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**Is Participatory Governance
of relevance to
Corporate Governance?**

A thesis presented in partial fulfilment of the requirements for
the degree of
Master of Philosophy
in
Development Studies
at
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New Zealand.

Kim Penny

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Abstract

The Grameen Bank, offering neighbourhood-banking services to over five million of the world's most neglected and poor human beings, is perhaps the world's most successful academic-action research project. Now with over five million members, monthly loan dispersal of nearly US\$50 million, and constituting over 1% of the Bangladesh GDP, the Grameen Bank started with \$25 from Economics Professor Muhammad Yunus' own pocket.

There is now no shortage of literature on governments, industries, corporations, organisations and individuals grappling with what governance is and what it means on a day-to-day basis. As the corporate world comes to terms with stakeholder and shareholder involvement in a manner that sometimes appears to be largely rhetorical, in an apparent parallel universe, the discourse of participatory governance is becoming increasingly important for those working in the field of bilateral aid and Non-Government Development Organisations (NGOs). Despite the lack of engagement between those working in these two fields, there appears to be a degree of overlap between these two discourses. It is this possible overlap that underpins the concerns of this thesis. The thesis thus addresses the question: Are there lessons from participatory governance of relevance to the corporate world? If so, what are they?

By researching the structure and workings of the governance of the Grameen Bank, it was found that a corporation can prosper using participatory governance, a governance style given the name of participatory corporate governance. This model can assist to create an institutional duality that balances social purpose with the need for positive financial outcomes. Further findings show that despite the lack of engagement between the discourses of participatory and corporate governance there does appear to be an overlap in the 'best practice' requirements of each.

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Heading to crèche, Dhaka style. April 2005.
The author with daughter Zanoor, and rickshaw puller Mr Ali.

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PART 1 – INTRODUCTION

CHAPTER 1 – INTRODUCTION

1.1 – INTRODUCTION AND RESEARCH QUESTIONS

The Grameen Bank, offering neighbourhood-banking services to over five and a half million of the world's most neglected and poor human beings, is perhaps the world's most successful academic-action research project. Now with monthly loan dispersal of nearly US\$70 million, and constituting over 1% of the Bangladesh GDP, the Grameen Bank started with \$25 from Economics Professor Muhammad Yunus' own pocket.

There is now no shortage of literature on governments, industries, corporations, organisations and individuals grappling with what governance is and what it means on a day-to-day basis. As the corporate world comes to terms with stakeholder and shareholder involvement in a manner that sometimes appears to be largely rhetorical, in an apparent parallel universe, the discourse of participatory governance is becoming increasingly important for those working in the field of bilateral aid and Non-Government Development Organisations (NGOs). Despite the lack of engagement between those working in these two fields, there appears to be a degree of overlap between these two discourses. It is this possible overlap that underpins the concerns of this thesis. The thesis thus addresses the question: Are there lessons from participatory governance of relevance to the corporate world? If so, what are they?

In July 2003 I commenced postgraduate studies in the Development Studies Programme and Management Studies. By the end of that year it became apparent that governance was an important area in both subjects, one that had until relatively recently been somewhat overlooked. This area was of particular interest to me as my last project as a manager at the Maritime Safety Authority, before moving into postgraduate studies, had been leading the overhaul of the governance of New

Zealand Search and Rescue. Through this I was acutely aware of the importance of effective governance, and how easy it was for governance to be overlooked.

Reading Muhammad Yunus' autobiography, *Banker to the Poor*, I was captivated by a few paragraphs describing that the Grameen Bank's Board of Directors consisted mostly of illiterate members (Yunus, 1999:178). How could this work I wondered? Did it work? Was it mere tokenism? Such a combination of development and corporate governance seemed exciting and unique. "I want to know more" I thought, but was frustratingly unable to find anything. In 2004 I wrote to Grameen Bank founder and Managing Director Muhammad Yunus in Bangladesh asking if there was research into their governance available, and if not, could I undertake it. The response was an invitation to visit the bank to undertake the work.

The Grameen Bank is a pioneer in the area of microcredit: the provision of small loans, often in the region of only a few dollars, to very poor people. Usually these people are women. In order to join the Grameen Bank members had to be landless and assetless and now over 55% of members have moved out of poverty with their families. Supported by the success of the Grameen Bank microcredit has become a major focus for people and agencies throughout the world working to eliminate poverty (Speth in Holcombe, 1995: Foreword), so much so that the United Nations has made 2005 the year of microcredit.

With an offer to visit to research the bank on hand, I began to narrow my areas of interest. It seemed important to fully understand the governance of Grameen and ensure it was truly participatory. Further it seemed that if the structure was participatory it should reflect the wider society around it, yet the bank prided itself on its openness and transparency, while operating in a country at the top of the 'most corrupt' index (Transparency International, 2005: 5). Finally there was a need to understand the organisation's corporate governance to understand if the 'best practice' expectations of participatory and corporate governance were in conflict in any way. So in order to understand the effect and relevance of participatory governance to a large corporation, my research questions became –

Research Question 1: Is the governance of the Grameen Bank participatory?

Research Question 2: How does the Grameen Bank compare to corporate governance 'best practice'? Does there appear to be any conflict between 'best practice' participatory and corporate governance?

To find the answers I took up the research offer in 2005 and commenced my analysis of the Grameen Bank through the dual lenses¹ of corporate and participatory governance. My methodology is discussed soon in section 1.3 but for now attention is turned to overviewing the thesis and the answers to these research questions.

¹ A 'lens' can be considered a specific way of viewing an issue, as a physical item may be viewed under different colour glass, or magnified, or viewed from a distance. The Grameen Bank, for example, has already been considered from numerous perspectives including the view of cost effectiveness of capital inputs (e.g. Khandker, 1998), strategies for choosing branch locations (e.g. Fruttero and Gauri, 2005), and from the lens of 'management for empowerment' (Holcombe, 1995).

1.2 – THESIS OVERVIEW

An underlying philosophy to the Grameen Bank (the bank) is that individuals matter. With now over five million members, there are over five million stories of lives changed, destitution replaced by hope and new possibilities. Some of these stories are woven into this thesis, because it is the individual stories that created this organisation, and continue to power it. In the words of 21-year Grameen borrower and former board member Monwara Begum. “I had nothing 21 years back. I used to be a maid but now people work for me. I pay them. These are my achievements” (Begum, M, 2005: Interview).

Part 2 discusses both the theoretical and historical background needed to be able to analyse the governance of the present day Grameen Bank. **Chapter 2** discusses the meaning of the word ‘governance’ showing that in simple terms it is the system, and the action of setting the purpose and means of the organisation, and taking accountability for ensuring they are achieved. The chapter also looks into the different governance discourses of relevance to this study, specifically development governance (encompassing participatory governance) and corporate governance and creates frameworks to be used when considering the bank’s participatory and corporate governance.

The first day I visited the Grameen Bank General Manager Mrs Nurjahan Begum said to me, that to understand the governance of the Grameen Bank, you had first to understand the Grameen Bank (Begum, N, 2005: Personal Conversation). The Grameen Bank is not a stand-alone entity, discrete in time, location and personality. It has grown out of the spiritually rich tradition of the Indian subcontinent and been nurtured by the rhetoric of the Bangla peoples’ freedom struggles. **Chapter 3** is taken up with understanding the background and the growth of the Grameen Bank; why Muhammad Yunus started it and *why* it does what it does.

Part 3 looks at the present day bank, firstly in **Chapter 4** at the extent and purpose of operations and subsequent results. As we see, although the Grameen Bank has not specified its vision, mission and values, they are “in our hearts and in our processes” (Barua, 2005: Personal Conversation 1). However, the mission and vision clearly involve assisting, and providing credit to, the poor, and alleviating or

eliminating the effects of poverty. The organisation is strongly aligned towards this mission.

Chapter 5 discusses the bank systems and structures with emphasis on its governance structure. In particular it shows that participation is embedded in the company operations and structures through numerous everyday interactions, of which the board composition is but one example.

Part 4 of the thesis turns to analysis of the research findings. **Chapter 6** discusses the research findings in two sections relating to the research questions. In summary my findings show that, regarding **Research Question 1**, while executive management has an important governance role, the governance of the bank is participatory and the organisation reflects the deeper culture around it. Chapters 3 and 4 will discuss that the strongest values of the organisation appear to be fairness, equity, opportunity, and holistic human development; outward expressions of a compassionate mission. These values can be seen in the life and work of its founder Muhammad Yunus, and can be seen throughout the bank, including in its governance. In turn these values came from the dream and the rhetoric behind Bangladeshi independence in the 1971 War of Liberation from Pakistan which was intended to raise a state based on equity, justice, social harmony and cultural effulgence (Mascarenhas, 1986: v). These values did not just appear, but developed over time in an area rich with spiritual reflection.

The membership of the poor on the board makes it a very strong policy body as the elected members “know what hurts them and what helps them” (Yunus, 2005: Personal Conversation 1). Genuine changes and innovations, such as increases in the ceiling of house and general loans and life insurance for members’ husbands, have come from elected board member suggestions at board level. Further, these elected board members are directly accountable for their actions back in their homes where they live alongside their fellow Grameen members. Not only is ‘voice’ (see discussion in chapter 2) strengthened, but ‘reception’ to voice is strengthened by the enshrinement of the board structure in legislation and the importance placed on ‘hearing’ the voices of the members. In this way strengthening of voice and reception are seen to be mutually reinforcing. Also we see that the learning attitude of the bank ensures participation not just of members, but also by staff at all levels

of the bank, from the most remote field office worker to the executives in Zonal Offices and Head Office.

In line with the theory on participatory governance, the Grameen Bank appears to have better results than other microcredit organisations in Bangladesh.

With regards to corporate governance and **Research Question 2**, I found that the Grameen Bank generally conforms to corporate governance best practice standards and principles. However 'on paper' they are unconventional in how they fulfil these standards with some governance roles fulfilled by senior executive rather than the board members. In noting this, it should also be recognised that it is NOT unconventional for large corporations to have executives as official members of the board, and governance by executives at the Grameen Bank may be just another example of the 'same thing' being presented in a different way (Pettigrew & McNulty, 1998: 250). The participatory nature of the organisation has a strong effect on its governance and appears to compliment, and probably even strengthen, its corporate governance by supporting the organisation's purpose, strengthening the corporate culture, and ultimately bringing better results.

In **Chapter 7** we return to the original research question of whether participatory governance has relevance in a corporate setting, to which the short answer is 'yes, the Grameen Bank shows that a corporation can prosper using participatory governance'. I also discuss that it is arguable that the Grameen Bank would not have prospered without such a governance style. The analysis highlights previously unexplored governance model that could usefully be considered by a range of corporate entities, especially across the broad range of government organisations and the not-for-profit sector. It also adds to our knowledge of applied governance as the first in-depth analysis of the governance of a large microcredit organisation. However, I do have a few words of caution regarding the present governance structure of the bank, suggesting that while the structure is presently sound and strong and effective, it should be reviewed to ensure it is strong enough for the bank of ten years hence when the original executive are reaching retirement, and the bank potentially is twice its present size.

I **conclude** that Participatory Corporate Governance is a natural evolution of the present day corporate governance best practice with its increased focus on

stakeholder and shareholder involvement and strategic governance. Within this I propose five principles to be considered by organisations wishing to ensure the participation of their least powerful stakeholders, and suggest a framework for participatory corporate governance.

But for now we backtrack a little to look into the background to these conclusions. Firstly we will look at the research methodology, and then in Chapter 2, at the key concept behind this thesis; governance.

1.3 – RESEARCH METHODS

After having received an invitation to visit the Grameen Bank in late 2004, on the 1st of March 2005 my two and half year old daughter and I were on our way to Bangladesh for six weeks. We found excellent accommodation at the Guest House run by the New Zealand Baptist Mission in Dhaka, an English medium crèche in the neighbouring suburb, and a genuine welcome from Grameen Bank staff of the Grameen International Program Department on the 8th floor of the Grameen Bank building. Throughout our visit Grameen Bank staff, co-ordinated by Principle Officer Fazley Rabbi, were happy to assist, showing concern for our welfare and interest in my research; an area that had not been specifically looked at before despite numerous research visitors each year.

The general purpose of my six weeks of field research was to find out how the Grameen Bank was governed, both *officially* through an analysis of procedures and processes, and by interviewing sufficient staff and board members to understand the *actual* workings of the Grameen Bank governance. I had two basic assumptions, that the performance of the Grameen Bank, while perhaps not trouble-free, could be categorised as ‘good’ as opposed to poor or bad, and that to expand as quickly as it had while remaining financially stable, I should be able to find some structures behind that performance that were also ‘good’ or ‘well performing’.

General Manager Nurjahan Begum who managed my visit and became my host on arrival at the bank asked me to supply a list of questions to her prior to my arrival. When I did arrive she had some suggestions regarding simplifying these questions, given that ‘governance’ was a complex and not widely understood concept, especially for the elected board members².

All people interviewed were given the right to refuse an interview, which none did. Further they were offered anonymity, which none requested. Arrangements for interviews were all made by my liaison staff at the Grameen Bank. It transpired that Bangladeshi’s loved dialogue so the semi-structured interview format was

² As is further discussed in Chapter 3, elected board members are elected from amongst the bank membership, meaning that they are either illiterate, or at most semi-literate. Government appointed board members are very senior civil servants.

appropriate and ensured a good response. In total 17 formal interviews took place, along with numerous conversations, a number of which I have referenced³.

Other than the Grameen Bank Ordinance (Government of Bangladesh, 1983 & 1995), I was unable to obtain any official written policies or procedures for the board. I am fairly certain after questioning various people that these do not exist and this is not just an area lost in translation.

Due to the remote locations of many of the women I wanted to interview, and the difficulty of travelling with a child, I employed a field researcher, Sheikh Mohammad Younus, who completed five of the seven interviews of elected board members. Younus' trips sometimes required a whole day of travelling for a two-hour interview. He travelled by boat, bus, car and scooter. Younus also acted as my interpreter for the two interviews of elected board members I completed, both within a day's return journey of Dhaka.

Younus had worked for visitors to the Grameen Bank on a number of occasions and was therefore very helpful in understanding the information I might need. He also knew what questions it was socially acceptable to ask. For example in Bangladesh it is common to ask questions of others that many New Zealanders would consider overly personal or rude. I had been reluctant to ask questions such as a member's age, loan size, and husband's occupation, but Younus correctly informed me that these questions were acceptable to ask, and the answers were very useful to put together a 'picture' of each member's life.

In return the women were very interested to know about my life, especially about my child and my husband and where they were. For this reason Younus took some of my photographs with him when he travelled on his own.

I had initially been uncertain about employing a male research assistant. However he was recommended by the bank staff and was available at the time I needed an assistant, and was available for the duration of my stay. On meeting Younus I believed he had a sufficient understanding of the bank and a sufficiently humble attitude that he would be appropriate for my research. Upon completing our first interview I noted that the board member and her family had seemed comfortable

³ Interviews and conversations conducted in English I have referenced as 'personal conversations', while those translated from Bangla into English I have referenced as 'interviews'.

with Younus' involvement. I further realised that staff have a high level of respect for members, bordering on reverence when the member is also a board member. This meant that no research assistant would have been recommended to me if there was a risk that they might in any way act inappropriately, and that generally female Grameen members are familiar with dealing with males through their interaction with Grameen Bank staff.

Given that governance was a new area of research for Younus, he was especially concerned to ensure he had a good understanding of the information I required.

Nurjahan Begum took an interest in my research to ensure it was proceeding as I required and ensured I had access to staff at all levels of the bank. The executive, such as Founder and Managing Director Muhammad Yunus and Deputy Managing Director Dipal Barua fitted me into their very busy schedules as soon as they were able, and I was fortunate to have two interviews with Dr Yunus, and three with Mr Dipal⁴. All interviews with head office staff were in English.

The elected board members were relatively easy to locate. Most were still members of the bank at the same centre as when they had been a board member and were able to be traced through their various branch managers. My instructions to my liaison officer were that I needed a geographical spread of members, and members who had been on the board at different time periods.

Elected board members were all very keen to participate, and keen to have their names used in the final document. A number referred to my visit or my interest in them as an honour to them. There was so much interest that I considered arranging to interview all the present and former elected board members, as it seemed a small thing to bring such pleasure into lives. However as the information came back and it appeared that the women, regardless of years of board membership and location, were saying similar things, I came to the conclusion after seven interviews that sufficient data had been obtained. The names, location and years of board membership are outlined in box 1.i, and a list of interviews is provided in Appendix IV.

⁴ Mr Dipal Barua was respectfully referred to by staff as Mr Dipal so I have chosen to follow this style in direct reference to him, while referencing him as 'Barua' in line with the Western tradition of taking the 'final' name as 'surname'.

All interviews of elected board members were in Bangla and translated into English by my research assistant. The interviews were based on a questionnaire I had prepared before travelling, and amended in discussion with Nurjahan Begum. The questions were based around a number of areas I wanted information on and were used as a guide rather than strictly adhered to, meaning that the interviews could be considered to have been semi-structured.

Box 1.i – Names, location and years of board membership of interviewed board members by year of membership.

Name	Location	Years of board membership
Monwara Begum	Patuakhali Zone - South	1991 - 1993
Nazma Begum	Dhaka Zone - Central	1994 - 1997
Bulbuli Akter	Narayangonj Zone – Central East	1997 - 2000
Srimoti Diplai Rani Borua	Dhaka Zone - Central	2000 - 2003
Mosammad Asma Begum	Rajshahi Zone – West	2000 - 2003
Rabea Khatun	Dhaka Zone – Central	2003 - 2006
Rahima Begum	Patuakhali Zone - South	2003 - 2006

Tracking down government appointed board members proved to be difficult. Reasons for this were that they were all very senior officials, and therefore had busy schedules⁵. Past government appointed board members had generally moved on from the appointments they had when on the Grameen Board, and Grameen staff were unable to track them down. One former appointed member who was able to be contacted by bank staff declined to be interviewed and I understood that that person had ‘fallen from favour’ with the government and had chosen to break all ties to their past career.

I therefore had to be satisfied with two interviews with present government appointed board members. These were the present Chairperson (since 2002) Mr Tabarak Husain, and present women’s representative Mrs Ferdous Ara Begum (also appointed in 2002). I had especially hoped to interview a past Chairperson, but this was not able to be arranged. Both these interviews were in English.

⁵ For example to interview Mrs Ferdous Ara Begum I had to wait until she had returned from New York as Bangladeshi representative at the ‘Beijing plus 10’ Conference.

I was overwhelmed with a feeling of compassion throughout the Grameen Bank and especially with those I interviewed at the executive management level. This feeling of compassion was so strong I feel unable to complete an analysis of the Grameen Bank without a brief discussion on it.

Mr Dipal is a Buddhist, the other managers I interviewed including Dr Yunus are Muslim, and the elected board members I interviewed either Hindu or Muslim. During my time hosted in the International Program Department it was usual for work to be interrupted for the Muslim staff to offer prayers, the men in an area set aside on the same floor, the women leaving for a private place.

Upon reflection I realised that compassion, described by one Buddhist writer as “the desire to relieve the pain of others as if it was your own” (Naphali, 2003:111-112), or expressed in the bible, the desire to “seek justice and encourage the oppressed” (Isaiah 1: 17), or by the Prophet Muhammad himself “to lighten the sorrow of the sorrowful⁶” (Helminski, 1999: 180) lies at the heart of all these religions. How best to express this compassion will no doubt continue to be debated for some time to come both within and between religions, and throughout society. For example a Grameen Bank principle is not to give charity, as they believe charity does not work in addressing poverty (for example Yunus, 1999: 283⁷), while some would argue that charity is a fundamental compassionate act. One Christian ‘development’ worker I met believed the best way to live the compassionate example of Christ was to make well funded efforts to convert Muslims (and not Buddhists or Hindus) to Christianity, while another preferred to support the poor within their religion believing spiritual health was more important than choice of religion, and that changing religion (to Christianity) could remove a person’s social support network.

I came to believe that the almost tangible sense of compassion expressed by the Grameen Bank is an expression of the confident spirituality of the staff and an example of an expression of some of the values of Golden Bangla, those of a society based on justice and equity and discussed in chapter 3.1. The formulation of the

⁶ The full reference is “What actions are most excellent? To gladden the heart of a human being, to feed the hungry, to help the afflicted, to lighten the sorrow of the sorrowful, and to remove the wrongs of the injured.”

⁷ “Charity is no solution to poverty. Charity only perpetuates poverty by taking the initiative away from the poor. Charity allows us to go on ahead with our own lives without worrying about those of other people” (Yunus, 1999: 283).

values of Golden Bengal presumably in turn are a reflection of local spiritual beliefs formed over the millennia of spiritually strong human settlement⁸.

