norm of corporate governance for Bangladesh.

Recent studies have questioned whether illiterate women in the Board of Directors really make any difference at all. It has been suggested that the presence of such women in the Board is another manifestation of dominant patriarchal norms; these women are persuaded to accept decisions made by dominant males. Not many banks in Bangladesh-- indeed even banks in the USA-- can claim to have 9 out of 12 women as board members. Granted these women may not understand the intricacies of modern finance, but they are smart and savvy enough to understand the ramifications of policy changes at the field level. Putting women on the board will not change the country's historical norm of male domination overnight, but it is a symbolic change and a very good beginning at that. In fact, one could argue that electing female borrowers to the Board is more than symbolic, since they led the way on changing how the group fund works, not to mention many other important policy changes.

A Social Mandate

Sixteen Decisions of the borrowers reflecting their social development needs have established an important set of norms. In a national workshop in 1980 the first four of these decisions were

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the credit becomes a joint family enterprise. Grameen Bank is aware of this and is devising a new product that can take advantage of pooling of resources in the family enterprise such as a larger leasing loan, and a medium term loan for family members. One of the preconditions for these loans is that the family must have an additional source of income. Grameen's female members are unable to use larger loans because of societal restriction on women's mobility. In such cases the borrowers are taking the help of the male members of the family to expand their businesses. The male members can bank on the network of the members to upscale their operation. Critics argue that men utilizing women's loans thwart the effort to empower women. Critics, however, are failing to recognize that credit given to women is used as an input in the household enterprise. Recent advances in bargaining theory suggest that women who bring financial resource to the households can improve their bargaining position.

In rural Bangladesh the poor trust each other within a "narrow radius of trust"—friend, family and *gusti* (kinship group). This is because trust in this case is enforceable by the threat of retaliation. Membership in Grameen bank enhanced the "radius of trust" as it allowed people who are not related to one another to co-operate to achieve a common goal—access to credit in the current period and the future.

Conclusion

It is true that creation of social capital was not the prime goal of Grameen Bank. However, in the process of providing credit to mostly poor women, the bank realized that such transaction has to be embedded in the social context. In other words, to ensure that credit delivery ultimately leads to qualitative changes in the lives of the members, the bank had to create and cultivate social capital. Deliberate effort by Grameen Bank to create trust, norms and networks, has fundamentally changed the lives of the members. However, the bank is showing sign of "growing pains." Because of the pressure to attain sustainability, the workload of the staff has increased enormously. The staff can barely keep up with collecting the loan instalment and negotiating problems that arise from missed payments by a few borrowers. They have less time to explain the policies and procedures and to provide social intermediation, i.e. giving advice on loan use, etc.

Traditional measures of the benefits of microfinance have looked at mostly economic and some non-economic aspects. Very few studies have discussed or tried to measure the extent of social capital created by a MFI. Since social capital is a public good--non-excludable and non-rivalrous--the market will underprovide such good. Micro-finance is a means to correct market failure in the credit market. This paper shows that micro-finance corrects another type of market failure—under provision of a public good. In case of Grameen Bank, the public good provided is a "global public good", since the model is being used all over the world. The social capital building aspects of a MFI need to be taken into account in the whole debate about the need for subsidy.

GRAMEEN BANK UPDATE : AUGUST, 2001

Here are the latest figures from Grameen Bank :

Item	Nos.	Item	Million (Taka)	Million (US$)
Number of branches	1,170	Cumulative amount disbursed	149,515.14	3,455.91
Number of villages	40,366	Amount disbursed during this month	1,056.82	18.54
Number of centres	68,507	Cumulative amount of housing loans disbursed	7,556.54	187.68
Number of members	2,383,321	Housing loans disbursed during this month	1.38	0.02
Female Male	2,261,389 121,932	Cumulative amount of savings in Group Fund	11,833.68	270.77
Cumulative number of houses built with GB housing loans	543,958	Balance of total savings (excluding Group Fund)	3,256.54	57.13

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Composed by Grameen Communications

Printed by : Packages Corporation Ltd., 4/C Shola Shahar I/A, Chittagong, Bangladesh