

I did not know anything about how to run a bank for the poor, so I had to learn from scratch. In January 1977, when Grameen started, I studied how others ran their loan operations and I learned from their mistakes. Conventional banks and credit cooperatives usually demand lump sum payments. Parting with a large amount of cash at the end of a loan period is often psychologically trying for borrowers. They try to delay the repayment as long as they can and in the process they make the loan grow bigger and bigger. In the end, they decide not to pay back the loan at all. Such long-term lump sum payments also prompt both borrowers and lenders to ignore difficulties that come up early on; rather than tackle problems as they appear, they hope that the problems will go away by the time the loan is due.

In structuring our credit program, I decided to do exactly the opposite of traditional banks. To overcome the psychological barrier of parting with large sums, I decided to institute a daily payment program. I made the loan payments so small that borrowers would barely miss the money. And for ease in accounting, I decided to ask that the loans be paid back fully in one year. Thus, a 365 taka loan could be paid at the rate of 1 taka a day over the course of one year.

To most of those who will read this book, a taka a day may seem like a laughable sum, but it does produce steady incremental gains. The power of the daily taka reminds me of the clever prisoner who was condemned to death. Brought before the king on his execution day, the prisoner was granted one last wish. He pointed to the chessboard at the right of the king's throne and said, "I wish only for a single grain of rice on one square of the chessboard and that that grain be doubled for each succeeding square."

"Granted," said the king, who could not fathom the power of geometrical progression. Soon the prisoner reigned over the entire kingdom.

Slowly my colleagues and I developed our own delivery-recovery mechanism and, of course, we made many mistakes along the way. We adapted our ideas and changed our procedures as we grew. For example, when we discovered that support groups were crucial to the success of our operations, we required that each applicant join a group of like-minded people living in similar economic and social conditions. Convinced that solidarity would be stronger if the groups came into being by themselves, we refrained from managing them, but we did create incentives that encouraged the borrowers to help one another succeed in their businesses. Group membership not only creates support and protection but also smoothes out the erratic behavior patterns of individual members, making each borrower more reliable in the process. Subtle and at times not-so-subtle peer pressure keeps each group member in line with the broader objectives of the credit program. A sense of intergroup and intragroup competition also encourages each member to be an achiever. Shifting the task of initial supervision to the group not only reduces the work

of the bank but also increases the self-reliance of the individual borrowers. Because the group approves the loan request of each member, the group assumes moral responsibility for the loan. If any member of the group gets into trouble, the group usually comes forward to help.

In Jobra, we discovered that it is not always easy for borrowers to organize themselves into groups. A prospective borrower first has to take the initiative and explain how the bank works to a second person. This can be particularly difficult for a village woman. She often has a difficult time convincing her friends—who are likely to be terrified, skeptical, or forbidden by their husbands to deal with money—but eventually a second person, impressed by what Grameen has done for another household, will take the leap of joining the group. Then the two will go out and seek out a third member, then a fourth, and a fifth. Once the group of five is formed, we extend loans to two members of the group. If these two repay regularly for the next six weeks, two more members may request loans. The chairperson of the group is normally the last borrower of the five. But often, just when the group is ready, one of the five members changes her mind, saying, "No, my husband won't agree. He doesn't want me to join the bank." So the group falls back to four, or three, or sometimes back to one. And that one has to start all over again.

It can take anywhere from a few days to several months for a group to be recognized or certified by Grameen Bank. To gain recognition, all the members of a group of five prospective borrowers have to present themselves to the bank, undergo at least seven days of training on our policies, and demonstrate their understanding of those policies in an oral examination administered by a senior bank official. Each of the members must be individually tested. The night before her test, a borrower often gets so nervous that she lights a candle in a saint's shrine and prays to Allah for help. She knows that if she fails she will let down not only her

self but also the others in her group. Though she has studied, she worries that she will not be able to answer the questions about the duties and responsibilities of a Grameen Bank member. What if she forgets? The bank worker will send the group away, telling all the members to study some more, and the others in the group will chastise her, saying, "For God's sake, even this you can't do right! You have ruined not only yourself but us as well."