⁸ The Vedic people first moved out from the Indus River area to the banks of the Ganges in around 2500-1500 BCE. At this time they already had a priestly class. The importance of cultivating compassion toward all beings entered Vedic writings by 1000-100 BCE. (Feuerstein, 1998: 84/88.) These people almost certainly were not the first modern humans to pass through the land now known as Bangladesh, and the Indian Sub-Continent remains one of the areas where least is known about movements and settlements of human populations (Penny, 2005: Personal Conversation). It is therefore not clear if the Vedic people were the first settlers to the area but this illustrates the historical depth to spiritual beliefs in the area.

1.4 – CHAPTER CONCLUSION

Chapter 1 has introduced the main themes that will continue through this paper. It has introduced the Grameen Bank, its founder Muhammad Yunus, and the present day discourse on governance within the corporate and development sectors. It has shown how the thesis' overarching question regarding the effect and relevance of participatory governance in the corporate world fits into this discourse. The chapter also overviewed how the two research questions to be pursued fit into finding an answer to this overarching query and how the thesis progresses to bring the various theoretical, historical and operational factors together into final conclusions.

In outlining the research methods and the purpose for the research used I have outlined my personal circumstances and motivation that lead me to undertake this research that links corporate and development governance. I do this to enlighten the reader as to the bias, or as Robert Chambers may say, professional prison. I am likely to unintentionally bring into my research (Chambers, 1997: 102). It has also highlighted the circumstances of my field research in Bangladesh, and attempted to convey strengths and weaknesses in the methods available.

In outlining the strong sense of compassion I encountered at the bank, I have introduced the idea of an ethics based organisation, another thread that will continue to be woven through this paper.

The following chapters begin to consider the theoretical and historical background needed to be able to analyse the governance of the present day Grameen Bank, firstly with an in-depth analysis of the concept that underpins the discussion, governance.

PART 2 BACKGROUND

CHAPTER 2 – GOVERNANCE AND DEVELOPMENT

2.1 BACKGROUND TO GOVERNANCE.

In this chapter we explore the modern concept of governance and the governance issues of relevance to the Grameen Bank, especially the background to, and the expectations and demands of, development and corporate governance.

Within the broad concept of governance there are many areas with their own body of best practice thinking and literature⁹. This thesis proposes that there are two strands of the governance discourse of relevance to the Grameen Bank, each operating within separate paradigms¹⁰: *development governance* because of the bank's social development motivation, and *corporate governance*¹¹ because of its status as a Bank, its large size, and its corporate structure. The research questions hinge on achieving a clear understanding of governance, in particular the large diversity of factors that are considered to create 'good' governance in each paradigm. After looking into corporate governance and development governance in sections 2.2 and 2.3 the conclusion to chapter 2 will compare the two paradigms and consider whether they could operate together.

Governance is a slightly intangible concept. Looking carefully at the dictionary definition in box 2.i we see that governance is defined as **government** and **authority**. These suggest a role in setting policies, as well as providing accountability for actions. Further, to govern is to **direct** and **control** actions. This suggests governance provides the overview of the organisation; without necessarily being involved in the performance of these actions. The word's root 'to steer' also provides an overview of its meaning.

⁹ For example in the fields of education, internet, and multi-lateral organisations.

¹⁰ A paradigm can be described as a set of assumptions held relatively in common and taken for granted (Johnson & Scholes, 2002: 48).

¹¹ 'Corporate' governance is perhaps a misnomer; it should more accurately be called 'institutional' or 'organisational' governance.

Box 2.i. The New Collins English Dictionary definition of 'Governance'.

govern... *vb.* **1.** to direct and control the actions, affairs, policies, functions etc., of (an organisation, nation etc.); rule... [C13: < OF, < L *gubernāre* to steer, < Gk¹²]
governance... *n.* **1.** government, control, or authority. **2.** the action, manner, or system of governing.

Source: The New Collins Concise English Dictionary (Gordon ed, 1982: 482).

For the purpose of this paper the term governance is taken to mean *the steering of an organisation; the system, and the action of, setting the purpose and means of the organisation, and taking accountability for ensuring they are achieved*, which is my own definition. Although governance is specifically not the day-to-day management of the organisation, as we will see in the operation of the Grameen Bank, the distinction between management, operations, and governance is not always clear.

Given that it is an intangible subject, the question may be asked as to why governance is important. It is possible to look at an organisation as being made up of three aspects. Firstly the **governance** aspect decides the purpose of the organisation, sets values and general priorities, and later checks to ensure that the organisation's purpose is being fulfilled as well as is possible. Secondly the **management** aspect decides how to fulfil the organisation's purpose and takes steps to make things happen on a daily basis. Thirdly the **operational** part puts the functions of the organisation in place by following the instructions of the management.

It is quite possible for an organisation to function from day-to-day with only the second and third parts. Managers continue to do what they individually believe they should be doing, in the way they think it should be done; operational staff continue to take instructions from management and the organisation is seen to be busy. However, depending on the nature of the organisation, at some point it is probable that problems will begin to appear. For example, different parts of the organisation

¹² Meaning, first used in English in the 13th Century taken from Old French; in turn taken from Latin *gubernāre* to steer; in turn taken from Greek *kubernan*.

may prioritise different areas; important jobs may 'fall through the gaps'; and management and staff from different parts of the organisation may no longer be able to communicate.

An example of a service lacking governance was New Zealand Search and Rescue which I was involved with until 2003. Prior to 2002 at least nine different search and rescue organisations had perceived or actual mandates to provide search and rescue services. However, without an effective governing body each agency had different priorities, communication methods and even definitions of what search and rescue was. The system managed to continue for many years coping with a large number of emergencies, but when put under pressure the system failed and people died unnecessarily as a result. (See for example Bowdler 2003; MSA 2001.)

Another example of governance failure, is the example often cited in the corporate world, of the large corporation Enron in the United States of America in 2001. Enron supposedly had the best of corporate governance systems; a board of directors with both internal and external high powered directors, experienced executives rewarded with share allocations, audits carried out by the large international audit firm Arthur Andersen, and official incorporation and stock exchange listing which required 'best practice' legal standards; that were reflected in a share price of up to \$82 in January 2001. In reality these structures were seriously flawed and unable to keep control of the "greed and ego" (Bryce, 2002) within the corporation and resultant mismanagement by its executives resulted in a share price crash to \$0.40 by December 2001.

In the 1980s there was a renewed interest in governance in the corporate sector and governance began to enter the rhetoric of the development world. In section 2.3 we will consider how and why this came about in the development world, and what it means to development organisations. But firstly we will discuss governance as applicable to the corporate world.

2.2 – CORPORATE GOVERNANCE.

Given the meaning of the term governance, logic tells us that corporate governance should be about *the steering of a business organisation: the system, and the action of, setting the purpose and means of the business, and taking accountability for ensuring they are achieved.* To understand the bulk of the corporate governance literature, it is necessary to see how the term has deviated from this meaning.

‘Corporate Governance’ has developed into a number of separate and related meanings. Firstly, is the misnomer ‘corporate’ which in reality is applied to a wide variety of organisations. While much of the corporate governance literature applies only to publicly owned corporations¹³ it can also mean the governance of other organisations, perhaps a government agency, a family owned business, or a co-operatively owned business. For example in its annual reporting AusAID, the bilateral Aid Agency of the Australian Government, reports on its governance under the heading “Corporate Governance” where it reports on its Governance Structures, Governance Processes, Internal Audit and Risk Management, Ethics and Values, and Executive Remuneration (AusAID, 2003: 99). Much of the research on corporate governance centres on the publicly owned corporation, so when looking at corporate governance of an organisation that is not publicly owned, the discussion cannot be assumed to be completely relevant, but it cannot be summarily dismissed either.

Secondly we need to consider the wide and narrow definitions of corporate governance revolving around the investment needs of public corporations. Broadly, in wider society –

“Investors in corporations require assurance that their contributions – financial capital, human capital, social capital – will generate a return. Corporate governance concerns the institutions that make these investments possible, from boards of directors, to legal frameworks and financial markets, to broader cultural understandings about the place of the corporation in society... More broadly, corporate governance describes the institutional matrix that channels financial flow” (Davis, 2005:143).

¹³ That is, those companies that are listed on a stock exchange.

More narrowly, in a single organisation corporate governance can be said to be “the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment” (Shleifer & Vishny, 1997: 737). In reality the lack of clarity about whether ‘corporate governance’ refers to a macro-societal system, or the structures and processes within an organisation, is only confusing rather than misleading. What is misleading is the third point: that when applied to a single organisation, ‘corporate governance’ is often used interchangeably with ‘the board of directors’ a fact which leads to a very restricted analysis of governance structures.

Given that the word governance from the dictionary means ‘*purpose, means and accountability*’, how did governance come to be defined around the supply of finance? This comes from the predominant business paradigm known as the **contractarian** approach that “views the corporation and its surrounding institutions as solutions to the problem of accountability and control created by dispersed ownership in large enterprises... [The approach] theorises a set of markets and mechanisms that orient corporate managers toward the criterion of corporate value” (Davis, 2005: 144). In other words this approach sees governance as the solution to the agency problem where control of the enterprise is in the hands of managers, while the owners expect to profit from it. The purpose of business is assumed to be financial profit and the growth of shareholder value¹⁴.

Corporate governance is undergoing a period of re-evaluation and ‘soul searching’ due to a perceived ‘crisis’ (MacAvoy & Millstein, 2004: 1). Governance reform in the 1980s was thought to be behind increased corporate efficiency and earnings and an increase in stock prices “but then came the scandals of Enron and others, the bursting of the bubble in stock prices of Internet, telecom and energy company shares”, so that “while we thought governance had reached an enviable pinnacle of excellence, at least in form, we came to realize that it had not, in substance. Substantive governance simply had not followed structural reforms” (MacAvoy & Millstein, 2004: 1).

¹⁴ The contractarian approach is still considered to be predominant despite an increase of research that attempts to look outside of this framework including social structures and politics (Davis, 2005: 149).

From the 1980s research increasingly began to look at governance for linkages between governance structures and organisational performance, and at various aspects of performance depending on specific governance issues such as board structure, CEO/board power relationship, and directors' external linkages. Although in the broad sense 'corporate governance' is as wide as the legal and cultural environment of the company, in reality much of this area of governance research is focused on the board of directors. Strong governance is thus taken to mean a strong board of directors. However despite "the 'effectiveness' of boards [being] the subject of numerous investigations by analysts and financial experts... they have not resulted in a consensus position" (MacAvoy & Millstein, 2004: 37). Pettigrew and McNulty summarise results by saying "the closer one gets to board process and dynamics, the more real becomes the generalization that all boards are different" (Pettigrew & McNulty, 1998: 250).

Further, research has found that appearing to conform to the latest model is "sufficient to impress the stock market, even in the absence of genuine conformity... These findings suggest that 'cosmetic' governance reform and appropriate rhetorical spin can be used effectively to manage the demands of investors" (Davis & Robbins, 2005:293). In other words, the contractarian paradigm has become self-perpetuating, meaning any systemic problems with the approach go unaddressed.

Within the contractarian discourse two related areas of interest show a tendency for corporate governance to begin to return to its roots of *purpose, means and accountability*: these being strategic governance and stakeholder involvement. The strategic governance discourse has grown strong and argues for, unsurprisingly, a more strategic role for governance that centres on the board of directors' role. In its 2004 guidelines the Organisation for Economic Co-operation and Development (OECD) perhaps sums up this school of thought with its summary of board responsibilities as: "the strategic¹⁵ guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders" (OECD, 2004: 24).

¹⁵ The Collins Dictionary defines 'strategy' as the art or science of planning and conduct. (Gordon ed, 1982: 1150)

Stakeholder involvement covers increased accountability of the organisation to individual and institutional shareholders as well as stakeholders in wider society, sometimes known as corporate social responsibility¹⁶. Despite a decade of discussion and board room and court room battles there has generally been little or no change to how individual shareholders interact with the companies they hold stock in, apart from a rare shareholder backed director nomination at an annual general meeting. Stakeholder involvement above a legal minimum is still generally only carried out, if at all, with powerful stakeholders. However both shareholders and stakeholders are now mentioned in corporate governance standards as we shall soon see. This area creates a point of contact between the paradigms of corporate governance and the participatory governance of the development world, although it is much expanded in the development discourse as is shown in section 2.3.

To explore how corporate governance theory can play out in practice we look now at two recently published standards, one that considers the broader concept of corporate governance in society in general, and another focused very much on the board of directors. These will form part of the framework to help us analyse the corporate governance structure of the Grameen Bank at a later date. It is important to note that despite debate surrounding ideal governance structures, what are being promulgated by standard setting organisations are generally principles and guidelines rather than strict rules.

Principles and tasks of Corporate Governance.

The OECD updated and published their *OECD Principles of Corporate Governance* in 2004. This document consists of a set of six non-binding standards that 'underpin' the corporate governance component of World Bank and International Monetary Fund (IMF) reports for OECD and non-OECD countries (OECD, 2004: 4). Therefore this standard in some way sets an international corporate governance benchmark, and is a useful standard to consider when seeking an appropriate standard to consider the Grameen Bank against.

¹⁶ That is, the way an organisation exceeds minimum legal expectations to stakeholders such as staff, contractors, and the community (Johnson & Scholes, 2002:220).

The document outlines six principles covering national legal and institutional structures as well as six specific board responsibilities. The six principles are (a) the setting up of national corporate governance frameworks, (b) ensuring the rights of shareholders and performance of key ownership functions, (c) ensuring the equitable treatment of shareholders, (d) recognising the rights of stakeholders in corporate governance, (e) ensuring timely and accurate disclosure and transparency on matters regarding the corporation, and (f) the board assuming certain responsibilities that are further outlined in box 2.ii.

While giving some guidance on how a board should operate, the specified responsibilities generally reflect the board's role in setting the ethical stance of the organisation, providing strategic guidance, monitoring management and organisational performance, providing accountability to the organisation and shareholders, and ensuring achievement of the governance principles regarding shareholder and stakeholder rights and treatment. So it can be said that this standard reflects the current trend towards strategic governance and corporate social responsibility.

To further consider the present understanding of corporate governance best practice we will consider one other standard, that of the New Zealand Securities Commission (NZSC) which in many ways is very similar to the OECD standard considered above.

Box 2.ii – The OECD’s six board responsibilities.

The OECD’s six board responsibilities.

- (a) Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interests of the company and shareholders;
- (b) The board should treat all shareholders fairly;
- (c) The board should apply high ethical standards. It should take into account the interests of stakeholders;
- (d) The board should fulfil certain key functions:
 - (i) Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures;
 - (ii) Monitoring the effectiveness of the company’s governance practices and making changes as needed;
 - (iii) Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning;
 - (iv) Aligning key executive and board remuneration with the longer term interests of the company and its shareholders;
 - (v) Ensuring a formal and transparent board nomination and election process;
 - (vi) Monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions;
 - (vii) Ensuring the integrity of the corporation’s accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with relevant standards;
 - (viii) Overseeing the process of disclosure and communications;
- (e) The board should be able to exercise independent judgement on corporate affairs;
- (f) Board members should have access to accurate, relevant and timely information.

Source: OECD, 2004: 24/25.

The NZSC published *Corporate Governance in New Zealand: Principles and Guidelines* in February 2004. From June 2003 the NZSC consulted extensively within New Zealand and this publication promulgates the resultant nine principles for corporate governance focused on the board and directors, along with guidelines to the implementation of the principles and key consultation findings. These principles are reproduced in box 2.iii.

Box 2.iii – The New Zealand Securities Commission nine principles of Corporate Governance.

The New Zealand Securities Commission nine principles of Corporate Governance.

- (1) Directors should observe and foster high ethical standards;
- (2) There should be a balance of independence, skills, knowledge, experience, and perspectives among directors so that the board works effectively;
- (3) The board should use committees where this would enhance its effectiveness in key areas while retaining board responsibility;
- (4) The board should demand integrity in financial reporting and in the timeliness and balance of disclosures on entity affairs;
- (5) The remuneration of directors and executives should be transparent, fair, and reasonable;
- (6) The board should regularly verify that the entity has appropriate processes that identify and manage potential and relevant risks;
- (7) The board should ensure the quality and independence of the external audit process;
- (8) The board should foster constructive relationships with shareholders that encourage them to engage with the entity;
- (9) The board should respect the interests of stakeholders within the context of the entity's ownership type and its fundamental purpose.

Source: Securities Commission, New Zealand, 2004: 11.

Although the NZSC standard begins to look more specifically at board structure and operations, they also can be seen to cover the same broad areas as the OECD standard: that is the setting of the ethical stance of the organisation, disclosure and transparency, and shareholder and stakeholder rights and treatment.

These standards reflect the trend towards strategic corporate governance, corporate social responsibility, and governance as oversight and evaluation. They are further discussed in chapter 6 when their use to assist in an analysis of Grameen Bank governance highlights some of their weaknesses. Avoiding prescription of structures and processes is pragmatic given the intangible nature of governance and the failure of supposed 'best practice' in the past. While many may favour the emphasis on 'good' intangibles such as fair treatment, good faith, high ethical standards, and constructive relationships, it is not hard to imagine this being ignored or given only 'lip service' to create the appearance of corporate social responsibility in consumer and finance markets that value such factors. This highlights the importance of the governance of an organisation to reflect high ethical standards, to

in turn back up other intangibles such as fairness, good faith and constructive relationships; which suggests that high ethical standards are the foundation of good corporate governance. This view is in some ways supported by the OECD Secretary-General Donald Johnston who, in introducing the 2004 OECD standard, states that professional and ethical behaviour are the basis of functioning markets (OECD, 2004: 4).

I theorise that 'real' high ethical standards at governance level should be reflected within the corporation, and evidence of high ethical standards in the corporation will likely reflect high ethical standards at governance level.

Drawing together the recommendations of the above standards, the overarching definition of governance, and the discussion on these, to analyse the corporate governance of the Grameen Bank the following will be considered –

- 1) High ethical standards. Overall, we will consider if there is evidence of high ethical standards at board level and throughout the organisation. Specifically is there –
 - a) constructive relationships with shareholders, and the ability of shareholders to engage with the entity;
 - b) respect for the interests of stakeholders;
 - c) accurate and timely disclosure on financial, performance, ownership and governance matters;
 - d) a formal and transparent board nomination and election process?
- 2) Organisational purpose. Overall, has organisational purpose been established and has organisational alignment behind this purpose been ensured? This includes the setting and communication of corporate strategy and the ability to adapt the organisation when necessary. Specifically is there –
 - a) creation and review of policies, strategies, plans, budgets and performance objectives;
 - b) alignment of the organisation behind its purpose;

- c) an ability to adapt to adverse environmental trends;
 - d) a CEO and executive selected and compensated to ensure alignment with corporate purpose?
- 3) Monitoring. Overall, a key role of corporate governance is ensuring organisational survival, a large part of which is the monitoring of performance and the ability to detect both positive and negative trends. Specifically is there –
- a) integrity in the internal financial reporting and monitoring system;
 - b) a risk management system;
 - c) a quality external audit system;
 - d) monitoring of performance objectives and an ability to detect adverse trends?
- 4) Governance structure. Overall, is there a clear structure that supports the governance roles in setting high ethical standards, setting organisational purpose and monitoring the organisation as outlined above? Specifically is there –
- a) a formal, transparent, and rigorous board nomination and election process;
 - b) formal and informal communications channels throughout the organisation;
 - c) an ability for stakeholders to influence the organisation;
 - d) board member accountability for their actions to stakeholders and shareholders;
 - e) a balance of independence, skills, knowledge, experience and perspectives amongst the directors?

Section Conclusion

This section has discussed the background to the present day corporate governance discourse to show why present day 'best practice' has arrived where it has (for

example MacAvoy & Millstein, 2004: 1). It has discussed the extensive research into corporate governance that appears to have lead to the conclusion that there is no one-best-way to 'do' governance (for example MacAvoy & Millstein, 2004: 37, Davis & Robbins, 2005: 293), but that organisational values and board member's ethics appear to be the basis of good governance (for example NZSC, 2004: 11, OECD, 2004: 24).

Two present day 'best practice' standards have been analysed and can be seen to be similar in that they provide guidelines rather than rules, and highlight a trend towards strategic governance and corporate social responsibility (NZSC, 2004; OECD, 2004). Finally the discussion has been brought together into a four point framework that can be used practically to examine an organisation's corporate governance, and will be used in chapter 6 to do so for the Grameen Bank.

For now we turn attention to development and discuss governance within the development world's paradigm.

2.3 – DEVELOPMENT ‘BEST PRACTICE’ AND PARTICIPATORY GOVERNANCE.

Development Governance is an emerging area of governance centred on the use of ‘best practice’ development practice. In particular it embraces the ideas of accountability, transparency, and openness from the governance of government discourse, and participatory and indigenous governance: all those that make up society partaking in its governance in ways that are appropriate to them: as well as the use of ‘best practice’ development tools that are discussed below. Much of the development governance discourse centres on the governance of nations, that is the governance of government or government governance as it is referred to in this thesis, so as with corporate governance, the governance discourse cannot be assumed to be relevant to development organisations such as the Grameen Bank, but also cannot be summarily dismissed.