Some critics argue that our rural clients are too submissive and that we can intimidate them into joining Grameen. Perhaps this is why we make our initiation process so challenging. The pressure provided by the group and the exam helps ensure that only those who are truly needy and serious about joining Grameen will actually become members. Those who are better off usually do not find it worthwhile. And even if they do, they will fail our means test and be forced to leave the group anyway. We want only courageous, ambitious pioneers in our micro-credit program. Those are the ones who will succeed.

Once all members pass the exam, the day finally comes when one of them asks for a first loan, usually about twenty-five dollars, in the eighties. How does she feel? Terrified. She cannot sleep at night. She struggles with the fear of failure, the fear of the unknown. The morning she is to receive her loan, she almost quits. Twenty-five dollars is simply too much responsibility for her. How will she ever be able to repay it? No woman in her extended family has ever had so much money. Her friends come around to reassure her, saying, "Look, we all have to go through it. We will support you. We are here for just that. Don't be scared. We will all be with you."

When she finally receives the twenty-five dollars, she is trembling. The money burns her fingers. Tears roll down her face. She has never seen so much money in her life. She never imagined it in her hands. She carries the bills as she would a delicate bird or a rabbit, until someone advises her to put the money away in a safe place lest it be stolen.

This is the beginning for almost every Grameen borrower. All her life she has been told that she is no good, that she brings only misery to her family, and that they cannot afford to pay her dowry. Many times she hears her mother or her father tell her she should have been killed at birth, aborted, or starved. To her family she has been nothing but another mouth to feed, another dowry to pay. But today, for the first time in her life, an institution has trusted her with a great sum of money. She promises that she will never let down the institution or herself. She will struggle to make sure that every penny is paid back.

Early on, we encouraged our borrowers to build up savings that they could fall back on in hard times or use for additional income-generating opportunities. We required all borrowers to deposit 5 percent of each loan in a group fund. They understood this tactic as being similar to the Bengali custom of *mushti chal* ("handful of rice"), where a housewife puts away small amounts of rice every day to slowly build up a substantial reserve. Any borrower can take an interest-free loan from the group fund,* provided that all the other members of the group approve of the amount and its usage and that the loan does not exceed half of the fund's total. In thousands of cases each year, loans made to our members from their group funds stave off seasonal malnutrition, pay for medical treatments, purchase school supplies, recapitalize businesses affected by natural disasters, and finance modest but dignified family burials. As of 1998, the total amount in all the group funds exceeded \$100 million—more than the net worth of all but a handful of Bangladeshi companies.

If an individual is unable or unwilling to pay back her loan, her group may become ineligible for larger loans in subsequent years until the repayment problem is brought under control. This cre-

*Under Grameen II, group fund has been replaced by individual savings.

ates a powerful incentive for borrowers to help each other solve problems and—even more important—to *prevent* problems. Groups can also request help from other groups in their “center,” a federation of up to eight groups in a village that meets weekly with a bank worker at a predetermined place and time. A center chief, a group chairperson who is elected by all members to manage the center’s affairs, helps solve any problems that a group is unable to handle on its own and works closely with the bank worker assigned to the center. The chief also plays an active role in screening loan requests. When a member makes a formal loan request during a meeting, the bank worker will normally ask the group chairperson and the center chief whether they support the loan proposal—both the amount and its purpose.

From the very beginning, we decided that all business conducted during center meetings should be done out in the open. This reduced the danger of corruption, mismanagement, and misunderstandings and it kept the leaders and the bank workers directly accountable to the borrowers. Often borrowers would invite their children to join the meetings before school, so that these young ones could read them the notations in their pass-books and make sure that everything was being done correctly.

I still find it exciting to travel out to Grameen villages and meet with centers. With each passing year the borrowers assume more responsibilities for the management of their own affairs. They come up with more innovative approaches to preventing and solving problems and find new ways to ensure that each member rises above the poverty line as quickly as possible. I always return from the villages more convinced that providing credit is a powerful means to create profound change in people’s lives. It has been that way since I started visiting centers in 1977 and continues to this day. When I visit center meetings, not only in Bangladesh but all over the world, in countries as diverse as Malaysia, the Philippines, South Africa, and the United States, I realize how resilient and creative human beings can be when given the chance.

One example of resilience is Mufia Khatoon, a Grameen borrower from Mirsharai District, north of Chittagong. Mufia joined Grameen in late 1979. Her life had been filled with sorrow until that point. In 1963, at the age of thirteen, she was married by her father, a kind-hearted farmer and fisherman, to a man named Jamiruddin of Dom Khali village in Mirsharai. During her husband’s long absences at sea on a fishing boat, Mufia’s mother-in-law verbally abused her and made sure she received little if any food even after doing all the cooking. Mufia lived a half-starved existence for years. When her husband returned home, he often beat Mufia. Occasionally her father, who lived a few miles away, tried to protect her, but his efforts made no lasting impact on how she was treated.

Mufia became pregnant three times during these years, but one child died shortly after birth, and she was unable to carry the other two to term. Suffering from malnutrition and anemia, she finally gave birth to a son who survived, but it left her in a precarious state of health. Somehow she recovered, but the beatings and the life of semistarvation continued.

In 1974, a village leader intervened and arranged for a divorce. Mufia was then free from her husband’s beatings, but starvation followed her into her new life. She began begging. She begged in the rich neighborhoods of Khaiachara and Mithachara villages. An entire day’s begging would yield a few ounces of rice, hardly enough for her and her three children (after her son, she had two daughters, and she also looked after a nephew who was an orphan). One day she was begging from a woman who had a home-based business making baskets, mats, and other items from bamboo. She asked Mufia if she would want to borrow fifteen taka from her to buy some bamboo and sell it in the market. Mufia agreed, made a ten taka profit, and repaid the loan. With the ten taka, she bought some food for her family. This was repeated a few times over the next few years, but after a while the woman stopped giving Mufia loans and she was forced to become a full-time beggar again.

Mufia starved through the famine of 1974 and her makeshift house was destroyed in a storm in 1978. But in 1979, she joined the Grameen Bank and borrowed 500 taka to restart her bamboo business. When she paid back her first loan, she felt like a new person. Her second loan, received on December 25, 1980, was for 1,500 taka. Although she sometimes missed installments during the lean season when demand for bamboo products was low, she always caught up when the economy improved after the rice harvest.

During her first eighteen months as a Grameen Bank member, Mufia was able to buy 330 taka worth of clothing for herself and her children and cookware for 105 taka. These were luxuries that she had not had since she was divorced from her husband fifteen years earlier. She and her children were also eating more regularly and more nutritious food. Meat was never an option, but vegetables were more common, and occasionally she bought dried fish in the market as a treat.

Mufia is one of thousands of former beggars who are now living a dignified life because they were able to access loans from Grameen Bank. To help inexperienced borrowers like Mufia, we have always tried to simplify our lending operations. Today we have distilled our repayment mechanism to the following formula:

- Loans last one year.
- Installments are paid weekly.
- Repayment starts one week after the loan.
- The interest rate is 20 percent.
- Repayment amounts to 2 percent of the loan amount per week for fifty weeks.

- Interest payments amount to 2 taka per week for every 1,000 taka of the loan amount.

As for the repayment mechanism, I decided that we should keep it as simple as possible. I felt that the transaction should be local, and so in Jobra village I went to visit the *pan* (betel leaf) seller in his tiny stall in the middle of the village. A small man with a toothy grin and unshaven face, he kept his shop open day and night, and he knew just about everyone in the village. Certainly everyone knew him. When I suggested that he be the collection point for Jobra, he was enthusiastic. He did not ask for any fee. We told the borrowers that every day as they cross the road or go about their ordinary business, they should simply give their daily installment to the *pan* seller.

This proved to be a short-lived experiment. Borrowers claimed they had paid their daily installment, and the *pan* seller said they had not.

"Don't you remember?" a borrower would say. "I came at mid-day. I bought some *pan* from you. I gave you five taka, and when you gave me my change I told you keep my installment of loan repayment. Don't you remember?"

"No, you didn't give me five taka."

"Yes, I did. I remember it very well."

"No, you paid me with a bill and I gave you back full change."