Before we look more deeply into governance it is necessary to digress a little to look at some background as to why governance is now so important when considering development.

Development Theory and ‘best practice’

It is generally accepted that the modern day issue of development was established in the Post World War Two period, notably in early 1949 when President Truman of the United States of America “defined the largest part of the world as ‘underdeveloped areas’. The new world-view was thus announced: all the peoples of the earth were to move along the same track and aspire to only one goal – development” (Sachs, 1990: 42). From its inception what is considered by Western governments to be best development practice has changed considerably. For example, initially under the Modernisation theory massive state intervention was encouraged, but with President Reagan of the United States of America and Prime Minister Thatcher of the United Kingdom and the change to neo-liberalism the state was by-passed and reduced.

The present day development 'Good Governance Agenda' prevalent in development practice is generally considered to have emerged at the end of the 1980s. At that point, despite large amounts of finance and stringent application of 'best practice', many countries had failed to see any resultant benefits, and in fact some indices began to note a 'backward' movement. Further, the cold war was over and there was an "increasing worldwide interest in democracy and democratisation" (Woods 1999: 2). Thus, Ngaire Woods, Director of the Oxford University based Global Economic Governance Programme, argued that "(b)y the end of the 90s, the answer widely agreed upon, was that countries taking on reforms simply did not have adequate institutional depth and capacity" (Woods 1999: 2). Research found that aid had a positive impact "only in low-income countries with sound management" (World Bank 1998: x).

In the wake of these events a 'new aid paradigm' began to emerge emphasising the interlinking areas of: good governance in aid recipient countries; participation by the poor in poverty reduction strategies; value/emphasis placed on what the developing people value/emphasise; the use of country-wide Poverty Reduction Strategies; long-term poverty reduction perspectives; environmentally, socially and economically sustainable practices; recognition of the multidimensional nature of poverty; and orientation towards local and international partnerships. (See for example, Committee of Review 1997, International Monetary Fund 2004, OECD 2003, World Bank 1998 and 2004, Ministerial Review Team 2001, United Nations 2000.) The new aid paradigm can be seen reflected in the mission and operating principles of the New Zealand bi-lateral aid agency NZAID. Their mission is "elimination of poverty through development partnerships" (NZAID, 2006: 1) and the operating principles are: protecting and promoting human rights; using a strategic approach to poverty elimination; ensuring sustainability and equity; using partnerships, participation and coordination; and ensuring access and accountability (NZAID, 2006: 2)

Although the above areas are focused on official aid delivery, that is aid from governments of developed nations, increasingly it can also be seen in the aid delivery of large non-governmental development organisations (NGOs). An example can be seen in the Council for International Development (CID), the

umbrella organisation for 79 of New Zealand's aid and development NGOs. To promote accountability the CID has a code of ethics with development principles that all members must abide by. These eight principles include –

- “development should be sustainable and encompass the social, spiritual, cultural and economic well-being of people;
- “the poor should make decisions about their own development;
- “the ultimate test of development policies is their long-term effect on the lives of the poorest sectors of society, especially women and children;
- “sustainable development involves the use of all resources for the benefit of future as well as present generations;
- “issues of justice, peace, human rights and the protection of the environment cannot be separated from development”¹⁷ (CID, 2005: 1/2).

Some further discussion of participation and microcredit is important to set the scene for my analysis of the Grameen Bank. Due to its perceived importance “an entire literature has emerged” (Reid, 2005: 29) dedicated to identifying how intentioned beneficiaries and key stakeholders can participate in the design, implementation, and sustainability, of development interventions.

Participatory development tools first entered the development discourse in the 1950s, became increasingly popular in the 1980s in particular in the work of Chambers (for example Chambers, 1983), and over the decades has “had many streams, with flows separating and merging, and new springs coming in” (Chambers, 2005: 99). The tools only became mainstream for bi-lateral and multi-lateral agencies such as the World Bank in the mid-1990s (Reid, 2005: 31). Participation became popular due to widespread failure of development projects and findings that “growth [was] not equitably reaching the poor” (McNamara 1973, quoted in Rahnema, 1992: 117). Failures were attributed “to the fact that the populations concerned were kept out of all the processes related to their design, formulation and implementation” (Rahnema, 1992: 117), and likewise successes were seen to be attributable to local involvement and active participation that

¹⁷ The other principles relate to the Treaty of Waitangi, development education in New Zealand, and standards for promotional activity.

allowed “much more [to be] achieved with much less, even in sheer financial terms” (Rahnema, 1992: 117). The OECD Development Advisory Committee (DAC) note the interlinking of good governance, participatory development, human rights, and democratisation and that “the legitimacy of government depends on the existence of participatory processes and the consent of those who are governed” (OECD, DAC, 1995: 6). They suggest that participatory development is essential for a) strengthening civil society to provide “a check on the power of government” (OECD DAC, 1995: 8), and b) enhancing “the efficiency, effectiveness and sustainability of development programmes” (OECD DAC, 1995: 8).

Robert Chambers, a strong advocate of participation and participatory appraisal methods, in particular notes that through these tools “people have uncovered the hidden, exposed the unseen, shown the unsaid, spoken the unspeakable, and done the undoable. They have found they can escape the inescapable” (Chambers, 2005: 108). He goes on to say that –

“(r)epeatedly on context after context, in culture after culture, participatory approaches have enhanced the well-being of women and, at the same time, through better relationships, those of men. In my view, there is no other near-universal domain of human life... with greater potential for gains in quality of experience and being than transforming gender relations. For this to occur, participation is central” (Chambers, 2005: 110).

Chambers sees the purpose of participation as central to forming good development relationships, “confront[ing] and transform[ing] over-centralised power”, and meeting the overarching development challenge to “enable and empower those who are marginalised, powerless and poor to gain for themselves the better life that is their right” (Chambers, 2005: 115). Thus also Chambers begins to highlight the importance of power and relationships to development issues.

Although a dictionary definition of participation includes any kind of taking part, active involvement or sharing (Gordon ed, 1982: 824), in the development discourse it is generally accepted as a positive activity, including some free will on behalf of the participants (Rahnema, 1992: 116), that in some way is co-ordinated for a development purpose (International Monetary Fund, 2004: 2) and allows the poor to make decisions about their own development (CID, 2005: 2). Participation is now

widely accepted as a core component of development 'best practice' (Rahnema, 1992: 116) and reflects a more personal or human face that is given to issues of poverty and development in the late 1990s and 2000s. However it is acknowledged that participation can lead to negative consequences such as capture by local leaders and elites and extraction of contribution by force (Chambers, 2005: 86), and that there is a continuum of involvement ranging from token participation or manipulation at one end of the 'ladder', to collective action, citizen control and self-mobilisation at the other end (Chambers, 2005: 105).

In the 1970s another issue identified as being an obstacle to the improvement of the lives of the working poor was access to financial services, in particular for the self-employed in areas such as trading, services, transport and processing and cooking of foods (McGuire & Conroy, 2000: 1/2). How Muhammad Yunus and the Grameen Project (later to become the Grameen Bank) identified and addressed this issue is further discussed in Chapter 3. By the 1990s "microfinance [had] captured the imagination of opinion leaders, governments and donor agencies" in the belief that it can "not only have a major impact in the fight against poverty, but can do so on a sustainable basis" (McGuire & Conroy, 2000: 1).

A microcredit summit held in Washington DC in 1997 was attended by a number of heads of state and representatives of around 1500 organisations. This summit made an inspiring conclusion, that the accomplishments and studies of microcredit suggested "the possibility of moving toward a world freed from the blight of poverty within a length of time measured in years, rather than decades or centuries" (Microcredit Summit, 1997). With 2005 as the official United Nations year of microcredit, it has "moved from the margins of the development debate to centre stage" (McGuire & Conroy, 2002: 3), meaning that an analysis of microcredit governance is timely.

There are now many different meanings attributed to the term 'microcredit' even though the term did not exist before the seventies. It can be used, for example, to mean rural credit, traditional informal group credit, gift credit (perhaps in the form of alms giving), agricultural credit, credit unions, and even (ironically, as you will see in chapter 3) moneylenders (Yunus, 1994: 24-26). The credit and savings system developed and used by the Grameen Bank is now generally referred to as

Grameen type microcredit or Grammencredit. The international community were particularly keen to take up the possibilities of microcredit due to the movement to take funding away from ineffective governments and direct it towards NGOs, as we shall now consider as we begin to look more deeply into development governance issues.

Aspects of Development Governance

We will consider three areas of the development governance debate, government governance, NGO governance, and participatory governance. As mentioned above much of the development governance debate has evolved out of the debate on government governance. This discourse emphasises (a) accountability, that is the ability to identify and hold officials accountable for their actions, (b) transparency, that is the ability of stakeholders to access reliable, relevant and timely information about the activities of an organisation, (c) openness, that is the organisation listening to stakeholders and taking their suggestions into account when designing and implementing policies, (d) the setting of high ethical standards and the avoidance of corruption, (e) predictability in the formulation and implementation of policy, and (f) the use of regular procurement and employment practices (OECD with OAS, 2002: 7).

In many developing countries, and certainly in Bangladesh, corruption goes so deeply into society that the country struggles in all aspects of governance. Bangladesh's troubled past and colourful political present are further considered in chapter 3. However some of the results of these are that in Bangladesh political parties own all major media outlets. In addition, labour unions and chambers of commerce are aligned to one party or another, voter intimidation and bribery is widespread, businesses regularly skirt tax obligations and bribe government regulators, and "political parties... have few democratic features themselves [doing] little to promote democratic mass movements" (Stiles, 2002: 839-841).

One of the results of poor government governance in many developing countries is the use of NGOs as a funding channel for development work. This is sometimes referred to as the 'Civil Society Empowerment' initiative and "consists of

supporting both development and democracy by working around government institutions, which are widely considered corrupt, unresponsive and/or inept, and providing resources directly to nongovernmental actors” (Stiles, 2002: 835). This leads into the second area of development governance to be discussed, the governance of NGOs.

Varun Gauri of the World Bank and Julia Galef of Columbia University note the institutional ambiguity of NGOs.

“On the one hand NGOs share the flexibility and bottom-line orientation ascribed to private firms and not to governments; on the other, NGOs share a public mission usually associated with governments and charities but not private firms. In other words, they are supposed to combine the best characteristics of businesses, governments, and charities” (Gauri & Galef, 2005: 2045).

It must be emphasised that the Grameen Bank is a bank and not an NGO although it was financed with development loans until it became self-sufficient for funds in 1995. However there are some similarities to NGOs in that a major goal is social development and the bank could be said to be subject to the ‘institutional ambiguity’ mentioned above. The ambiguity leaves it unclear “as to whom NGOs are and should be held accountable, even in theory” (Gauri & Galef, 2005: 2056). In 1996 Rajesh Tandon of the Society for Participatory Research in Asia noted that “in most practical situations, NGO accountability boils down to the domain of finance” (Tandon, 1996: 53), meaning that NGOs are often only accountable to the suppliers of finance, and not the intended beneficiaries, when ironically, frequently the object of their development efforts will be a participatory project.

Robert Chambers sees much of this lack of grass-roots accountability as being caused by patterns of dominance between ‘uppers’ and ‘lowers’ that “increasingly affect NGOs, which may then become more like government organisations in scale, staffing, hierarchical culture, procedures, and self-deception” (Chambers, 1996: 241). He suggests that personal change is needed for those in power “to stem and reverse trends of dominance and deception... to stress trust and to reward truthfulness and honesty; and above all, to enjoy giving up the normal exercise of power, enabling lowers to do more and take more responsibility” (Chambers, 1996:

241). After researching ten years of ‘civil society empowerment’ in Bangladesh¹⁸ Kendall Stiles of Loyola University urges that NGOs should be encouraged to become more democratic “particularly with the formation of boards of directors that are accountable to someone other than the director” (Stiles, 2002: 844). As we shall see the Grameen Bank does fulfil this democratic ideal, while an assessment of the limited information available on two other large Bangladeshi microcredit organisations, the Association for Social Advancement (ASA¹⁹) and the Bangladesh Rural Advancement Committee (BRAC²⁰), shows that ASA possibly does, while BRAC does not. The institutional ambiguity referred to by Gauri and Galef is perhaps the key to the governance of development organisations and relates to how an organisation balances the expectations of corporate and development worlds. This in turn relates directly to the questions of this thesis; does there appear to be any conflict between best practice participatory and corporate governance? – highlighting another area where the research of this thesis directly links back into the present day governance discourse. Also despite extensive research into microcredit and governance, the two have not until now been linked, making this the first major analysis of the governance of a major microcredit organisation.

Finally, we turn specifically to participatory governance, which we can see as emerging out of the governance and participation discourses already covered. By the late 1990s the discussion on participation began to look at the field of governance. Studies began to show gaps existing between “ordinary people and the institutions that affect their lives” (Gaventa, 2004: 17) in both wealthy and poor countries. This distance, lack of responsiveness, lack of accountability, disconnection from the lives of ordinary citizens, and corruption, become widely recognised (Gaventa, 2004: 17) and is now sometimes known as the ‘democratic deficit’. The deficit is acknowledged not just at local and national level, but also at international level where a common critique of globalisation is that the process sacrificed democratic politics at a local level to achieve some form of functioning

¹⁸ Research specifically excluding the Grameen Bank as it is not a NGO.

¹⁹ ASA has a board of seven members “elected by a general body consisting of 60 members, which includes 26 representatives from among the group members” (ASA, 2005: 1). Also note that although the poor could be elected to the board places are not guaranteed.

²⁰ BRAC has a board of directors that consists of nine members including its CEO as Chairman and eight “[d]istinguished individuals with high reputation in business and professions with pro-poor mindset” (BRAC, 2005: 1). Also note that the poor do not have direct representation on this board.

international cooperative system. A commonly quoted example “is the World Trade Organisation (WTO) whose rules increasingly determine the environmental, agricultural, health and food safety rules of democratic communities, and, thus, affect the fundamental welfare of their citizens” (Nanz & Steffek, 2004: 314). Not only is the ability of citizens to decide their national policy being eroded, but the organisations making the decisions are not themselves accountable, showing a case of ‘double democratic deficit’ at the global governance level.

At the level of the individual within a nation, The World Bank World Development Report 2004, *‘Making Services Work for the Poor’*, sums up the effect of the democratic deficit on the poor in developing countries by saying “when politicians are unaccountable to poor people as citizens, the long route of accountability – connecting citizens with services through politicians – breaks down, voice is weak, and providers can get away with delivering inadequate services to poor clients” (The World Bank, 2004: 78). This is a long way of saying “too often, services fail poor people” (Wolfensohn in The World Bank, 2004: xv).

Responses to the deficit have been varied. John Gaventa and Anne-Marie Goetz of the Institute of Development Studies at Sussex University suggest seeing the various approaches “along a continuum, ranging from ways of strengthening voice at one end, to ways of strengthening receptivity to voice on the part of government institutions at the other” (Gaventa, 2004²¹:18). They argue that strengthening or amplifying the ‘voice’ end of the spectrum –

“must begin with examining or creating the preconditions for voice, through awareness raising and building the capacity to mobilise... As citizens who are outside of governance processes begin to engage with government, there are a series of strategies through which their voices may be amplified, ranging from advocacy to citizen lobbying for policy change and citizen monitoring of performance” (Gaventa, 2004: 18).

An example of this is a project of the New Zealand bilateral aid agency, NZAID, in Vanuatu that works to increase participation in the processes of governance by supporting an educational theatre group (NZAID, 2004: 1) that encourages

²¹ This paper by Gaventa refers to earlier research by Gaventa and Goetz.

individual citizens to participate in democratic processes: that is it works to create the preconditions for voice.

At the other end of the continuum Gaventa and Goetz argue that there must be initiatives to “improve receptivity to voice within the state” (Gaventa, 2004: 18). These include “citizen consultation, standards through which citizens may hold government accountable, various incentives to encourage officials to be responsive to citizen voice, changes in organisational culture, and legal provisions that in various ways make participation in governance a legal right” (Gaventa, 2004: 18). They argue that these will have greatest influence if they are legally enshrined as “the right to participation is a potentially more empowered form of engagement than participation by invitation from governments, donors, or higher authorities” (Gaventa, 2004: 18/19). Further they suggest that it is not just “who gets to the decision-making table [that counts, but] the quality of the conversation that occurs... it is not enough to increase participation unless the quality of the decision-making processes also improves” (Gaventa, 2004: 21). They suggest that barriers to quality decision making include “long-established forms of deference based on class, gender, education, or other hierarchy” (Gaventa, 2004: 24) so a quality participatory system must address these potential “internalised forms of powerlessness” (Gaventa, 2004: 24), thus reflecting and expanding on the suggestions from Chambers regarding the release of power (Chambers, 1996: 241) already mentioned above.

Examples of this can be seen in the reserving of seats for women on local or national authorities, the establishment of ombudsman’s offices, and the present emphasis on legislating to support sound corporate governance within developing nations, for example the OECD corporate governance standard discussed in section 2.2 which is used by the World Bank and International Monetary Fund in developing countries.

The World Bank supports Gaventa and Goetz’s recommendations by suggesting that services to the poor can be improved by “enabling them [the poor] to monitor and discipline service providers, by amplifying their voice in policymaking, and by strengthening the incentives for providers to serve the poor” (The World Bank, 2004: 1).

In his 1999 paper *Participatory Governance for Poverty Reduction*, Hartmut Schneider of the OECD Development Centre promotes participatory governance as an important mechanism to increase the effectiveness and efficiency of poverty reduction efforts. “and thus ultimately higher economic and social sustainability” (Schneider: 1999: 534). He says that –

“In a nutshell, the role of participatory governance in poverty reduction is threefold: (i) to base policies on better information, (ii) to ensure that policy makers and their administration are more committed than they tend to be in non-participatory governance settings, and (iii) to make the implementation of policies more effective and efficient” (Schneider, 1999: 533).

He recommends the participatory governance pillars, or ‘trilogy’ of empowerment, accountability and capacity building as interdependent building blocks of participatory governance: “there is no empowerment without capacity building, and *vice versa*, there is no accountability and capacity building without empowerment. It takes time to shape these building blocks and strengthen them in a mutually reinforcing and continuous learning process” (Schneider: 1999: 533).

Participation, or participatory governance, therefore is a core component of development governance. To answer Research Question 1 regarding Participatory Development at the Grameen Bank, it is necessary to look at the quantity and quality of participation, and for the existence of accountability structures throughout the organisation (governance, management, operations), empowerment of the poor, capacity building among the poor, efforts to strengthen the voice of the poor, and strengthening of receptivity to the voice of the poor at higher levels of authority.

So to conclude this discussion we could say that **development governance** is *the steering of a social and economic development organisation, the system, and the action of, setting the purpose and means of social and economic development to be pursued by organisation, and taking accountability for ensuring they are achieved.*

Participatory governance, as a subset of development governance, is specifically governance with an emphasis on participation by recipients in locally appropriate ways, both (a) for pragmatic reasons: it is believed to lead to better financial and social results: and (b) on principle: in that it is considered to be appropriate that the poor have maximum influence over their development.

Principles and Tasks of Participatory Governance

Given that governance is both a structure/system, and an action, it has both principles to observe and tasks to achieve. Box 2.iv outlines these principles and tasks of participatory governance. Firstly to consider participatory governance principles we see the governance basics of accountability, transparency, and openness, with particular emphasis on the participation and direct representation of the poor in decision making and the use of locally appropriate structures and processes.

The tasks of participatory governance emphasise the aspects highlighted by the participation discourse of the equal partnership of the poor in processes, quality participation of the recipients and stakeholders, and monitoring and evaluation of results using criteria of importance to the recipients.

Box 2.iv – The Five Principles and Three Tasks of Participatory Governance.

Participatory Governance	
Principles	<ul style="list-style-type: none"> • Locally appropriate structures and processes (indigenous governance). • Accountability. • Transparency. • Openness, with a particular emphasis on participation of all recipients. • Direct representation of the poor in decision making processes.
Tasks	<ul style="list-style-type: none"> • Recipients equal partners in process. • Quality participation of recipients and stakeholders. Specifically <ul style="list-style-type: none"> ○ strengthening ‘voice’ of the poor; ○ strengthening receptivity to voice; ○ accountability of those holding power; ○ empowerment of the poor; ○ capacity building of the poor. • Monitoring and Evaluation of operations using criteria of importance to the recipients.

Drawing together the principles and tasks of participatory governance, the following framework will be used to analyse the extent of participatory governance within the Grameen Bank –

- 1) Organisational intent. Overall, is there evidence of a deliberate intention to have recipient partnership in the organisation's governance? Specifically is there –
 - a) a focus on quality participation (including addressing potential power imbalance issues and a willingness to let go of some of the potential power of hierarchy) built into the organisation's structures and processes;
 - b) an attempt by the hierarchy to understand the lives and needs of the recipients;
 - c) a structure in place to ensure accountability, transparency and openness;
 - d) a structure in place to build the capacity of recipients to participate in governance?
- 2) Recipient Input. Overall, can the recipient's governance input be detected in the organisation? Specifically is there –
 - a) a prescribed process to ensure direct recipient input into governance and policy;
 - b) monitoring of results of importance to recipients;
 - c) evidence of structure and processes that are appropriate in local circumstances?
- 3) Results. Overall, can the results of the organisation be seen to fit with the expectations of participatory governance? Specifically is there –
 - a) resultant strengthened voice, empowerment and capacity building amongst recipients;
 - b) commitment to recipients needs and increased receptivity to recipient voice amongst the hierarchy;

- c) accountability throughout the organisation;
- d) evidence of overall positive results, probably better than other players in the same industry?

Section Conclusion

This section has briefly discussed the background to the present day development paradigm and shown where microcredit and governance sit within that paradigm. There are presently high expectations on both microcredit and the 'good governance agenda' in their ability to improve the lives of the world's poor. Microcredit is seen as a way of systematically reaching the poor with access to credit and therefore empowering them to have greater control in their own lives. The good governance agenda is expected to increase efficiency of government and therefore increase the reach of government services to the poor. In this way two seemingly opposite initiatives greatly complement each other in that one works to serve the poor from the 'bottom-up', while the other works from the 'top-down'.

The discourse on NGO governance generally poses more questions than answers but the debate is useful for opening up issues relevant to the Grameen Bank. This thesis assists to move the discussion on NGO governance into the greater debates of participatory and corporate governance.

A best practice framework of principles and tasks of participatory governance has been proposed with three key points to be analysed when considering the participatory nature of an organisation's governance, and will be used in chapter 6 to do so for the Grameen Bank.

2.4 – CHAPTER CONCLUSION

Chapter 2 has discussed the overarching meaning of governance as *the steering of an organisation; the system, and the action of, setting the purpose and means of the organisation, and taking accountability for ensuring they are achieved* and seen that in both the development and corporate worlds its importance had a resurgence in the 1980s, resulting in both areas now being of great academic and industry interest.

Although we have seen that the discourses on development and corporate governance have diverged and in some ways perform separate purposes, we have seen that both discourses are heading, at different speeds, along the path of greater societal contribution, with participatory governance perhaps the natural extension of stakeholder input to corporate governance. But with a corporate emphasis on profitability and participatory emphasis on process, again one asks, can these two paradigms co-exist? This is the key question that Gauri and Galef bring up as the institutional ambiguity faced by NGOs and as relevant to the Grameen Bank (Gauri & Galef, 2005: 2056). In proposing a four point corporate governance framework, and a three point participatory governance framework, I have set up the structure for detailed analysis of the Grameen Bank in chapter 6 in order to address these questions.

As referred to earlier and as will be seen in more details in chapters 3, 4 and 5, the Grameen Bank has a unique structure; it is neither wholly government owned and run, nor an NGO. It is in fact a bank that is 96% owned by its members (4% government ownership) and is required to comply with banking legislation specifically drafted so that it was able to operate. Although it is legally a bank and it does return a profit, its overriding mission is development and participatory governance is its backbone. It is therefore perhaps uniquely placed to consider the two governance paradigms operating together, while also addressing the institutional ambiguity of NGOs.

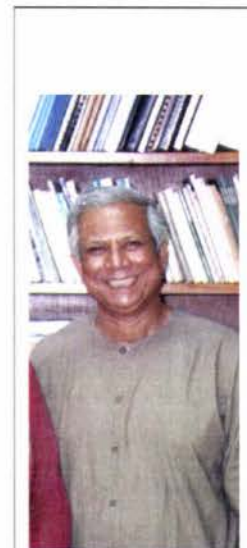
In the next chapters we turn our attention to the Grameen Bank. Firstly in chapter 3 and 4 to the background and extent of the organisation we see today, and then in Chapter 5 to a deeper look into its present structure.

CHAPTER 3 – THE GRAMEEN BANK – BACKGROUND AND HISTORY

Chapter 3 sets the context for a present day analysis of the Grameen Bank, specifically Bangladesh and the roots of the bank. Chapters 4 and 5 will then look into the extent of present day operations, results, structures, and processes, to be able to make sense of and analyse its structures in Chapter 6.

The first section outlines the history, and the short and troubled life, of Bangladesh, the background to the setting of the Grameen Bank. It introduces the concept and themes of *Sonar Bangla* (Golden Bengal), as well as the betrayal of *Sonar Bangla* by the nation's leaders. It also considers the development of certain values in the Grameen Bank's founder Muhammad Yunus, qualities that my research has found to be imbedded in the present day bank. Specifically these are: compassion, leadership, innovation, independence, curiosity, questioning, and personal quest.

The second section considers the Chittagong University action research project carried out by Muhammad Yunus while he was a professor there and was trying to understand the systemic causes of the hardship he saw in society around him. This shows the further development of Yunus' values into the foundations upon which the present day institution is built and that can still be seen and felt today. These are specifically: compassion; a deeply felt compassionate mission; questioning to understand the reality of others; questioning to understand why the reality of others is as it is; a quest to find and execute a 'better-way'. It then outlines the steps in the expansion of the project into the present day Grameen Bank, while weaving in the life story of Srimoti Dipali Rani Borua, Dipali Rani, an early member who was to become a Grameen Bank Board Member in 2000.



Muhammad Yunus in his office, March 2005.

SECTION 3.1 – BACKGROUND – THE MAN, THE NATION, AND THE TIME OF NEED.

Two strands came together to create the seed of the Grameen Bank. The life and curiosity and compassion of its founder Muhammad Yunus, and the birth and survival struggle of his homeland now known as Bangladesh.

Muhammad Yunus was born in 1940 in Bathua near the city of Chittagong in the Indian state of Eastern Bengal. In his 1999 autobiography 'Banker to the Poor', Muhammad Yunus describes his father as a devout Muslim who led a simple life. He ran a jewellery business and, although he did not complete high school himself, put a high value on education. He describes his mother as strong and decisive and full of compassion and kindness "and probably the strongest influence on me. It was she, through her concern for the poor and the disadvantaged, who helped me discover my destiny, and she who most shaped my personality" (Yunus, 1999: 29).

Yunus won a competitive High School Scholarship Examination gaining entry into the prestigious Chittagong Collegiate School. While attending this school he took up scouting which he credits with not only being fun, but he went on to argue, "scouting taught me to think high, to be compassionate, to be religious in my inner being if not in outward ritual and to cherish and help my fellow human beings" (Yunus, 1999: 37).

He also became involved in student politics where he ousted the senior political party functionaries that manipulated the student party. This "sent ripples all through the Chittagong District. Ever since then I have tried to steer an independent course" (Yunus, 1999: 42).

In 1961, at 21, Yunus graduated from Dhaka University and started teaching economics back at Chittagong College. During his four years there he also started an innovative Bengali focused business after noting that all the packaging materials had to be brought from western Pakistan; "as a nationalist Bengali, I knew we could manufacture it more cheaply in East Pakistan... This turned out to be a very successful project, making a very attractive profit" (Yunus, 1999: 39).

In 1965 Muhammad Yunus gained a Fulbright Scholarship to undertake a PhD in the United States at Vanderbilt University. He credits Professor Georgescu-Roegen

with teaching him many of the things he needed to know to build the Grameen Bank. "I realised there was no need for formulae, one first had to understand the concept... I also learned that things are never as complicated as we imagine them to be. It is only our arrogance which seeks to find complicated answers to simple problems" (Yunus, 1999: 45).

Muhammad Yunus had a strong desire to return home to help people as he had a feeling that he had some mission to fulfil. While making plans to return with his American wife, the Bangladesh War of Liberation broke out which delayed his return, and while teaching at the Tennessee State University he devoted himself to the cause of Bangladesh liberation. (Yunus, 1999: 48.)

Bangladesh

With the partition of India at midnight on the 14th of August 1947, Muhammad Yunus' birthplace became a part of East Pakistan. The partition of India was a period of momentous struggle and social upheaval throughout the Indian subcontinent. Millions of people died as Muslims, Hindus and other groups tried to cross borders to find their 'homelands'. The partition was hurried, leading to many inadequacies, particularly in the Muslim land of Pakistan, with much of the infrastructure allocated to India. For example East Pakistan was a major jute producer, but the processing plants and major ports were across the border in Calcutta, India. Partition was also a time of great celebration for many, including the Muslims in Chittagong. The English had been ousted from India, and led by Mohammed Ali Jinnah and the Muslim League; the Muslims now had their own homeland, Pakistan – The Land of the Pure (King & St. Vincent, 1993: 19). This was a time of great enthusiasm and pride, but even at this moment the seeds of future problems were germinating. Bengalis in the Muslim League had wanted two independent Muslim states but "(t)hey could never control the Muslim League at the 'All India' level. Muslim activists from minority provinces in northern India... had far more weight in the organisation" (Jones, 2002: 149). Thus Pakistan had been born as a nation with two parts.

The solution of dividing Muslims amongst East and West Pakistan was always going to be problematic. Physically more than a thousand miles separated the lands. The capital was in the physically larger West, but the smaller East had a greater population and cash income. Culturally the dominant groups in each 'wing' were more alike to their neighbours in India (for example Punjabis on the West, Bengalis on the East, Kashmiris in the North) than each other. Politically each had their own powerful families struggling for dominance and power. There was a diversity of languages in daily use in the West, but Bangla was ubiquitous in the East. English was the only language widely spoken in both areas, but it was out of favour with the departure of the British. The language issue was soon to form the base of the Bengali Nationalist Movement.

West Pakistan itself had many deep physical and social divisions and the 1,000-mile 'gulf' to the East meant their growing concerns and nationalist movement were not understood by politicians in the West and were under estimated. Resentment of rule or 'colonisation' by West Pakistan grew²². Financially revenue from Eastern production and foreign aid seemed to stay in West Pakistan. The joy and hope of partition and a common religion was proving to be insufficient to build a stable nation. By 1952 simmering resentment spilled over and there were riots in Dhaka, the main city of East Pakistan, and 12 students were killed by the Army (Plunkett *et al.*, 2000: 18).

In 1949 the East Pakistan Awami Muslim League²³ was formed and created the "first effective Opposition party" (Majumdar in Rahman, 1972: xi) to oppose the Muslim League in power in Pakistan. The four State Principles of the Awami League of nationalism, democracy, socialism and secularism, represented and supported the Bengali dream of *Sonar Bangla* (Golden Bengal). *Sonar Bangla* "was intended to be a state based on equity, justice, social harmony and cultural effulgence, echoing the sentiments dear to the heart of every Bengali" (Mascarenhas, 1986: v).

²² On 28 October 1970 in an election broadcast Sheikh Mujibur Rahman claimed that "After 22 years, Bengalees account for barely 15 per cent in Central Government services and less than 10 per cent in the defence services" (Rahman, 1972:4).

²³ The word 'Muslim' was later dropped to clarify the secular intentions of the party.

By the lead up to the December 1970 general elections, the Awami League General Secretary Sheikh Mujibar Rahman, known generally as Mujib, had become a clear symbol of the Awami League and Bengali Nationalism. In his October 1970 political broadcast Mujib outlined the Awami League's manifesto including three fundamental issues to be addressed –

“The first is the deprivation of political freedom. The second is the sense of economic injustice felt by the overwhelming multitudes of our people. The third is the deep sense of injustice created by the widening economic disparity between the regions. It is this that underlies the anguish and the anger of the Bengali people” (Rahman, 1972: 3).

The League called for “a real living democracy” to be established with fundamental freedoms constitutionally guaranteed. The manifesto outlined a framework for the growth of political parties, trade unions and local self-government and pledged “to restore complete freedom of the press and academic freedom and to eradicate corruption which has grown like a cancer in our society” (Rahman, 1972: 3).

“The present economic system,” Mujib said “which has established an intolerable structure of injustice, must be radically altered” (Rahman, 1972: 3).

In the December 1970 election, the Awami League won an outright majority taking all but two of the East Pakistan seats, a total of 188 of the 313 seats nationwide. Faced with this result the Pakistan President, General Yahya Khan delayed the opening of parliament. When the President's talks with Mujib broke down on 25 March 1971, Mujib made a formal declaration of the Independence of Bangladesh urging “the people of Bangladesh to defend the honour and integrity of Bangladesh” (Rahman, 1972: 124). Mujib was arrested and the Pakistan Army commenced ‘Operation Searchlight’ which was intended to be a simple campaign to arrest and eliminate the independence movement. However, West Pakistan officials had persistently misunderstood the depth of nationalist feeling and the “Bengali population stood square behind their arrested leader” (Jones, 2002:168) and resisted the Pakistani army. Pakistan was in a state of civil war, later to be known as the Bangladesh War of Independence.

By July, India had realised it was in their best interest to see Pakistan divided and began to support the independence fighters, eventually outnumbering Pakistani troops at a ratio of 1:8 or 1:10 (Jones, 2002:173). Any intervention from the international community was halted by Russian or Chinese veto at the Security Council. The West Pakistani army burnt crops, napalmed and pillaged villages, and rape "was so widespread and systematic that it appeared to be an attempt to change the racial makeup of the country" (Plunkett *et al*, 2000: 19). The *Mukti Bahini*, the Freedom Fighters, also carried out similar acts of "terrific violence" (Jones, 2002: 171) against those loyal to the concept of a united Pakistan. It is estimated that of a population of 70 million people, 3 million people died in the war and that 10 million refugees crossed the border to India (Plunkett *et al*, 2000: 19).

On the 16th of December Pakistan surrendered its eastern wing to India. Bangladesh, Land of the Bangla's, was established as an independent nation. By the time Sheikh Mujib was released from prison in West Pakistan on 8 January 1972 Bangladesh and the vision of Golden Bengal were already in trouble. "(I)t was painfully clear to Mujib that if he did not get to Dhaka very quickly there was grave danger of the new government falling apart and the risk of civil strife. The war was over. The in-fighting, the jostling for power in the Awami League had begun" (Mascarenhas, 1986: 7).

Throughout the war Muhammad Yunus had been active with a group of East Pakistan ex-patriots in a campaign to lobby the international community and US administration in support of Bangladeshi independence. He made banners, lobbied ambassadors, appeared in the media, wrote newsletters, and formed a plan to establish a Bangladesh government in exile. In 1972 he returned to his homeland to a country full of hope, poised at the start of a brave new independent journey. But its physical infrastructure was in ruins and its political unity was based on a nationalist bubble. "I returned... full of idealism and dreams, bathed in the nirvana of the Western world's rational approach to all problems... convinced that if East Pakistan could keep its resources... our economic situation would quickly improve" (Yunus, 1999: 58).

Unknown to him, Muhammad Yunus was returning to a land about to be betrayed by its leaders. Yunus said he "saw bravery and determination among the ruins of

war. There were difficulties in every direction, and people faced them resolutely. But as months and years went by, hope turned into disillusionment” (Yunus, 1999: 58) as the new nation’s leaders failed their people.

The Bangladeshi people betrayed

Though Sheikh Mujibar Rahman was an inspiring independence leader, his strength was as a “professional agitator” (Jones, 2002: 147) and he was more interested in power and prestige than in governing a new nation. Upon Bangladeshi independence Sheikh Mujibar Rahman, Mujib, was hailed as a “demigod” (Mascarenhas, 1986: 6) among Bangladeshis, who gave him the name Bangabandhu, “Bengali’s Friend”. However he had spent the entire War of Independence isolated in the West and appeared unable to ‘catch up’ with how the country had moved on in that time²⁴ (Mascarenhas, 1986: 6).

The problems of the new nation were great. In return the support of the international community was large and generous and on an “unprecedented scale” (Mascarenhas, 1986: v). But Mujib had given power to his supporters in the Awami League – many of whom had not even fought in the War, but had fled to Calcutta ostensibly to establish a government in exile. Corruption became rife²⁵.

On 1 September 1975 Mujib was to be formally appointed the head of a one-party state with all political and administrative power vested in himself as President. Mujib had described this change as a second revolution but “in fact it was nothing

²⁴ In his book *Bangladesh – A Legacy of Blood*, veteran journalist Anthony Mascarenhas suggests Mujib had two systemic failings. Firstly his quest for power meant he was unable to delegate and he allowed extreme corruption in officials with the idea that it ‘gave him something over them’. Secondly his oversimplification of all issues meant “he had a secretariat full of good intentions... confused platitudes with policies... (and) grasp(ed) at simplistic solutions... on which he pinned... high hope” (Mascarenhas, 1986: 3). “Bangabandhu commands there shall be rain and he cannot understand why rain does not fall” (Young Mill Officer quoted in Mascarenhas, 1986: 12).

²⁵ It is estimated that Bangladeshi traders aided by corrupt government officials smuggled food-grains and material aid worth £2,000 million to India for higher prices. Added to this were “vast” sums of money ‘skimmed off’ government purchases of food and commodities, and funnelled out of the country through a foreign-exchange black market (Mascarenhas, 1986: 27). Since the country was being virtually “re-started from a collapsed position” (Mascarenhas, 1986: 26) the government had to control most aspects of life which led to a licensing system that meant corruption and graft flourished at all levels of bureaucracy throughout the country. “Corruption in Bangladesh was therefore of a magnitude exceeding anything known anywhere” (Mascarenhas, 1986: 27). “Those who took less pointed the finger at those who took more. In such a convoluted society wrong-doing was not in question: it was a matter of degree” (Mascarenhas, 1986: 26).

more than a palace coup which removed the last vestiges of democracy, justice and hope from a country whose founding was intended to epitomise these virtues” (Mascarenhas, 1986: 57). However, fate intervened and in the early hours of the 15th of August, Mujib was assassinated in an operation lead by two Army Majors. “Few men in history have betrayed the aspirations of their people as did the first leaders of Bangladesh – Sheikh Mujibar Rahman, Khandaker Moshtaque Ahmed and General Ziaur Rahman. When each was called upon to make good, he took the country further along the road to perdition” (Mascarenhas, 1986: v). Anthony Mascarenhas notes that by the time General Zia was assassinated in 1981 the Bangladeshi people “had long since abandoned the dream of *Sonar Bangla* for the reality of frustration, corruption and selfish grasping in the effort to survive” (Mascarenhas, 1986: 170).

In present day Bangladesh, power fluctuates between the two parties of the Awami League and the Bangladesh Nationalist Party (BNP), both of which are controlled by wealthy and powerful families. The Awami League is lead by Mujib’s daughter Sheikh Hasina, and the BNP by the Begum Khaleda Zia, wife of former dictator and President General Zia.

When Dr Yunus²⁶ returned to Bangladesh in 1972 he was appointed to the government’s Economic Planning Commission “with a fancy title... (and) nothing to do all day except read the newspaper” (Yunus, 1999: 58). He soon resigned and returned to Chittagong and to Chittagong University as Head of the Economics Department.

After nine months of war in 1971, the crops, infrastructure and industry in ruins, the country was not in the position to survive severe and increasing corruption and mismanagement. By 1973 violence was expanding.

“The upsurge of violence was in direct proportion to the increase in corruption, market-manipulation, smuggling and political repression by the cohorts of the Awami League... The people fought back with guns carried over from the liberation war... By the end of 1973 the total of politically

²⁶ Mohammad Yunus is still generally referred to as ‘Dr’ or ‘Professor’ Yunus by Grameen Bank staff.

motivated murders in Bangladesh had crossed the 2000 mark” (Mascarenhas,1986: 37).

In 1974 the fragile countryside’s ability to cope ran out and tragedy struck: rains failed; crops failed; Bangladesh was in famine. This was to have a powerful influence on Muhammad Yunus.

“The year 1974 was the year that shook me to the core of my being. Bangladesh fell into the grips of a famine. Skeleton like people started showing up in the railway stations and bus stations of Dhaka. Soon a few dead bodies were reported in these places. What began as a trickle became a flood... One could not miss these starving people even if one wanted to. They were everywhere, lying very quiet. They did not chant slogans... They did not condemn us for having delicious food in our homes while they lay down quietly on our doorsteps” (Yunus, 1999: 3).

Yunus wondered if perhaps dying of starvation is the most unacceptable way to die as it happens in slow motion.

“Second by second, the distance between life and death becomes smaller and smaller... And all this happens because a person does not have a handful of food to eat at each meal. In this world of plenty... the tiny baby, who does not yet understand the mystery of the world, cries and cries, and finally falls asleep” (Yunus, 1999:3/4).

This situation effected Yunus to question the world he taught in the classroom and his personal values increasingly showed outward expression.

SECTION 3.2 – ACTION RESEARCH TO MULTI-MILLION TAKA BANK FOR THE POOR AND FORMERLY POOR

“I used to get excited teaching my students how economics theories provided answers to economic problems of all types. I got carried away by the beauty and elegance of these theories. Now all of a sudden I started having an empty feeling. What good were all these elegant theories when people died of starvation on pavements and on doorsteps?