Arguments were unending. I knew we had to simplify the procedure. So I bought a notebook, and on the left I wrote each borrower's name. In the center I made three columns showing amounts paid per installment and the date:

Name of Borrower	Installment Amount	Date
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I made the sheet simple so that the *pan* seller needed only to make a check mark each time a borrower paid him. But after a few days even this system broke down. The borrowers claimed that the

pan seller had forgotten to check them off. Something had to be done about my accounting system. But what? As an experiment, I abandoned the daily repayment system and moved to the next best thing, a weekly repayment system. Today, some twenty years later, our loans are still paid in the same way, week by week, though now they are made to our frontline bank workers who meet weekly with borrowers in their villages.

Our repayment rate has remained high all along. Generally, it is our success in getting high repayment while serving very poor people in disaster-prone areas that surprises people the most about Grameen's success. People sometimes assume that faithful repayment of loans must be part of Bangladeshi "culture." But nothing could be further from the truth. In Bangladesh, the wealthiest borrowers make it a habit not to pay back their loans. I am amazed by the mockery that goes on in the name of banking. Public deposits go through the banking system, through the government banks, through private banks, to people who will never pay back the money.

If Grameen was to work, we knew we had to trust our clients. From day one, we knew that there would be no room for policing in our system. We never used courts to settle our repayments. We did not involve lawyers or any outsiders. Today, commercial banks assume that every borrower is going to run away with their money, so they tie their clients up in legal knots. Lawyers pore over their precious documents, making certain that no borrower will escape the reach of the bank. In contrast, Grameen assumes that every borrower is honest. There are no legal instruments between the lenders and the borrowers. We were convinced that the bank should be built on human trust, not on meaningless paper contracts. Grameen would succeed or fail depending on the strength of our personal relationships. We may be accused of being naive, but our experience with bad debt is less than 1 percent. And even when borrowers do default on a loan, we do not assume that they

are malevolent. Instead, we assume that personal circumstances have prevented them from repaying the money. Bad loans present a constant reminder of the need to do more to help our clients succeed.

While we struggled to develop an effective and reliable credit delivery and recovery mechanism during our pilot phase, we also worked on making sure that women benefited from the program. We set a goal of having half of our borrowers be women. This took us more than six years to achieve. In trying to attract woman borrowers, we fought against the normal practices of Bangladeshi banks, which effectively exclude women. To say that our financial institutions are gender-biased is an understatement. When I point out the gender bias of banks, my banker friends grow irritated with me. "Don't you see our ladies' branches all over town?" they argue. "They are designed to serve women only."

"Yes," I answer, "I see them, and I also see the idea behind them. You want to get women's deposits. That is why you make ladies' branches. But what happens when one of the ladies wants to borrow money from you?"

In Bangladesh, if a woman, even a rich woman, wants to borrow money from a bank, the manager will ask her, 'Did you discuss this with your husband?' And if she answers, 'Yes,' the manager will say, 'Is he supportive of your proposal?' If the answer is still, 'Yes,' he will say, 'Would you please bring your husband along so that we can discuss it with him?' But no manager would ever ask a prospective male borrower whether he has discussed the idea of a loan with his wife or whether he would bring his wife along to discuss the proposal. It is not by chance that women constituted less than 1 percent of all the borrowers in Bangladesh prior to Grameen. The banking system was created for men.

It was my anger about this situation that initially prompted me to commit to having at least 50 percent of our experimental project loans granted to women. But we soon discovered new socio-

economic reasons to focus on women. The more money we lent to poor women, the more I realized that credit given to a woman brings about change faster than when given to a man.

In Bangladesh, hunger and poverty are more women's issues than men's. Women experience hunger and poverty more intensely than men. If one of the family members has to starve, it is an unwritten law that it will be the mother. The mother will also suffer the traumatic experience of not being able to breast-feed her infant during the times of famine and scarcity. Poor women in Bangladesh have the most insecure social standing. A husband can throw his wife out any time he wishes. He can divorce her merely by repeating, "I divorce thee," three times. And if he does, she will be disgraced and unwanted in her parents' house. Despite these adversities, it is evident that destitute women adapt quicker and better to the self-help process than men. Though they cannot read or write and have rarely been allowed to step out of their homes alone, poor women see further and are willing to work harder to lift themselves and their families out of poverty. They pay more attention, prepare their children to live better lives, and are more consistent in their performance than men. When a destitute mother starts earning an income, her dreams of success invariably center around her children. A woman's second priority is the household. She wants to buy utensils, build a stronger roof, or find a bed for herself and her family. A man has an entirely different set of priorities. When a destitute father earns extra income, he focuses more attention on himself. Thus money entering a household through a woman brings more benefits to the family as a whole.

If the goals of economic development include improving the general standard of living, reducing poverty, creating dignified employment opportunities, and reducing inequality, then it is natural to work through women. Not only do women constitute the majority of the poor, the underemployed, and the economically

and socially disadvantaged, but they more readily and successfully improve the welfare of both children and men. Studies comparing how male borrowers use their loans versus female borrowers, consistently show this to be the case.

It was not easy to focus our efforts almost exclusively on lending to women. The first and most formidable opposition came from the husbands who generally wanted the loans for themselves. The religious leaders were very suspicious of us. And the moneylenders saw us as a direct threat to their authority in the village. These objections I had expected, but what surprised me was to hear educated civil servants and professionals arguing against us. They contended that it made no sense to lend money to women while so many men were jobless and without income. Or they argued that women would only pass the loans on to their husbands and would wind up even more exploited than they were before. One official of our central bank even wrote me a menacing letter demanding that I "explain fully and immediately why a high percentage of your borrowers are women." Curiously, my reply asking whether the central bank had ever asked the other banks in the country why they have such a high percentage of male borrowers went unanswered.

In the beginning, we were unsure how to attract women borrowers. Bengali women rarely, if ever, borrow money from banks. I could have put up a billboard saying:

ATTENTION ALL WOMEN:
WELCOME TO OUR BANK
FOR A SPECIAL LOAN PROGRAM
FOR WOMEN

This billboard might have received media coverage or free publicity but would never have attracted women borrowers. First, 85 percent of poor women in rural Bangladesh cannot read, and second, they are rarely free to come out of their houses without their husbands. We had to devise a whole series of tricks and techniques

to recruit women borrowers. At first, because of the rules of *purdah*, those of us who were men never dared enter a woman's house in the village. *Purdah* refers to a range of practices that uphold the Koranic injunction to guard women's modesty and purity. In its most conservative interpretation, *purdah* forbids women to leave their homes or to be seen by any men except their closest male relatives.

In rural villages like Jobra, *purdah* is colored by beliefs in spirits that predate Islam. Such beliefs are usually perpetuated by the village pseudo-mullahs who teach religious primary schools, or *mah-tabs*, and interpret Islam for the villagers. Though these men are looked on as religious authorities by the illiterate villagers, many of them have a low degree of Islamic education and do not always base their teachings on the Quran.

Even where *purdah* is not strictly observed, custom, family, tradition, and decorum combine to keep relations between women and men in rural Bangladesh extremely formal. So when I would go to meet with village women, I never asked for a chair or any of the bowing and scraping that usually accompanies figures of authority. Instead, I would try to chat as informally as possible. I would say funny things to break the ice or compliment a mother on her children. I also warned my students and coworkers against wearing expensive dress or fancy saris.

Instead of asking to enter a woman's house, I would stand in a clearing between several houses, so everyone could see me and observe my behavior. Then I would wait while one of my female students entered the appointed house and introduced me. This go-between would then bring me any questions the women might have. I would answer their questions, and back into the house the student would go. Sometimes she would shuttle back and forth for over an hour and still I was not able to convince these hidden women to seek a loan from Grameen.

But I would come back the next day. And again the go-between would shuttle back and forth between the village women and me.

We wasted a lot of time with the student having to repeat everything I said and all the questions of the village women. Often our go-between could not catch all my ideas or the women's questions would get jumbled. Sometimes the husbands would get irritated with me. I suppose the fact that I was a respected head of a university department reassured them somewhat, but always they demanded that our loans be given to them, not to their wives.