...(W)hen I came out of the classroom I was faced with the real world... I saw daily life getting worse, and the poor getting poorer. For them death through starvation looked to be their only destiny. Where was the economic theory which reflected their real life? How could I go on telling my students make-believe stories in the name of economics?” (Yunus, 1999: 4).

Professor Yunus’s sense of helplessness as famine spread before his eyes drove his quest to understand the real lives of the real life poor people around him. Chittagong University was located in a hilly rural area outside of Chittagong City next to the village of Jobra. “I decided I would become a student again, and Jobra would be my University. The people of Jobra would be my teachers” (Yunus, 1999: 5). He attempted to understand the lives of the poor from what he called the “worm’s eye view”, rather than the “bird’s eye view” (Yunus, 1999: 5) that he considered common at universities and tending to arrogance, and that Chambers would perhaps refer to now as the ‘lower’s view’ and the ‘upper’s view’ (Chambers, 1996: 241).

The village of Jobra had three parts, Muslim, Hindu, and Buddhist. Muhammad Yunus’s colleague Professor Latifée knew most of the village families and he regularly accompanied Yunus when he visited the village. In his autobiography Muhammad Yunus talks of his pivotal meeting in Jobra with Sufia Begum, then in her early 20s with three children. She would borrow 5 taka from a *paikar* (middleman) to purchase bamboo to make a stool, and she was obliged to then sell the stool back to the *paikar* at the end of the day for 5½ taka, a profit of about ½ taka for the day’s labour. Unable to raise 5 taka (about 25 cents) herself, Sufia Begum was beholden to the *paikar* to earn her meagre pay.

“How would her children break the cycle of poverty and aspire to a better life? ...How could they go to school when the income she earned was barely enough to feed her, let alone shelter her family and clothe them properly?... She earned the equivalent of 2 US cents a day and it was this knowledge that paralysed me. In my university courses, I dealt with millions and billions of dollars, but here before my eyes, the problem of life and death was posed in terms of pennies. Something was wrong. Why did the university course I taught not mirror the reality of her life? I was angry at myself, angry at the world that was so uncaring. There was no glimmer of hope, not even the hint of a possible solution (Yunus, 1999: 9).

Suffering for the lack of 22 US cents seemed preposterous to Yunus and he wondered why universities and economics professors had not addressed the needs of those who most needed help. “I resisted the urge to give Sufia the money she needed. She was not asking for charity. Also, it would not have solved the problem on any permanent basis” (Yunus, 1999: 9).

Yunus’s action was to get the assistance of a student, Maimuna, to make a list of all those in Jobra who, like Sufia, were beholden to traders. Within a week she had prepared a list of 42 people who between them needed to borrow 856 taka (NZ\$17²⁷). “My god, my god, all this misery in all these forty-two families all because of a lack of (US)\$27!” I exclaimed. Maimuna stood there without saying a word. We were both astounded, shocked, but also sickened by the pathos of it all” (Yunus, 1999: 11).

Professor Yunus gave Maimuna the money the 42 families needed for capital, telling her the families should repay it, without interest, whenever it suited them. But still Yunus was not content. He realised his response was “ad hoc and emotional” (Yunus, 1999: 11) and insufficient: what was needed was an institutional response. He says he really had no intention of becoming a money lender and was only intending to address an immediate problem which he still sees to be the purpose of the work of the Grameen Bank: “the problem of poverty which

²⁷ For the purposes of this paper the taka is converted to the New Zealand dollar at a rate of 50 taka to the dollar.

humiliates and denigrates everything that a human being stands for.” (Yunus, 1999: 12.)

Yunus’s emotional and compassionate response to the individual struggles he saw around him forms the historical and philosophical basis to the Grameen Bank. As will be discussed in more detail in later chapters, the importance of assisting individual lives can still be seen in the modern day bank.

Dipali Rani

The difference the Grameen Bank can make to individuals is aptly described through the story of Srimoti Dipali Rani Borua. She is now a Grameen Bank elected board member and I interviewed her in March 2005. She was born in 1962 in Howal Gazpur, a village just north of Dhaka. Her house was shared by her grandfather, father and her uncle. Her grandfather had employment as a watchman, her father practiced Ayurvedic medicine. She attended school for 5 years and “could neither wear an expensive dress nor eat good food” (Borua, 2002: Interview). She recalls that when the country was part of Pakistan the government used to distribute rice to the villages “at a fair price” (Borua, 2002: Interview).

When she was married Dipali lived in a hut made of palm leaf and she had only two dresses. Her first daughter was born in 1981 and her second in 1985. When they were very young Dipali often did not have clothes for them for up to a year at a time. “I had nothing in my house... there were many days I couldn’t manage 3 meals, sometimes 2 meals just bread, sometimes there’s no meal... if there was any beggar I couldn’t alms them [give them charity] 50 paisa [half a taka] even” (Borua, 2002: Interview).

For income Diplai made puffed rice. As she lacked capital, she had to borrow from a middleman who effectively gave her rice on credit. She was obliged to make and sell the puffed rice and pay the middleman back in cash. At the time 4 moans (about 160 kg) of rice could be purchased for 1100 taka, and the same amount of puffed rice sold for 1300 taka. However the lender required that Dipali pay him back 1300 taka so that “after paying back the money to the moneylender by selling the puffed rice, there was nothing left” (Borua, 2002: Interview).

Unbeknown to Dipali, Muhammad Yunus, a man she would one day meet and talk to “like a sister and brother” (Borua, 2005: Interview), was battling to provide the credit institution for the poor that he had been dreaming of. so that in 1987 she would join the Grameen Bank and a new life of inexpressible happiness (Borua, 2005: Interview) would open for her.

The Grameen Action Research Project

To start his Chittagong University Action Research Project, Yunus approached the local branch of the large government bank Janata Bank. The concept of the bank loaning to the poor of Jobra without collateral was beyond the ability of the branch manager to deal with, and the matter was referred to the Regional Office in Chittagong. There the manager suggested that if a local affluent person would act as guarantor, that bank would be prepared to make the loans. Muhammad Yunus agreed to act as guarantor, although he made it clear he would not repay any loans that were defaulted on. In December 1976 after six months of correspondence, the Janata Bank head office approved the loan of 10,000 taka to Professor Yunus. The first loans were made on the 3rd of June 1977, a total of 16,000 taka (NZ\$320) loaned to seven individuals for the purchase of rickshaws, cows, and to Sufiya, the first borrower, for peddling door-to-door where in the past she had begged (Bornstein, 1996: 46). By December 1977, 94,800 taka (NZ\$1896) had been loaned to 58 villagers with every loan co-signed by Yunus. As the demand for loans increased, the Janata Bank was becoming “irritated” (Bornstein, 1996: 47) with the project and began to delay loan approvals. Loans that had taken six weeks to approve now took three months. The delays reduced confidence in the system amongst borrowers. “Taking advantage of the situation, one borrower sold a cow he had purchased with a loan, and pocketed the money. (Other) members in turn confiscated another cow he owned, sold it, and repaid the loan” (Bornstein, 1996: 47). It was crucial the villagers saw the programme was permanent; otherwise there was an incentive to take advantage and default on loans.

Yunus was finding he had to revolutionise banking to be able to provide institutionalised credit facilities for the poor. As he and his students gained experience it became clear that a better flow of finance was required. In early 1978

Yunus was able to convince the manager of a nationalised bank, the Krishi Bank, to provide Yunus with his own 'booth' named The Experimental Grameen Branch. The Branch disbursed 52,000 taka (NZ\$1040) on its first day and by September included 3 villages, 400 villagers and half a million taka disbursed (NZ\$10,000). 25% of the borrowers were women and the default rate less than 1% (Bornstein, 1996: 52).

At this early time, many of the innovations that were later to become standard practice internationally were being conceived, such as a focus on loaning to women, and the use of groups of five members. Both are examples of how Muhammad Yunus' values-based decisions turned into astute business acumen.

Muhammad Yunus decided to turn into action his complaint against banks discriminating against women. He wanted a minimum of 50% of the projects borrowers to be female. This decision, a reaction against a perceived unfairness, started to have interesting results that were to become far reaching. Once the project had reached a significant number of women they discovered that as severe hunger and poverty are more intense for women than for men, and that females had so few opportunities, they grasped the smallest one. This meant that destitute women adapted quickly to the self-help process and credit given to women brought about changes faster than credit given to men.

"Poor women had the vision to see further and were willing to work harder to get out of poverty because they suffered the most. The women paid more attention, prepared their children to have better lives, and were more consistent in their performance than men. Money going through a woman in the household brought more benefits to the family as a whole... A man has a different set of priorities... When a destitute father starts making extra income, he starts paying attention to himself... When a destitute mother starts making income, her dreams invariably centre around her children..." (Yunus, 1999: 88/89).

The bank began to focus exclusively on women due to both their better repayment ability, and the maximisation of poverty alleviation results. This observation was later to be supported by research, such as that carried out by surveys of 87 rural villages in 1991 and 1992 by Mark Pitt and Shahidur Khandker (and published in

1998). They found that “annual household consumption expenditure increases 18 taka for every 100 additional taka borrowed by women... compared with 11 taka for men” (Pitt and Khandker, 1998: 958) showing a greater increase in household wealth when credit was taken by women. They also found that when men join groups they tend to be from relatively wealthy households, while females that join are likely to be poorer, showing that the poor are easier to target through female membership (Pitt and Khandker, 1998: 982). Further, only female participation in credit schemes increases female ownership of non-land assets and increases the likelihood of schooling for daughters, an important factor for the long-term permanent movement out of poverty (Pitt and Khandker, 1998: 986). This backs up Robert Chambers’ 2005 assertion that participation is central to the well-being of women, and through better relationships, the well-being of men (Chambers, 2005: 110)

Group size was constantly reviewed as it was crucial to the success of social collateral. Social collateral requires perfect knowledge of the risk involved, as opposed to physical collateral as used by traditional banks. Physical collateral is needed because of imperfect knowledge of the loan risk. Too large a group would crowd out weaker people, too small narrowed the opinions and limited the support network. Eventually Yunus settled on five members per group, a part rational and part intuitive decision: “A working hand has five fingers; there are five pillars of faith in Islam; and each day, five calls to prayer” (Bornstein, 1996: 52).

To make villagers comfortable in a land where authority was generally associated with corruption, bribes and exploitation, Yunus ensured openness “no secrecy, no confidentiality” (Bornstein, 1996: 44). All transactions were to take place in the village in as transparent a method as possible. “The rule was: the more eyes the better” (Bornstein, 1996: 44). Each group elected a chair and a secretary. This both added to the openness of transactions, and developed leadership and emphasised the self-supporting nature of the groups. This early focus on transparency and development of ‘voice’ ultimately helped build the basis of a well functioning governance structure.

Yunus’s students working on the university project were required to understand poverty at an individual level. They interviewed destitute women and wrote up

their lives as case studies that touched their hearts and increased their dedication. Yunus's leadership style was consultative (Bornstein 1996: 59). This made the students feel part of the Grameen Project and created a strategic leadership team that was dedicated and internally motivated. Three of these original students are still on the Grameen Bank staff, Mr Dipal Barua the Deputy Managing Director, Mrs Nurjahan Begum, a General Manager, and Mrs Jannat Quanine, a Deputy General Manager.

The Project Scales Up

In 1979 Muhammad Yunus met the deputy governor of the Bangladesh Bank, A.K. Gangopadhyay who "shared Yunus's vision of a bank that was an active force rather than a passive institution waiting for its customers to walk in the door" (Bornstein, 1996: 63). Yunus credits Gangopadhyay "as being the one person who was responsible for the Grameen Bank coming into being" (Bornstein, 1996: 63).

Gangopadhyay encouraged the Bangladesh Bank to financially back the Grameen Bank Project. However when the backing was approved it came with conditions. These were that: Yunus must resign from Chittagong University to lead the project full time, and to prove it was really sustainable the project must be extended to another area where Yunus was not a local figure. Yunus took leave of absence from the University and moved as directed to Tangail about 50 kilometres North West of Dhaka (Bornstein, 1996: 63). Loans were distributed through commercial banks that remained bureaucratically uncooperative but the project still continued to grow, with the client total reaching 15,000 within another year (Bornstein, 1996: 119). Almost a third of members were women and special efforts continued to be made to encourage women out of purdah²⁸ and into the project.

In 1980 the International Fund for Agricultural Development (IFAD) loaned the project US\$3.4 million at a 'soft' interest rate of 3% with the government matching the amount at 6%. With the increased funding and the continued success of the project, plans were made to extend coverage to three more regions. Muhammad Yunus and the project's head office moved to Dhaka (Bornstein, 1996: 120).

²⁸ Meaning in this context, out of seclusion in their houses.

Yunus dreamed of independence from the commercial banks and in 1982 his opportunity came. Gangopadhyay had retired but A.M.A. Muhith, who Yunus had worked with in Washington during the War of Independence, had been appointed Finance Secretary and therefore an ex-officio member of the Bangladesh Bank board of directors. Out of respect for Gangopadhyay, Muhith was prepared to support the project Gangopadhyay had backed. When Yunus took Muhith to visit the project he became a convert – “This was pure Adam Smith in action. It was creating wealth, and at the same time, creating the market for that wealth. That was my conversion... afterward, I never questioned the soundness of its philosophy” (Muhith in Bornstein, 1996: 128).

In March 1982 President (General) Hossain Mohammed Ershad came into power after the assassination of President Zia and Muhith was appointed Finance Minister. Muhith managed to convince President Ershad that backing Grameen was “something for the poor” (Bornstein, 1996: 129). The new bank would be 60% owned by the government and 40% by the villagers “who had amassed, by mid-1983, almost 10 million takas in savings” (Bornstein, 1996: 129). Yunus wanted the landless to have ownership of the bank so they could feel it was their institution. He had wanted 60% ownership by members to ensure they would have control of it, to feel they could take it as far as they wanted. But Muhith had reversed the figures to ensure it would be approved by Ershad explaining “(i)f the government wanted to shut it down, it could have at any time, with or without ownership” (Bornstein, 1996: 129). The proportion of government and member ownership has slowly been amended over time, so that in the 1995 amendment to the Ordinance, the ownership became 94% by the membership, and 6% by the government.

Legislation was required because banking regulations had no provision for a rural bank collectively owned by the government and its members. The Grameen Bank Ordinance²⁹ was passed in September 1983 (Bornstein, 1996: 130). Members were required to purchase a 100 taka (5 cent) share and became shareholders: the project was over, the Grameen Bank had arrived. The government appointed six board members including the Chair, and the landless bank members set about electing 4 board members from amongst their centre chiefs.

²⁹ Drafted at no cost by Kamal Hossain who had drafted the Bangladesh constitution ten years earlier.

In Howzul Gazpur the Grameen Bank had been operating for six months when Dipali Rani, introduced earlier, joined Centre Number 2. "I contacted them [Grameen Bank] to know how I can start. First they told me to make a group, then I need to learn some rules and regulations. We went through the process. It was hard work, some of us were educated and some weren't, but they quickly learnt the rules." Dipali spent her first loan of 3,000 taka (NZ\$60) on family needs but was still able to pay it off. The next year she obtained a 5,000 taka (NZ\$100) for her puffed rice business. "Every year the loan amount increased, so the next year I got 6,000 taka, then 7,000 taka and that's how I got up to 10,000 taka (NZ\$200) invested in puffed rice business" (Borua, 2002: Interview). Eventually Diplai also took out a 10,000 taka housing loan, but making puffed rice was hard work and with her husband and the bank staff she discussed moving into a new business. Dipali went into the poultry business with her brother-in-law but they had problems making the business profitable. Eventually she realised her brother-in-law had lied to her and she continued in the business with her husband and an 100,000 taka (\$NZ2,000) Grameen Bank loan. There were problems with stock health but they still managed to expand the business and "this time it's like a blessing of God! You can't imagine! Market price went really well so I made a very good profit and within six months I repaid all my debts" (Borua, 2002: Interview).

Because Dipali had a good relationship with all her Centre members she was elected Centre Chief 8 or 9 times. In 2000 she was called to the Howal Gazpur branch office with all the other centre chiefs. The branch centre chiefs recognised her leadership within her branch, her good loan utilisation, having developed herself and having been a good member of Grameen, and unanimously selected her to go forward as representative of the branch. The Area Manager hosted the branch representatives at the Area Office where again Dipali was selected, this time to represent the Area. Later at the zonal office Diplai was again selected by the Area representatives as the representative of her constituency – she was now a member of the Board of Directors of the Grameen Bank.

At her first trip to Dhaka for her first board meeting Diplai attended a workshop of the nine incoming and nine outgoing board members. The outgoing board members outlined the job of a board member, where they would sit, how to talk to the

microphone, how to talk with 'big' people, and encouraged them to "talk about yourself, your centre. You can talk in person with the Managing Director Professor Yunus. This is a great chance for you" (Borua, 2005: Interview).

When I spoke to Dipali on a hot day in March 2005, Dipali recalled her work on the board. She recalls proposing the member's life insurance (to cover the member's loans in case of the death of the member) be extended to husbands, because often a husband is pivotal to the running of the business and "if he dies it is a great problem" (Borua, 2005: Interview). This suggestion was passed.

When she would return home after the meetings other Grameen members would ask what had happened at meetings. "What did you do, what did you discuss? They said to me 'if possible please propose to increase the housing loan' it was then only 10 to 12,000 taka (\$200-240)" (Borua, 2005: Interview). The board agreed to increase it to 25-30,000 taka (NZ\$500-600).

Dipali's term as a board member finished in 2003 and she tells me how much she enjoyed her time and now misses it. "I miss a lot meeting with the Secretariat, particularly with Dr. Yunus, he is a very generous person. I have never seen such a good person in all my life. He talks with us like a sister and a brother, we are very poor but this does not matter." Her family are proud that she was a board member. "My husband always tells other people, 'my wife was a board member, she went and met with Dr. Yunus and big officials and foreigners [including Queen Sofia of Spain] came here to meet her'" (Borua, 2005: Interview).

It was mentioned before that Dipali has two daughters who went for long periods without clothes, and that they once lived in a one-room leaf hut. Both daughters are now at University doing bachelors degrees.

Now Dipali's compound is large with freshly painted buildings. On asking to use the toilet a key is proudly produced, the pit toilet is cemented and clean with running water. The wind ripples through the palm trees and music and street sounds echo from the nearby bazaar, I secretly wish Dipali would invite me to stay, so peaceful is the scene. Dipali stands tall and proud.



She shows me her poultry farm and lands, even the chickens in their cages seem to strut with pride, a young girl tending them does not hide despite the presence of the unknown (to her) males that have accompanied me. If beggars come Dipali now helps with at least 50 taka. Sometimes poor people come to her for help to get children married and she helps them. "I remember my past, I had the same conditions once, I passed a difficult time. But now I can do something so I can help. Now I'm very happy by the blessings of God, I can't express my happiness" (Borua, 2002: Interview).

Thus Dipali's life highlights one of the millions of individual Grameen stories, while showing insights into how the "worm's eye view" (Yunus, 1999: 5) contributes to the Grameen Bank decision making table.

³⁰ A *bari* is a small living complex with a number of houses around a courtyard.

3.3 – CHAPTER CONCLUSION

This chapter has outlined the background to, the growth of, and the extent of the Grameen Bank operations today. It also outlined the turbulent political setting where a hopeful post-independence population had to abandon its liberation dream in the efforts to survive increased corruption and selfish resource grasping (Mascarenhas, 1986: 170). The values of Golden Bengal of equity, justice, social harmony and cultural brilliance, were discussed, showing how they were reflected in the call for liberation, and how they became a part of the life and works of the Grameen Bank founder Muhammad Yunus. Chapter 4 will explore further how these values are expressed in the modern day bank, while chapter 1 had already introduced the concept of deeper historical roots to the values of Golden Bangla, thus connecting the values of the Grameen Bank as expressed today with the deep historical roots of Bangladesh.

Chapter 3 also noted how in the early days when the bank was still a research project, within its slow unfolding, there were laid the foundations of the present day governance system. Particularly we see the establishment of an open and transparent approach to all financial matters. With regard to good participatory governance, this section discussed the election of group officials, an emphasis on staff (students originally) understanding poverty on an individual level and listening to those effected by it, and Muhammad Yunus' leadership style of empowering, rather than taking power (Chambers, 1996: 241 & 2005: 110). Also discussed was the ability of Muhammad Yunus and his project staff to grasp opportunities that came their way and adapt the organisation so it could pursue its purpose; another indicator of governance in that the organisation was able to set its purpose and find the means to achieve it. These issues will be considered in depth in chapter 6.

Chapter 4 looks briefly at the extent of the present day Grameen Bank operations and the organisation's results, leading to a deeper analysis of the governance structures and processes that support the organisation in Chapter 5.