One day, as I sat in a clearing between the houses of a village, it clouded over and started to rain. As this was during the monsoon season, the rain turned into a heavy downpour. The women in the house sent an umbrella out so I could cover myself. I was relatively dry, but the poor go-between got rained on every time she shuttled back and forth between me and the house. As the rain increased one of the elder women in the house, said, "Let the professor take shelter next door. There is no one there. That way the girl won't get wet."

The house was a typical rural Bengali hut—a tiny room with a dirt floor and no electricity, chair, or table. I sat alone on the bed in the dark and waited. Wonderful smells of simmering *atap* rice seeped into the hut from next door. A bamboo wall and cabinets divided this house from the neighboring one, and every time my go-between talked to the women in the adjoining house, I could hear some of the things they said, but their voices were muffled. And every time the go-between would return to tell me what they had said, the women next door would crowd against the bamboo divide to hear my answers. It was far from an ideal way of communicating, but it was certainly better than standing outside in the rain.

After twenty minutes of this—hearing each other's voices, but talking indirectly through a go-between—the women on the other side of the wall started bypassing my assistant and shouting questions or comments directly at me in their Chittagonian dialect. As my eyes grew accustomed to the darkness, I could make out hu-

man shapes staring at me through the cracks in the partition. Many of their questions were similar to the ones the men asked us: "Why must we form a group?" "Why not an individual loan to me right now?"

There were about twenty-five women peeking at me through the cracks in the bamboo when suddenly the pressure on the partition grew too great and part of it collapsed. Before they knew what had happened, the women were sitting in the room listening and talking directly to me. Some hid their faces behind a veil. Others giggled and were too shy to look at me directly. But we had no more need of someone to repeat our words. That was the first time I spoke with a group of Jobra women indoors.

"Your words frighten us, sir," one woman said hiding her face with the end of her sari.

"Money is something that only my husband handles," said another, turning her back to me so I could not look at her directly.

"Give the loan to my husband. He handles the money. I've never touched any and I don't want to," said a third.

"I wouldn't know what to do with money," said a woman who sat closest to me but averted her eyes.

"No, no, not me. We have no use for money," said an elderly woman. "We have all had enough trouble with dowry payments and we don't want another fight with our husbands. Professor, we just don't want to get into more trouble."

It was easy to see the crushing effects of poverty and abuse in these faces. As they had no power over anyone else, their husbands would vent their frustrations on these women by beating them. In many ways, the women were treated like animals. I knew that marital violence was a terrible problem and understood why none of these women wanted to get involved in an area reserved traditionally for men—the control of cash.

Still, I tried my best to encourage them not to be afraid. "Why not borrow? It would help you to start earning money."

"No, no, no, we cannot take your money."

"Why not? If you invest it, you can earn money and use the profits to feed your children and send them to school."

"No, when my mother died, the last advice she gave me was never to borrow from anybody. So I can't borrow."

"Yes, your mother was a wise woman, she gave you the right advice. But if she were alive today she would advise you to join Grameen. When she was alive, there was no Grameen project. She didn't know anything about this experiment. Back then, there was only one source she could borrow from, the moneylender, and she was advising you rightly not to go to him because he charges 10 percent interest per month or more. But if your mother had known about us, she would definitely have recommended that you join us and make a decent living for yourself."

I had heard their arguments so many times that I had ready answers, but it was difficult to persuade these frightened creatures. They had never interacted with any institution in their lives. Everything that I offered them was strange and threatening. Progress was slow that day. Very slow. As it was slow on many that followed. My students and I tramped around the village all through the monsoon and through the month of Ashar, when people eat lush leafy greens such as *katmi*, *puishak*, or *kachhu shak*, a sort of long asparagus which acquires a delicate flavor and texture when boiled. My favorite smell came from the delicious *kachhu shak* as it simmered with bay leaves, ground cumin, and turmeric in the village.

Very early on in the process of trying to convince women to become Grameen Bank borrowers, we realized that having female bank workers made the job a great deal easier. The process of breaking down fear was always my greatest challenge and it was made easier by the careful work and gentle voices of my female workers. Still, results were slow in coming. At the end of every day, I would debrief my students. Often women workers would come with the names of potential borrowers jotted down on the back of