PART 3 – THE GRAMEEN BANK TODAY

CHAPTER 4 – THE EXTENT AND RESULTS AND OPERATIONS



The Grameen Bank Head office in Mirpur, Dhaka, April 2005.

“Now that the commercial side of the Grameen Bank has proved itself and is actively changing people’s lives, we want to build on this success and expand into other areas so as to improve the quality of life of our borrowers, as well as that of the community in general” Muhammad Yunus, Founder and Managing Director (Yunus, 1999: 239).

Section 4.1 outlines the extent of the Grameen Bank operations in 2005. To achieve the bank’s long-term vision, that is members moving out of and staying out of poverty, the operations of the bank are necessarily broad. There is a long-term

focus on addressing systemic poverty issues such as children's education, hygiene, nutrition, communication, and leadership.

The chapter's second section briefly discusses the results of the Grameen Bank looking at the categories of financial sustainability, outreach, and impact³¹. This section backs up one of the basic assumptions of the thesis, that the performance and results of the Grameen Bank can be categorised as 'good', as opposed to 'poor'. That is, although the organisation may have weaknesses, overall it performs well with positive outcomes.

³¹ As proposed by Zeller and Meyer as the "overarching policy objectives" (Zeller & Meyer, 2002:3) of Microfinance or "The Triangle of Microfinance" (Zeller & Meyer, 2002).

SECTION 4.1 – THE EXTENT OF GRAMEEN BANK OPERATIONS TODAY

Purpose and Mission

“Long-term Vision: Move Out of Poverty and Stay Out of Poverty”, Mr Dipal, Deputy Managing Director (Barua, 2002: 45.)

The setting of organisational purpose and mission are basic steps in setting and aligning an organisation to its purpose. Thus they are fundamental roles of governance under the strategic governance model (for example OECD, 2004: 24).

Purpose

The Grameen Bank Ordinance, 1983 as amended to 1995 (the Ordinance), specifies the bank’s functions primarily as providing credit to landless³² persons for economic activities and housing and allows the bank to “transact” several kinds of “business” (Government of Bangladesh, 1995: section 19) including financial, investment, property transactions and some that reflect the wider social objectives of the bank such as –

- (i) “undertaking the management, control and supervision of any rural organisation, enterprise or scheme for the benefit or advancement of landless persons” (Government of Bangladesh, 1995: section 19(e));
- (ii) “the buying, stocking and supplying on credit to landless persons of industrial and agricultural inputs, livestock, machinery, implements and equipments and industrial raw materials and acting as agent for any organisation for the sale of such goods or livestock” (Government of Bangladesh, 1995: section 19(f));
- (iii) “providing professional counsel to landless persons regarding investments in small business and such cottage industries as may be prescribed and service projects by landless persons” (Government of Bangladesh, 1995: section 19(m));

³² Requiring members to be landless, or effectively so, is intended to assist the bank to reach its target group of poor people.

(iv) “undertaking income-generating projects for landless persons” (Government of Bangladesh, 1995: section 19(nn));

(v) “rendering managerial, marketing, technical and administrative advice to borrowers and assisting them in obtaining services in those fields” (Government of Bangladesh, 1995: section 19(q));

(vi) “generally the doing of all such acts and things as may be necessary, incidental or conducive to the attainment of the object of the Bank³³” (Government of Bangladesh, 1995: section 19(u)).

The bank is not permitted to “undertake or transact” any business if it is not authorised under the Ordinance (Government of Bangladesh, 1995: section 20).

The Ordinance thus both narrowly defines the bank’s purpose, that of provision of credit to landless persons, and permits extensive social and economic development activities. Section 19 of the Ordinance is reproduced in full in Appendix I.

Mission

The Grameen Bank does not specify a single corporate mission. However, it could probably be assumed to be something regarding assisting, and proving credit to, the poor, and alleviating or eliminating poverty. Mr Dipal, Deputy Managing Director says that “not formalising our mission is not deliberate. The main vision is there – it is in our heart and in our processes” (Barua, 2005: Personal Conversation 1). It has been variously described to me as –

- “To provide financial services to the poorest in an affordable way so that they can benefit: income generation to change their lives” Muhammad Yunus, Founder and Managing Director (Yunus, 2005: Personal Conversation 1);
- “To alleviate the effects of poverty from the lives of the poor men and women especially, in Bangladesh” Dipal Barua, Deputy Managing Director (Barua, (2005: Personal Conversation 1);
- “To alleviate poverty from the lives of the poor people” Dipal Barua, Deputy Managing Director (Barua, 2005: Slide 3);

³³ “The object of the Bank” is undefined in the Ordinance.

- “To serve the poor, especially women” Nurjahan Begum, General Manager (Begum, N, 2005: Personal Conversation 1).

Notwithstanding current business ‘best practice’ that emphasises the importance of specifying an organisational vision and mission as the basis of organisation strategy, given the similarity of the various proposed Grameen mission statements and given its strong results, the inconsistencies in mission statements are not of concern at present. The organisation is strongly aligned behind its purpose with “remarkable consistency between the vision and values articulated by senior management, and those expressed by field managers” (Holcombe: 1995: 77). However, some concerns for the future are discussed in Chapter 7.

Membership

To join the Grameen Bank a woman³⁴ must be landless and assetless, or effectively so. *Landless* is defined as either totally landless, or with less than half an acre of cultivatable land, and being *assetless*, defined as having assets that do not exceed the value of one acre of medium quality land (Government of Bangladesh, 1995: 1). The bank gives higher priority for the totally landless to join. A 1991 survey undertaken jointly by the Bangladesh Institute of Development Studies and the World Bank suggested that in 55% of the cases studied the new member had been totally landless upon joining the bank (Khandker, 1998: 40).

As at December 2005 the bank has 5.58³⁵ million borrowers, 96% of whom are women. There are 1,735 branches covering 59,912 villages and a total staff of 13,492. Since inception to December 2005 over Tk256,500 million (NZ\$5,130 million) has been disbursed in loans with an amount outstanding of Tk27,970 million (NZ\$559.4 million) and a repayment rate of 99.01% (including loans that have been ‘detoured’, that is refinanced due to difficulties in payment). On average Tk3,270 million (NZ\$65.4 million) is now disbursed each month. (Yunus, 2005b: 1.)

³⁴ New branches and centers have exclusively female membership, but males can join established male centers if another man leaves, or more groups are added in established male centers.

³⁵ In April 2005 membership was at 4.48 million, thus demonstrating a year of rapid growth in line with the bank’s strategy.

Members form a *group* of five, and six to eight groups form a *Centre*. Every year members elect a *Group Chairman* and *Group Secretary*, and a *Centre Chief* and *Deputy Centre Chief*. Every three years Centre Chiefs select nine *board members* from among themselves. This process builds leadership within the membership, as well as making borrowers familiar with democratic processes.

Grameen *Kalyan*³⁶, a spin off company created by the Grameen Bank, carries out social advancement activities among the Grameen borrowers, such as education, health, and technology. This organisation is funded by interest on all the grant money the bank has received from various donors.

Between 1980 and 1984 a series of week long dialogues were held at village level to reflect on members' lives. From these were generated 'decisions' that were circulated among others who had not been able to participate. Initially there were four decisions, increasing to 16 by 1984, at which time it was decided "to give more attention to implementation of these decisions, rather than adding more" (Yunus, 2004:43). Although outwardly about making healthy choices, they also foster personal pride, a sense of community, and concern for others. They are reproduced in Box 4.i.

Potential members must know the 'decisions' before joining and "most can recite the decisions without any effort. All are required to make continuous strides to implement these decisions" (Yunus, 2004: 43).

³⁶ *Kalyan* means 'well-being'.

Box 4.i – The 16 decisions.

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. We shall bring prosperity to our families.
3. We shall not live in dilapidated houses. We shall repair our houses and work towards constructing new houses as soon as possible.
4. We shall grow vegetables all the year round. We shall eat plenty of them and sell the surplus.
5. During the plantation season, we shall plant as many seedlings as possible.
6. We shall plan to keep our families small. We shall minimise our expenditures.
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 latrines.
10. We shall boil water before drinking or use alum to purify it. We shall use a pitcher filter to remove arsenic.
11. We shall not take any dowry at our sons' weddings; neither shall we give any dowry in our daughters' weddings. We shall keep the centre 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.
15. If we come to know of any breach of discipline in any centre, we shall all go there and help restore discipline.
16. We shall take part in all social activities collectively.

Source: Yunus, 2004: 44-51.

Profitability and Use of Profits

Profit is important to the Grameen Bank insofar as it makes the organisation sustainable and indicates financially sustainable practices.

“Financial sustainability is a directional goal, unless you are self-sustaining you cannot continue. We are not greedy like a private company in the economic system, we are a social organisation. We must be sustainable and profitable towards that mission. Mission is number 1, finance is number 2.”

Mr Dipal, Founding staff member and Deputy Managing Director (Barua, 2005: Personal Conversation 1).

“Profit is important as an indicator that the business is doing well, equity is intact and the bank is in good sound situation. It indicates protection of resources and covering of costs. That the business is sound. It is not important to make large amounts of money for shareholders.” Professor Yunus, Founder and Managing Director (Yunus, 2005: Personal Conversation 1)

The bank has made a profit every year except 1983, 1991, and 1992. Profits initially were marginal and gradually increased. In 2004 (the last full-year figures available at February 2006), the total revenue generated by the Grameen Bank was Tk4,700 million (NZ\$94 million). Total expenditure in 2004 was Tk4,230 million (NZ\$84.6million) with interest payment on deposits of Tk1,580 billion (NZ\$31.6 million) the largest component of expenditure (37%). Salaries, allowances and pension benefits amounted to Tk1,330 million (NZ\$26.6 million) and were the second largest component of the total expenditure (31%). Total profit for 2004 was Tk466 million (NZ\$9.32 million).

Note that this profit of US\$7.9 million, spread across 4 million members, represents a profit of US\$1.98 per member, indicating that each individual member is only paying a small amount above the minimum cost of services. As required by the Ordinance (section 25 – Reserve Fund), the “net annual profit” is credited to a reserve fund, the *Rehabilitation Fund*, created to cope with disaster situations (Government of Bangladesh, 1995: section 25). This arrangement exempts Grameen Bank from paying tax on “income, profits or gains” once the Government makes notification of exemption in the official government publication “the Gazette”³⁷ (Government of Bangladesh, 1995: section 33).

³⁷ The bank’s 2003 Annual Report notes that notwithstanding an exemption to 1 February 2005, in 1998-99 the Grameen Bank had to take the Tax Department to the High Court to obtain the tax exemption. The 1999-2000 tax exemption is still awaiting High Court trial, but 2000-2003 tax has been exempted, with 2003-2004 still pending a decision from the Tax Department (Grameen Bank, 2004:58). It appears that the bank’s tax-free status is under threat although it is not clear if this is only a government internal mix-up, on indicative of a deeper issue. Given that the government outwardly appears to support the Grameen Bank as “one of the instruments of government policy to reduce poverty” (Tabarak Husain, 2005: personal conversation), my speculation is that larger profit figures may have taken the attention of bureaucrats, where-as smaller figures were of little interest.

The *Rehabilitation fund*, that is the accumulated profit, can be accessed by any member to help cope with a disaster. It may be an individual disaster such as a house fire, or it can be a nationwide disaster such as flooding. In the 1998 floods the Rehabilitation Fund was not sufficient, and Tk3,000 million (NZ\$60 million) was borrowed from the Central Bank and commercial banks to support borrowers, most of whom lost all their assets. This flood was very severe leading to the loss of two crops over 2½ months and caused much hardship amongst borrowers, and eventually lead to the entire overhaul of the Grameen Loan system over 2000 to 2002. (This is discussed in more detail in Chapter 5 and Appendix III.) Flooding in 2004 was less severe and the entire flood rehabilitation was able to be carried out with the bank's own resources. Rehabilitation first entails immediate operations to save lives such as evacuation, food, and urgent medical assistance, and then once the floods recede, housing and rehabilitation loans to rebuild houses and businesses (Barua, 2005: Personal Conversation). The 2004 flood cost the bank about US\$10 million, of which it is estimated about 50% was as loans and will be recovered. (Yunus, 2004: 3/4).

In his book "The Price of a Dream" (1997) David Bornstein relates the story of the cyclone, tidal wave and floods of 1991, that killed 139,000 people in the Chittagong area overnight, and the use of the Grameen Bank rehabilitation fund. This example shows how the bank's embedded values of *compassion* and a *holistic and long-term approach to mitigating the effects of poverty* are expressed in the bank's activities. It also illustrates the decentralised approach to operations where the local managers have operational autonomy within the organisational ideology. At the Dulahazara branch, about 20 miles north of Cox's Bazaar, bank workers had spent the stormy night huddled on the dormitory floor surrounded by shattered glass. At 6.00 in the morning, the branch manager, Sridam Chandra Das and his assistant left the office.

"We went from house to house... the members were huddled in the rain.

We asked about the damage and urged them to find out about the other

Loosing tax-free status would make the Bank the only tax paying development organisation in the Country, with hundreds of NGOs automatically exempt from taxation as NGOs. It is also possible that the Bank is being caught up in 'Good Governance' projects brought in by overseas Aid Agencies that are trying to reduce corruption, something that may well consider the taxation structure and reduction of tax avoidance. It is important to note that other microcredit NGOs in Bangladesh are exempt from tax as NGOs; the Grameen Bank needed specific legislation for exemption due to its status as a bank.

members and let us know what had happened to them. I returned to the branch and decided that everyone should visit one or possibly two centres” (Bornstein, 1997: 270).

A bank worker M. Shah Jahan recalled hiring a boat, tracking down 50 members and telling them they had to find the strength to gather themselves and start again. “You know, the government didn’t visit them... their relatives couldn’t come. But we came. And the members told us that our words were as important as our loans” (Bornstein, 1997: 271).

At the same time Zonal Manager, S.M. Shamim authorised the disbursement of millions of takas to distribute rice, dal, potatoes, salt, molasses, water purification crystals, and oral saline solution and sanctioned thousands of supplemental loans so members could purchase other supplies. Normal rules for house loans were suspended and any member who lost her house was immediately eligible for a fifteen to twenty year mortgage of up to 15,000 takas of which 14,000 loans were eventually made. “Staff advised members that all food and supplies given by the bank were not charity, but a loan from their own Disaster Fund. ‘You’ll take the supplies when it’s raining, and replenish them when it’s sunny’ ” (Bornstein, 1997: 272).

Shamin recalled that the government had responded ineptly. “They were stupid. What did they do? They dropped relief from the air. So the strongest men got it. They didn’t give priority to women and children. Most of those who died, both before and after the cyclone, he added, were women and children” (Bornstein, 1997: 272).

A quarter of the district’s forestry had been destroyed so staff distributed saplings and, another idea of Shamin’s, seeds for quick-flowering plants. “It gives people courage when they see things begin to grow again” (Shamin in Bornstein, 1997: 273.)

In the midst of a massive aid effort from the government, large international NGOs, foreign aid agencies, religious organisations and wealthy individuals, Grameen Bank was making it clear that most of its support was as loans and therefore

repayable. Shamim was concerned that this might foster resentment against the bank but this did not eventuate.

“Shamim discovered that he had underestimated the villagers... ‘Even villagers who did not like the bank before, became supporters after the cyclone.’ They saw how the bank workers visited the members over and over, he explained, and they knew that long after the other relief agencies had departed, the staff of the Grameen Bank would still be coming around” (Bornstein, 1997: 273.).

In summary it can be seen that the Grameen Bank shareholders presently do not profit directly from their shares by way of a dividend payment. However each individual shareholder has a form of collective insurance by way of assistance, either a grant or a loan, in time of personal or local disaster. The government as a shareholder also benefits by way of the provision of a ‘safety net’ for many citizens, minimising calls on its assistance. The fact that profit is used for the collective benefit of members when in need, fits with the underlying compassionate mission of the organisation.

Loan and Savings structure

The Grameen Bank’s loan structure is based on the principles of “No Collateral, No Legal Instrument, No Group-Guarantee or Joint Liability” (Yunus, 2005a: 1). Thus no collateral is required for any loan, and no legal instrument is used, as the bank does not intend to take any borrower to the court of law in case of non-repayment. Although each borrower must belong to a five-member group, the group is not required to guarantee an individual’s loan, and repayment responsibility rests solely on the individual borrower. The group and the centre “oversee that everyone behaves in a responsible way and none gets into a repayment problem but there is no form of joint liability, i.e. group members are not responsible to pay on behalf of a defaulting member” (Yunus, 1995: 1).

Grameen Bank finances 100% of its outstanding loans from its deposits. Of these deposits over 66% come from the bank’s own borrowers, the balance coming from deposits from other people in the community. The total of member deposits is

increasing at a monthly average rate of 3.46%. Deposits amount to 104% of the outstanding loans, or if combined with other Bank resources, it becomes 131% of loans outstanding. Therefore the bank no longer requires loans or donor funding. (Yunus, 2005a: 2/8.)

Since 2002, under the Grameen Generalised System, the Grameen Bank has the following loan products: the Basic loan for access to credit, also known as the 'Grameen Microcredit Highway'; microfinance loan; the housing loan; and the higher education loan. The loan structure and utilisation is further outlined in Appendix II. The loan structure highlights the innovative approach to banking taken by the organisation; how great attention has been given to meeting the needs of the members. The housing and education loans highlight the emphasis on the holistic development of the members and their families, as well as aligning the organisation with the long-term vision of members getting out of, and staying out of, poverty.

Savings

There are seven different saving schemes paying interest from 8.45% to 12% per annum. Various types of savings account exist to provide flexibility to members, some being easily accessible and some being fixed term. Savings are an important part of providing banking services to the poor, as savings can greatly increase security of income over periods of low income, such as sickness or seasonal income that depends on crops³⁸. Table 4.ii. shows the interest on each savings account and briefly describes its purpose.

³⁸ The emphasis on the 'credit' part of finance has "prompted some commentators to call savings the 'forgotten half' of financial intermediation" (McGuire & Conroy, 2000: 7).

Table 4.ii – Annual Interest Rates and Purposes of Grameen Bank Savings Accounts

Type of Account	Annual Interest Rate
Savings	8.5%
Fixed Deposit	8.45-9.5%
Double in Seven Years	10.40%
Fixed Deposit (Five years) with monthly income	10.04%
Fixed Deposit (Ten years) with monthly income	10.67%
Grameen Pension Savings (Five Years)	10%
Grameen Pension Savings (Ten years)	12%

Source: Barua, 2002: 29.

Beggar Mentoring Scheme, the ‘Struggling Members Programme’

“Begging is the last resort for survival for a poor person, unless he/she turns into crime or other forms of illegal activities. Among the beggars there are disabled, blind, and retarded people, as well as old people with ill health. Grameen Bank has taken up a special programme, called Struggling Members Programme, to reach out to the beggars” (Yunus, 2005a: 3).

In the past there has been criticism of the Grameen Bank that although they were effective at reaching the poor, they were not reaching the poorest of the poor (for example Amin *et al.* 2003: 59). In July 2002 the bank launched its ‘Struggling Members Programme’ to reach some of these people. This is a natural extension of the bank’s reach sitting well with the bank’s imbedded values: an organic growth of the bank’s interests.

The scheme “nurses and supports beggars, it treats them as [Grameen Bank] undergraduates to move towards regular membership of the bank” (Barua, 2005: Personal Conversation 1). By December 2005 about 63,000 beggars had joined the programme³⁹ with a total of Tk45.92 million (NZ\$918,400) disbursed and Tk23.69 million (NZ\$473,800) already repaid, an on-time repayment rate of 100% (Yunus,

³⁹ In April 2005 this figure was 42,000, again indicating an area of rapid growth in line with company strategy.

2005b: 3). In January 2005, 112 beggars had given up begging to become regular Grameen Bank members (Barua, 2005: Personal Conversation 1).

The basic features of the Programme are designed to assist beggars to gain the confidence and skills of full members and are outlined in box 4.iii. They include groups and centres becoming mentors or patrons to individual beggars, interest free loans, free life insurance and loan insurance, and the suspension of usual Grameen Bank rules so that the struggling member has the benefits of Grameen membership while they building skills and confidence. Clearly this scheme puts extra burdens onto staff, membership and profitability, but it fits with the bank's overriding compassionate mission, and in the long-term is likely to be profitable when sufficient new members have been created from among the beggar members.

Box 4.iii – The basic features of the Struggling Members Programme.

The objective of the programme is to provide financial services to the beggars to help them find a dignified livelihood, send their children to school and graduate into becoming regular Grameen Bank members. We wish to make sure that no one in the Grameen Bank villages has to beg for survival.

- Existing rules of Grameen Bank do not apply to beggar members; they make up their own rules.
- All loans are interest-free. Loans can be for very long-term, to make repayment instalments very small. For example, for a loan to buy a quilt or a mosquito-net, or an umbrella, many borrowers are paying Tk2.00 (3.4 cents US) per week.
- Beggar members are covered under life insurance and loan insurance programmes without paying any cost.
- Groups and centres are encouraged to become patrons of the beggar members.
- Each member receives an identity badge with Grameen Bank logo. She can display this as she goes about her daily life, to let everybody know that she is a Grameen Bank member and this national institution stands behind her.
- Members are not required to give up begging, but are encouraged to take up an additional income-generating activity like selling popular consumer items door to door, or at the place of begging.

Source. Yunus, 2005a: 4.

In discussing this programme with Mr Dipal the Deputy General Manager I am taken with his pride in this programme and his enthusiasm for its potential. “We already have around 35,000 beggar members, and over 100 have gained full membership of Grameen. As more join and the bank gains more experience, our ability to successfully reach these people will increase too” (Barua, 2005: Personal Conversation 1). This highlights that the bank’s compassionate purpose is still clear and the organisation still aligned behind it, again indicating well performing governance. Building on its strengths and experience from more than 20 years working with the poor has lead the bank to reaching out in a systematic and deliberate manner to the poorest of the poor, the most systemically pauperised of the human family.



Ms Kanduri Begum sells eggs while pursuing her traditional occupation, begging. (Photo: Grameen Bank.)



Ms Argina gave up begging and now sells bread, stamps etc in front of the local Grameen Bank office. (Photo: Grameen Bank.)

Education

As well as the higher education loans covered above and in Appendix II, about 9,000 scholarships (two per branch) are given to the children of Grameen members every year with a priority on girl children. The scholarships are to encourage better grades in schools at various levels of school education (Yunus, 2005a: 5). The Bank also funds coaching to A and A+ grade students (who are children of Grameen members) seeking admission into higher education courses, as tough competition for entry into such courses makes preparation for entry exams important.

The three levels of education assistance: from school entry to professional qualifications; show the Grameen Bank focus on strengthening each family unit, thus ensuring it does not fall back into poverty. As well as supporting the Grameen purpose of sustainable poverty alleviation, it is also part of a wider strategy to assist Grameen children to reach themselves into higher levels of Bangladesh's infrastructure; a way of changing the attitudes of society, of increasing the voice of the poor and the receptivity of the elite. "We have children of Grameen members becoming Doctors and Engineers and reaching the upper levels of society, imagine what changes having these people at higher levels can bring to Bangladesh! Eventually we are hoping to have two Fulbright Scholarships" (Barua, 2005: Personal Conversation 1). This conversation highlights the possibility of the spread outwards and 'upwards' of the Grameen Bank values, the reawakening the Golden Bengal dream.

"Once you prepare the future generation" says Mr Dipal, "poverty alleviation becomes sustainable" (Barua, 2005: Personal Conversation).

Insurance and Pensions

In direct response to member's needs and requests, the Grameen Bank has implemented members' life insurance, loan insurance, and pension.

One fear of members was the belief that if you died while still being in debt your soul would not enter heaven until the debt was paid. Under the Loan Insurance Programme if a member dies any outstanding loans are paid off from the insurance fund. This fund is created by the interest generated through a savings account created by an annual deposit of the borrowers. Borrowers are required to put an amount equal to 3% of the loan outstanding on December 31 in a designated savings account. If her⁴⁰ present outstanding amount does not exceed the amount outstanding in the previous year, she does not have to add any more money, if it exceeds, then she pays 3% of the incremental amount⁴¹. More recently coverage

⁴⁰ 96% of members are women, so for ease of writing the female personal pronoun will be used in reference to members/owners.

⁴¹ Up to 30 April 2005, 28,991 borrowers had died with a total outstanding loans and interest of Tk217.05 million (NZ\$4.34 million) had been paid off by the scheme. The programme not only

has been extended to the member's husband by payment of double the deposit amount (Yunus, 2005a: 7).

Dipali Rani recalled from her time as a Grameen Bank elected board member from 2000-2003, the proposal to include the member's husband in the insurance: "If the member dies the husband can repay the loan – but if he dies it is a great problem for the wife, so we proposed insurance for the husband. So it was passed, we now have our insurance for our husbands" (Borua, 2005: Interview).

Further, borrowers automatically come under life insurance coverage by being a shareholder of the bank. Each family receives a minimum of Tk1,500 (NZ\$30) that increases with the length of time the deceased had been a Grameen Bank borrower (Yunus, 2005a: 7).

As borrowers age, their attention turns to income generation when they can no longer earn. When the Grameen Bank introduced a Pension Fund for old age it immediately became very popular (Yunus, 2005a: 8). The borrower is required to save a small amount over a period of ten years and she will get back almost twice that amount at the end of the period⁴². These schemes and their popularity highlight how the bank offers services that respond to the needs of members, indicating an intimate knowledge of what the members want.

The Grameen Network

Through its grassroots involvement with the Bangladesh rural community, the Grameen Bank became uniquely knowledgeable about the reality of life there. This coupled with the Grameen Bank habit of questioning surroundings and supposed 'societal norms' has led to a number of 'off shoot' companies that further serve the rural community and Grameen's social purpose. The Grameen Network highlights how innovative the organisation is in how it provides the means to deliver its social development purpose, and is an indicator of effective governance.

pays off the family debt burden but also pays back the entire amounts deposited by the borrowers in their loan insurance savings accounts (Yunus, 2005a: 7).

⁴² By the end of April 2005 the balance under this account was Tk6,400 million (NZ\$128 million) with Tk600 million (NZ\$12 million), 9.4% of the total amount, having been added in the previous four months.

Box 4.iv – A brief outline of some of the Independent Companies within the Grameen Network.

Company	Purpose
Grameen Trust	The Trust was started in 1990 and is headed by Dr Yunus's former Chittagong University colleague H.I Latifee. It works toward the vision of a poverty free world, mainly by spreading the Grameen Bank approach to microcredit, by acting as an international wholesale fund that channels seed and scaling-up funds to both aspiring and established microcredit practitioners worldwide. The Trust's Grameen Bank Replication Program has supported 112 projects in 34 countries. Although the Trust mainly helps establish microcredit projects with partner organisations, in special cases, it directly implements and makes projects sustainable through its Build, Operate and Transfer Model. It also provides consultancy services on a range of microcredit related and poverty related issues and practices. (Latifee, 2002: 6.)
Grameen Communications	Grameen Communications is a not-for-profit information technology (IT) company. It provides complete systems solutions through developing software products and services, internet services, hardware and networking services and IT education services. Its broad objective is to promote the establishment of an accessible and sustainable information and communication infrastructure all over Bangladesh for research collaboration, information exchange, information sharing and communications. (Grameen Communications, 2005: 1/1.)
Grameen Telecom and Grameen Phone	Grameen Telecom's mandate is to provide a modern cellular phone service to the rural poor in Bangladesh. It was established in 1995 as a not-for-profit company for improving the standard of living of the rural poor by providing telecommunication facilities to rural people. The company's major product: the Village Phone Programme, commenced in 1997. Grameen Telecom aspires to establish universal telephone access all over rural Bangladesh and to become a model for utilizing telecommunication and IT to empower the rural poor (Grameen Telecom, 2005: 1). The Grameen Bank has provided loans to 118,842 borrowers (April 2005) to buy mobile phones and offer telecommunication services (Yunus, 2005a: 9). The 'Telephone Ladies' gain an average monthly income of Tk4,000 (New Zealand\$80) from the phone business. (Barua, 2005: Slide 38.)

Grameen Uddog (Initiatives), Grameen Textiles, Grameen Shamogree (Products)	In 1990 Grameen Bank manager and former senior civil servant Khalid Shams took some time to understand the lives and struggles of handloom weavers. He discovered that although the local product was of high quality, the weavers lacked the coordination to supply the thousands of yards needed by industry. In 1993 <i>Grameen Uddog</i> was created as a not-for-profit company to provide a link between handloom weavers and the garment industry specialising in ‘Grameen Check’ a hand woven 100% cotton product. This led to the establishing of <i>Grameen Textiles</i> in 1998 to produce machine woven materials such as flannel, and <i>Grameen Shamogree</i> to focus on other materials and Bangladeshi handicrafts. (Yunus, 1999: 248-251.)
Grameen Shikkha (education)	Grameen Shikkha was formed in 1997 to take over the Grameen Bank’s education programmes for members and their children. The main programme is the Life-Oriented-Continuing-Education with Parenting Education Program. Other programmes include vocational training for adolescents and early childhood education. (Grameen Shikkha, 2005: 1).
Grameen Software	Grameen Software is a global provider of “cost-effective, quality software development and IT services” headquartered in Dhaka with large development facilities in Bangladesh and the United States and facilities planned to open in the UK and Germany. (Grameen Software, 2005: 1.)
Grameen CyberNet	Recognizing the large benefit a tool like the internet could provide for Bangladesh, the Grameen Bank decided to offer the people of Bangladesh access to this technology. Grameen CyberNet was formed in 1996 and equipped with up-to-date hardware and software. The company is a joint venture of Grameen Fund and CITech Limited, a private computer and IT distributor. Its mission is to “create an online community to aid in online economic revitalization, educate and enlighten the residents of Bangladesh, while maintaining the highest standards of personal morals, business ethics and web etiquette”. (Grameen CyberNet, 2005.)

17 of these 21 companies are independent and registered under the Companies Act of Bangladesh, with obligation to pay all taxes and duties and box 4.iv briefly outlines some of these companies. The services provided are broad and range from the Grameen Trust whose purpose is “to work towards the vision of a poverty free world mainly by spreading the Grameen Bank approach to microcredit” (Latifee, 2002: 6): the information technology, computer software, and internet companies Grameen Communications, Grameen Software and Grameen CyberNet:

telecommunications companies Grameen Telecom and Grameen Phone that are the largest telecommunications providers in the country (Grameen Telecom, 2005: 1); textile, clothing and handicraft production by Grameen Uddog, Grameen Textiles, and Grameen Shamogree; to life, parenting and vocational training by Grameen Shikkha.

A further five companies have been created to ‘spin off’ some Grameen projects funded by donors. These companies are also separate legal entities with loan liability to the Grameen Bank and Box 4.v outlines some of them. These include Grameen Kalyan that carries out social advancement activities amongst Grameen members, the Grameen Fund to provide seed funding for businesses that were likely to provide direct and indirect benefits for the rural poor, and the renewable energy company Grameen Shakti.

Box 4.v – A brief outline of some of the Companies involved in ‘spin-off’ Grameen Projects.

Company	Purpose
Grameen Kalyan	This company carries out social advancement activities amongst Grameen borrowers, such as education, health, and technology. It is funded from the interest on grant money received from donors. (Yunus: 2005: 5.)
Grameen Fund	The Grameen Bank came to realize that its long-term developmental objectives required establishing a mechanism to provide high volume risk capital. The bank had encountered many ideas, technologies and approaches that could lead to businesses that are economically compelling and socially progressive, but did not fall within the scope of Grameen Bank's initial objectives of providing micro credit loans to the very poor. The Grameen Fund was established in 1994 to fill up this risk capital gap for ventures that promised good return on equity investments as well as direct and indirect benefits for the rural poor. (Grameen Fund, 2005: 1.)
Grameen Shakti (energy)	Founded in 1996 and headed by Grameen Bank Deputy Managing Director Mr Dipal, Grameen Shakti is a renewable energy company focused on the development of renewable energy products for poverty alleviation. 70% of the Bangladesh population do not have access to the national grid, cutting them off from the development benefits electricity can provide. (Grameen Shakti, 2005: 1)

Expansion Strategy

The bank's present Strategic Plan sees the bank expand to 10 million members by 2010. "This could be our total expansion" explains Mr Dipal. "This will ensure Grameen Bank coverage of all villages in Bangladesh and will mean that some villages are covered by more than one micro-finance NGO, competition that will be good for the poor" (Barua, 2005: Personal Conversation 1). To this purpose the bank intended to open 200 new branches and take the membership up to 5 million members during 2005, adding 100,000 borrowers per month and 2,500 more staff during the year⁴³.

Mr Dipal stated that the Grameen Bank also plans to raise all its members out of poverty. "The Millennium Development Goals hope to halve poverty by 2015, we plan to eradicate it from all our members by then. And remember; each member has a family, say of five people. With ten million members, that's 50 million people out of poverty" (Barua, 2005: Personal Conversation 1).

The beggar mentoring scheme is also planned to expand to 100,000 members, which Mr Dipal estimates to be perhaps 20% of all beggars in the country (Barua, 2005: Personal Conversation 1).

Section Conclusion

In March 2005 I spoke with Mrs Jannat E Quanine, a founding staff member and now Deputy General Manager. She described the evolution of the bank from a few people with a compassionate desire to help the poor, into the international microcredit benchmark organisation it is today, the extent of which has been discussed in this section.

"Initially microcredit was to feed people, to save her from hunger and the money lender. We are dreaming – that we could become a full bank, who would know they [the poor] would repay the loan? We didn't know they could handle bigger loans. Now enterprise development is important!!

⁴³ In March 2005 membership was 4.35 million, April 4.48 million, October 5.31 million and December 2005 5.58 million (Yunus, 2005b: 1).

“Slowly the human development – improvements of lives. We didn’t imagine the women could save money – mobilise so much. Each phase leading to the next level. We didn’t imagine we would see the next generation. We taught the mother to sign her own name; now her children are at University. As years go on, our mission is expanding. We have gone global – socio economic development is the heart of it” (Quanine, 2005: Personal Conversation).

This section has shown the broad work of the Grameen Bank and its network, showing an organisation that is focused on its social development purpose, and innovative in its means to achieve it. The bank shows a holistic approach to addressing the systemic causes of poverty, from basic savings and loan services, to assistance with formal and life skills education, to providing the means to increase income and quality of life (housing loans, electricity, and telecommunications and information technology services). The beggar mentoring scheme shows the dedicated extension of services to the nation’s poorest people, while also potentially serving to provide a large new membership base that in the long-term should assist profitability: showing how the bank can balance its need for financial sustainability with its social mission, even without that mission being absolutely specified.

Having looked at the history of the Grameen Bank and the extent of the present day operations, to complete the overview of the Grameen Bank we turn our attention to its results.

SECTION 4.2 – GRAMEEN BANK RESULTS

This Chapter's final section briefly discusses the results of the Grameen Bank looking at the categories of Financial Sustainability, Outreach, and Impact. This section highlights the overall positive results of the company.

Financial Sustainability

Financial sustainability includes both the financial profitability of the bank, as well as the use of subsidised funds.

As discussed in section 4.1, the bank has reached a position where it has a comfortable financial profit each year indicating that the cost per taka lent, at least equals the income derived from loans.

Discussion of subsidised funds revolves around whether the bank can be profitable without grants and 'soft' loans. A 1995 World Bank Discussion Paper noted that subsidy dependence declined between 1984 to 1994 and suggested that it should ultimately be able to eliminate all forms of subsidies by the year 2000 (Khandker, 1995: 67). Indeed in 1995 the bank decided not to take any more donor funds, receiving one final loan in 1998 that was already "in the pipeline" (Yunus, 2005a: 2). The Grameen Bank now finances all loans from deposits.

Outreach to the Poor

Outreach refers to both the geographical location of branches within poor areas, and to the 'level' of poor becoming members.

In April 2005 the bank had 4.48 million members, roughly 3.5% of the population, and was intending to expand to 10 million members, nearly 8% of the population, by 2010. Multiplied by a factor of five to consider immediate family members, its reach is to 17.5% of the population, aiming for 40% by 2010. It operates in 51,687 villages, well over half the villages in Bangladesh, with expansion plans to see it operating in all villages in the country again by 2010. The 1995 World Bank Discussion Paper found that the Grameen Bank branch placement programme was random, meaning that reaching the poor and establishing branches likely to be

financially viable⁴⁴, were of equal importance in branch placement. (Khandker *et al.*, 1995: 56.)

The only area not covered at all by the Grameen Bank is the Chittagong Hill Tracts area. This area that still has an uncertain security status due to past rebel activity and an unstable peace accord signed in 1997.

There is no doubt that the bank intends to, and does reach, people that are very poor, given that people must be landless to join. Ironically now over 50% of members are, by the bank's definition, no longer poor due to the improvement of their lives after taking Grameen loans and staff jokingly refer to the bank as 'the bank for the poor and formerly poor'.

However, it is perhaps arguable that the bank has not reached the *poorest*. Factors against the poorest joining are their lack of confidence to take a loan, and the reluctance of other members to have them in their groups. However, with the introduction of the Struggling Members Programme in 2002, the bank is striving to reach this group in the bank's typical systematic and coordinated way.

Impact

This section discusses briefly many of the impacts of the Grameen Bank.

Movement out of Poverty and Financial Impacts

All members' households are surveyed by Centre Managers in the first three months of each calendar year. Ten indicators, reproduced in box 4.vi, are used to analyse if the household is moving, or has moved, out of poverty. Only when all ten indicators are achieved for the entire household is the member considered to have moved out of poverty. The indicators are holistic, in that they consider housing, nutrition, water quality, education, health, sanitation, financial income, and warmth.

⁴⁴ Branches close to transport infrastructure, administrative centres, less likely to flooding and with less pronounced seasons are easier to administer and therefore cheaper to run, and more likely to be profitable. However the highest proportion of poor people will not be in these areas. (Khandker, 1995: 54.)

Box 4.vi – Ten Indicators to Assess Poverty Level.

A member is considered to have moved out of poverty if her family fulfils the following criteria:

1. The family lives in a house worth at least Tk25,000 (NZ\$500) or a house with a tin roof, and each member of the family is able to sleep on a bed instead of the floor.
2. Family members drink pure water of tube-wells, boiled water or water using alum, bleaching powder, purifying tablets or pitcher filters.
3. All children in the family over six years of age are all going to school or finished primary school.
4. Minimum weekly loan instalment of the borrower is Tk200 or more.
5. The family uses a sanitary latrine.
6. Family members have adequate clothing for everyday use, warm clothing for winter such as shawls, sweaters, blankets etc, and mosquito nets to protect themselves from mosquitoes.
7. The family has sources of additional income, such as a vegetable garden, fruit-bearing trees, etc, to that they are able to fall back on these sources of income when they need additional money.
8. The borrower maintains an average annual balance of Tk5,000 (NZ\$100) in her savings accounts.
9. The family experiences no difficulty in having three square meals a day throughout the year, i.e. no member of the family goes hungry at any time of the year.
10. The family can take care of their health. If any member of the family becomes ill, the family can afford to take all necessary steps to seek adequate healthcare.

Source: Barua, 2002: 42/44.

Box 4.vii shows the increase in movement out of poverty from 1997 to 2005. It shows a steady increase from 15% in 1997, to 55% of members (and former members) in 2005, a total of nearly 2.3 million people. When calculated for a family of five people, this becomes a figure of nearly 11.5 million people no longer living in poverty after a family member joined the Grameen Bank.

Box 4.vii – The number of members who moved out of poverty, and total population moved out of poverty assuming a family size of five.

Year (Beginning of year)	Total # of members	% of members moved out of poverty	Total # of members moved out of poverty	Total # of people moved out of poverty (family of 5)
1997	2,270,000	15.1	342,770	1,713,850
1999	2,360,000	24.1	568,760	2,843,800
2001	2,380,000	42	999,600	4,998,000
2003	3,120,000	51.1	1,594,320	7,971,600
2005	*4,175,000	55	2,296,250	11,481,250

(Barua, 2002: 44; Khandker, 1995: 92; Yunus, 2005a: 10; Grameen Bank 2003: 10)

* Figure estimated.

Further to the bank's figures is a 2004 doctoral thesis research project in the Comilla district (East of Dhaka) which found that microcredit did account for an improvement of poverty status above that of the general economy. Shah Nawaz found that –

“(H)ouseholds involved in a microcredit programme experienced a higher rate of improvement in their poverty status and standard of living over the three or four years since they joined the programme, when compared with a control group of non-microcredit but otherwise similar households from the same village” (Nawaz, 2004:12).

As already referred to in chapter 3, Pitt and Khandker's research published in 1998 found that annual household consumption expenditure increases between 11 and 18 taka for every 100 additional taka borrowed (Pitt & Khandker, 1998: 958), showing that the microloans are increasing the money available for household expenditure.

Empowerment of the Poor

Although the Grameen Bank has nearly 200,000 male members, microfinance is generally discussed as a tool for the empowerment of women. This section will therefore address empowerment from the perspective of women primarily, partly as this is the area that researchers have focused on and it is therefore difficult to find

information on the empowerment of male members. It can generally be assumed that male empowerment indicators will not be worse than female empowerment indicators, other than in the area of election of board members, where the apparent inability of males to become board members may be disempowering to male members⁴⁵. Some further discussion around this issue is in Chapter 7.

As empowerment is partly a personal feeling or an outlook on life, levels of empowerment are difficult to measure. Researchers tend to use physical indicators to measure 'empowerment' but these are subject to the bias of the researchers' interpretation that may not be true indicators of actual empowerment. For example Naila Kabeer noted that women's mobility was often taken as an indicator of increased empowerment, with the assumption that a more empowered woman is able to travel more, such as to markets. However, within the notion of *purdah*⁴⁶ a woman may use her increased wealth to increase her social status by carrying out her work *within* the home and thus apparently decreasing her mobility. (Kabeer, 2001: 68/69)

Notwithstanding the complexity of measuring changes in empowerment, Shah Nawaz argues that microcredit in Bangladesh has "been able to slightly increase the wellbeing and status of women" (Nawaz, 2004: 12) with increased involvement in income generating activities, more partial control of family income, an increase in asset ownership, an increase in household status, increased participation in family decision making, and an increase in personal courage and confidence. On the negative side families experienced tension when the family had problems repaying loan instalments.

The Grameen Bank also notes that the Grameen system makes borrowers familiar with election processes when routinely electing group and centre representatives and board members. This is credited with preparing members to run for public office. In 2003 3,059 female Grameen members were elected to the local bodies

⁴⁵ Although male center chiefs are eligible to be board members, no male has been elected to date. 1991-1993 elected board member Monwara Begum described how at her branch election "some male members wanted to be board members" but they were outnumbered by females so "the women center chiefs selected me, and then the others (men) selected me as well" (Monwara Begum, 2005: Interview).

⁴⁶ *Purdah* is the custom in some Muslim and Hindu communities of women staying in seclusion, often both physically out of sight, and wearing concealing clothing when in public (Gordon *ed*, 1982: 924).

known as Union Councils that represent approximately 15-20 villages. This constitutes 24% of the reserved seats for women. In 1997 1,753 Grameen women had been elected to these seats (Yunus, 2005a: 9).

Being a board member appears to be strongly empowering for those women that are elected. Not only do they have the pride in being selected in a highly competitive process, but all those interviewed mentioned in varying ways how being a board member had given them pride and empowered them. This included being able to meet with and talk to Dr Yunus and other high officials, learning to use the microphone and meeting skills, the importance of their work as board members, the interest other members took in their work in Dhaka, being taken on tours of Dhaka and being well looked after by staff, and the status they gained in their families and communities by having been a board member. Notably, three out of seven elected board members interviewed for my research are now on Union Councils, and six have loans of over Tk60,000 (NZ\$1200) including two with loans of Tk250,000 (NZ\$5000).

1994 to 1997 board member Nazma Begum said that “(i)n the past people didn’t respect me at all but after becoming a board member my dignity started to increase. Then when I was elected as a member of the Union Council the people who had neglected me before asked for my help and I helped them. This is how my dignity in society and my family increased hugely” (Begum N, 2005: Interview).

Bulbuli Akter, 1997 to 2000 elected board member tells a similar story. Her first loan in 1985 was for Tk2500 (NZ\$50) to raise chickens and ducks. Her husband was a service man and he helped to pay back the loan.

“When I first joined the Grameen Bank I was afraid of not being able to give back the loan but now I feel free to do all kinds of transaction. When I became a board member all my family members were very happy and they respected me more than before. As I was able to be the board member it helped me to become a member of the Union Council in this village and trying to do something for the villagers. Being a board member affected me to become a member of the Union Council” (Akter, 2005: Interview).

Bulbuli now has a Tk25,000 (NZ\$500) loan for potato cultivation with weekly instalments of Tk575 (NZ\$11.50). "I had nothing before becoming a member of Grameen, but now I have my own land for cultivation, my own house, and a good income. I have developed a lot" (Akter, 2005: Interview).

The experience by all Grameen members of voting processes is also partly attributed to a high turn out of female voters at general elections. Although there are no official records published, Grameen officials understand that there were more women than men voting at the 1996 general election, and the high female turn out has been attributed to the fundamentalist Islamic party having its number of seats reduced from seventeen seats to just three at that election⁴⁷ (Yunus, 1999: 153).

With over five million members, the Grameen Bank has over five million personal stories of individual empowerment that give anecdotal evidence hidden by statistics. Grameen members are anecdotally known for their confidence in dealing with unknown men, partly due to the necessity of working with the Centre Manager (as is further discussed in chapter 5, this is usually a male), and partly due to the Grameen attitude that is symbolised in the saluting of fellow members and staff: "The salute obliges a woman to look her banker in the eye. 'When people are grateful to others, they bow their heads... we say "salute and say Salaam", do it as if you're saying "I'm a person to be counted. I'm not going to bow to anyone." Dignity grows out of a straight back'" (Mortuza quoted in Bornstein, 1997: 103)⁴⁸.

⁴⁷ "Many, if not most, of them (female voters) suffered enormously at the hands of the conservative paternalists and fundamentalist clerics who threatened them with all sorts of dire punishments for violating rules set by them. To fight their way out of the clutches of money-lenders, to stop begging in the street, to borrow from Grameen, takes an enormous amount of personal courage, will power and discipline; so it is not surprising that they had the courage to cast a vote" (Yunus, 1999: 153).

⁴⁸ Again in Bornstein (1997), Daiyan, an early student on the project who went on to become a bank senior executive, explains the satisfaction Grameen work can bring and, describes another of the millions of personal empowerment stories, while highlighting the solidarity Grameen membership can bring. When walking in a village one morning he caught sight of a bank member named Nilu. Months before Nilu's husband had beaten her and Daiyan had tried speaking with him on her behalf. When his talk had failed to have any effect he had urged Nilu's centre members to confront her husband, but Nilu had feared his reaction. "'Sir', she called to Daiyan. 'Yesterday, I was sick, I had a headache. When I told my husband, he went to the bazaar and bought me some medicine.' She added that her husband had not hit her for several weeks. Daiyan said that he was very happy. He inquired about her flour trading business, which she said was going well. As he walked away, Daiyan thought to himself: 'What more can a development worker ask for?'" (Daiyan in Bornstein, 1997: 113).

Sujavana was a member I met when visiting a Centre meeting at the South Shalna Centre Number 16⁴⁹ near Dhaka. She knew that members could become board members, but was not interested in becoming one herself. Sujavana proudly and confidently showed me around her *bari* and asked me into her house. She was keen to show me her assets; many changes of clothes, a frame bed, warm blankets, furniture, television, and with pride of place, a sewing machine. She told me she rented out the other houses in the *bari*, and now had a substantial weekly income. For the first time I heard the words I was to hear again and again “Before the Grameen Bank came I had nothing. All you see here is because of Grameen” (Sujavana, 2005: Personal Conversation).

“I had nothing.” said board member Rabea Khatun, “now I have so many things. I used to rent, now I have built my house and have land, a tube-well, a television, refrigerator. The bank has been very good, this is all due to the bank” (Khatun, 2005: Interview).

As referred to in chapter 1, 1991-1993 board member Monwara Begum said “I had nothing 21 years back. I used to be a maid but now people work for me. I pay them, these are my achievements” (Begum M, 2005: Interview).

“23 years back I had nothing”, says present board member Rahima Begum. “I didn’t have cows or pond. Now I have my own cultivation land, a house and two cows and other things. In the past no-one asked me how I am doing, but now people ask. Now I have social dignity” (Begum R, 2005: Interview).

Health and Education

A 1991-92 study in rural Bangladesh by the United States based Centre for Health and Gender Equity found that there is “a positive impact of women’s participation in credit programmes on their demand for formal health care” (Nanda, 1999: 415). Further a 1995 study found that membership of Grameen “was found to be associated with high levels of contraceptive use even among women who have not been exposed to family planning outreach” (Schuler, 1995: 455). Even those women who lived in a Grameen village but were not members, had a higher use of

⁴⁹ #16 meaning that this is the 16th centre to be opened from the South Shalna branch office.

contraception than in non-Grameen villages (Schuler, 1999: 455). Although outwardly about health, these indicators could also point to higher empowerment levels.

In May 2005, Save the Children published their first 'Girls' Education Progress Report' comparing progress in girls' education in 71 developing nations. Bangladesh was ranked as 4th in making the greatest gains in this area⁵⁰. The boosting of girls enrolment from 64% to 98% between 1990 and 2000 is partly attributed to girls' scholarship programmes such as those run by the Grameen Bank (Save the Children, 2005: 1).

Contribution to the Gross Domestic Product of Bangladesh.

Analysis in 1998 by Mohiuddin Alamgir found that activities of Grameen Bank members contributed around 15,000 million taka (NZ\$300 million) to the economy over the years 1994 to 1996. This equated to between 1.1% and 1.5% of the Bangladesh GDP (Alamgir, 1998: 1).

Replications and Awards.

The extent to which Grameen style microcredit has been replicated around the world, and the awards and honours given to the bank and its founder indicate the international high regard that the bank and Muhammad Yunus are held in.

Through the Grameen Bank Replication Program (GBRP) launched in 1989, the bank owned Grameen Trust has assisted with 112 Grameen Bank replications in 34 countries including Bangladesh. Many other microcredit organisations also exist outside of this network, and the usefulness of microcredit as a tool against poverty was acknowledged by the United Nations when they made 2005 the year of Microcredit.

Dr Yunus has received 51 awards from around the world including Australia, Bangladesh, Colombia, France, Germany, India, Japan, Jordan, Italy, Norway, Spain, Sri Lanka, Switzerland, the UK, USA and Vietnam. Reasons cited for these

⁵⁰ Behind Bolivia, Kenya, and Cameroon.

awards include 'enabling the neediest', 'empowering the poor', 'extending banking to the poor', 'enabling millions of people to access adequate food and nutrition for the first times in their lives', 'man of peace', 'humanitarian action' and 'contribution to change'. He was also selected by ABC World News as the 'person of the week' after the Beijing Women's summit for 'truly understanding the value of women' (Grameen Info, 2005). (For a full list of honours and awards refer to <http://www.grameen-info.org/bank/Listofawards.html>).

Section Conclusion

While financial results are now strongly positive this has taken many years to be achieved. Outreach is extensive and expanding with the intention to cover all villages in Bangladesh within five years, and this expansion is well on target. Research suggests that the bank had managed in the past to balance the need for financial sustainable branches with its desire to reach the poor in the poorer areas.

It is in the area of impacts that the results show an alignment to the organisation's purpose. Numerous indicators show improvements in members' lives and the lives of their families, and the setting up of educated and healthy families who are more likely to be able to avoid sliding back into poverty.

SECTION 4.3 – CHAPTER CONCLUSION

This chapter has outlined the growth and extent of the Grameen Bank operations today. Coming through strongly in the present day operation is the compassion of the founder and founding staff. The expression of compassion has flourished despite the turbulent political setting.

The bank today has a wide mandate focussing on the systemic alleviation and elimination of poverty and its effects. Microcredit is a major tool, but the Grameen Bank does not, and has never, limited its operation to only financial transactions. The bank has grown into a large organisation with numerous subsidiary companies all with the primary values based missions as their driver.

Although the bank now operates at a healthy profit it has taken many years to reach this secure position. It is the members whose lives have most profited by the bank's results, in many cases from lives subjected to cruelty and shame to lives of meaning and pride with a 'straight back'. The bank's performance against the criteria of financial sustainability and outreach to the poor are good, but in the area of impact the results for over two million formerly destitute and powerless women is over two million personal miracles.

The Grameen Bank has challenged many of the accepted paradigms within banking, business and development with strongly positive results on any banking⁵¹, business or development measure; meaning it is easy to find much that is positive about the organisation, and failings seem to be minor when taken against the big picture. James Gustave Speth, Administrator of the United Nations Development Programme and had this to say about the Grameen Bank in 1995 –

“The challenges of poverty, hunger and malnutrition in Bangladesh – and the rest of the developing world – [require] something new... a new paradigm of development, an approach that... at the UNDP we call **sustainable human development**. The work of Grameen Bank in many ways embodies the best of this approach” (Speth in Holcombe, 1995: Foreword).

⁵¹ Speth in fact called the repayment rates “phenomenal” (Speth in Holcombe, 1995: Foreword).

He goes on to say that sustainable human development requires participation to ensure that “people share in decisions that shape their lives” (Speth in Holcombe, 1995: Foreword).

“[I]nside the management culture of the Grameen [we see] how a framework of shared vision and values has enabled Grameen to build a system that brings borrower-members into decision-making roles, and motivates a large and widely dispersed field staff to turn in a level of consistent, honest performance that amazes many observers.

“The lessons of Grameen can help provide some guideposts for [the effort to address chronic and growing poverty]. All of us who are making the journey owe a great deal to the staff and members of Grameen for helping to light the way” (Speth in Holcombe, 1995: Foreword).

In Chapter 5 we now turn our attention to the structure behind the organisation. Part of the reason the bank has been able to grow as it has is its strong structure allowing both autonomy at all levels, along with strict standards and audit procedures. Good governance is also ensured by strong communications flows throughout the organisation and a learning environment.

CHAPTER 5 – THE GRAMEEN BANK STRUCTURE

“To understand the governance of the Grameen Bank, you must understand the Grameen Bank” Nurjahan Begum, Founding staff member and General Manager (Begum, 2005: Personal Conversation 1).

“To understand the Grameen Bank, you must understand the governance of the Grameen Bank” Kim Penny, Researcher, 2005 [Three weeks later].

5.1 – STRUCTURE

The Grameen Bank behaves as a holistic organism; each part of it supports the other; operations, management and governance are all inter-related and intertwined. This chapter therefore considers the structure of the Grameen Bank generally while highlighting activities that reflect the governance of the organisation. An important influence in the Grameen structure is that the bank and the executives have grown together with a common corporate and personal desire to assist the hungry to feed themselves, and the poor to get out of the grip of the moneylender.

Organisational Structure

The Grameen Bank is currently 94% owned by its members who each have one 100 taka share in the company. The government of Bangladesh owns the remaining 6%. As already discussed, any profit is paid into the rehabilitation fund.

Each bank member/shareholder is also a part of a *group* consisting of five *members* with an elected chairperson; each group is within a *centre* with eight to ten groups. To ensure equality within the group it must consist of women/men of similar age, education status and ‘like mind’⁵² who are not blood relations or of the same household, thus addressing potential problems with internalised powerlessness

⁵² *Like mind* meaning for example similar in attitudes, ambitions, status and culture.

creating barriers to full participation as highlighted by Gaventa (Gaventa, 2004: 24). The *centre*⁵³ itself will be a one-room building located within short walking distance of the member's house, and she will meet there once a week at the allocated day and time. The *centre meeting* will be run by the elected *centre chief* and the centre's Grameen staff member, the *centre manager*.



Saturday morning weekly meeting at the South Shalna Centre⁵⁴ #16, part of the Bashon Gazpur Branch north of Dhaka, March 2005. This centre was started in 1989. Each group is sitting on a single bench seat; a group chief can be seen (far right) checking her group's payments. "*The more eyes the better*" (Bornstein, 1996: 44).

The Centre Manager will likely be responsible for ten centres, visiting two a day from Saturday to Wednesday, with Thursday a light office day and Friday, the Muslim holy day and the national 'weekend' as a day off (the centre manager's day is further analysed later in this chapter). The Centre Managers are answerable to the *Branch Manager*, each branch with 60-80 centres. Each branch with nine others will be answerable to an *Area Office* and *Area Manager*, and ultimately to a *Zonal Office* and *Zonal Manager* co-ordinating 10 Areas. Each Zone has a relatively high level of autonomy, with the head office coordinating governance, policy, finances, audit and international relations. Box 5.i shows this structure diagrammatically.

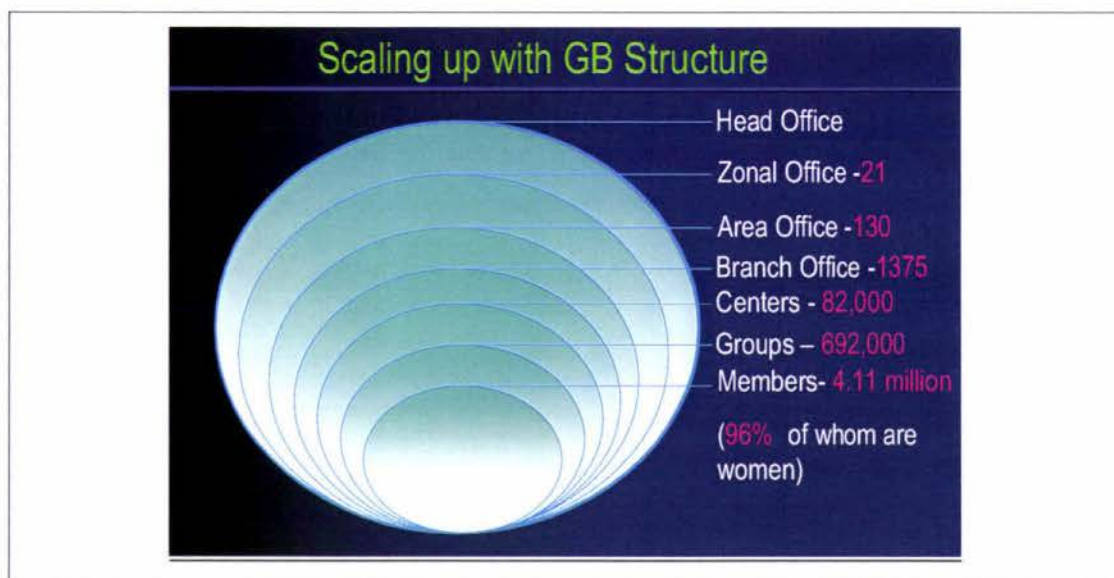
The Grameen Bank head office building in Dhaka, as seen in the introduction to chapter 4, stands out as the only high building in the suburb, one of the poorer suburbs in the city. Unlike the other large NGOs with head offices in Dhaka, the Grameen Bank has chosen to have its head office housed in the location of the people it serves. The building is built to be functional, not to be luxurious. Air

⁵³ *Center* is used to refer to both the people and the building at which they meet.

⁵⁴ Note also the centre building with concrete pillars, wooden frames and corrugated iron walls and roof. This is the Grameen Bank house design that won the Aga Khan Architecture award in 1989.

Conditioning is supplied only to the electronic and computer labs, even Muhammad Yunus has only a fan in his office.

Box 5.i – Diagram showing the Grameen Bank structure as at February 2005.



Source: Barua, 2005: Slide 7.

Board of Directors



Purpose and Structure

The purpose and structure of the Board of Directors is set down in sections 8, 9, 10 and 11 of the Ordinance, these sections are fully reproduced in Appendix I. From these sections we can see that the Grameen Bank legislation serves to set up a governance framework for the organisation.

Section 8 (Direction and Superintendence) prescribes the purpose of the Board of Directors as “entrusted” with “the general direction and superintendence of the affairs and business of the bank” (Government of Bangladesh, 1995: section 8(1)). Further the board is required, while discharging its functions, to “act prudently with due regard to the public interest” (Government of Bangladesh, 1995: section 8(2)).

Section 9 (Board) requires that the bank have a board of directors consisting of “three persons to be appointed by the Government” (Government of Bangladesh, 1995: section 9(1)(b)). Under the Grameen Bank Ordinance 1983 one of the then six government appointees had to be a woman with “experience in working with landless persons” (Government of Bangladesh, 1983: section 9(1)(d)) and a person of this experience is still appointed despite the requirement having been dropped in the 1986 amendment to the Ordinance⁵⁵. The board has a further “nine persons to be elected by the borrower shareholders of the bank” (Government of Bangladesh, 1995: section 9(1)(b)). Section 9(1)(b) prescribes that the manner of election of these members must follow the procedure laid out in subsidiary legislation notice in the official publication *The Gazette*⁵⁶. The Managing Director is an ex-officio board member; he attends all meetings but has no right to vote (Government of Bangladesh, 1995: section 9(2)).

Section 10 (Chairman) specifies that one of the government appointed Directors will be appointed Chairman by the Government (Government of Bangladesh, 1995: section 10(1)), while section 11 (Term of Office of Directors) specifies that the appointments of the *elected* board members is a period of three years and the *appointed* Directors “shall hold office during the pleasure of the Government” (Government of Bangladesh, 1995: section 11(1)).

⁵⁵ For example a present government appointed member is Mrs Ferdous Ara Begum who was appointed when Joint Secretary of Women’s and Children’s Affairs.

⁵⁶ Gazette Notice: Grameen Bank Managing Board Ordinance. Dated 25th August 1987/ 8th Padro 1394.

When the bank was first created in 1983 the board had four elected members, and six government members. As mentioned in chapter 3 this legislation was updated in 1986 bringing in the present board structure of nine elected and three government appointed members. A further amendment to the Grameen Bank Ordinance in 1990 made the Managing Director a board appointee with government approval⁵⁷ (Yunus, 1999: 178). Prior to this the Managing Director was a government appointment, leaving the bank's top job insecure as Muhammad Yunus could have been dismissed by the government at any time, and introducing instability to the bank.

Currently an amendment slowly moving its way through the political and parliamentary system plans to allow the board to appoint the chairman, so as to ensure this important position has more stability than political 'pleasure' provides⁵⁸.

Superficially it could be said that the poor are on the board of directors of the Grameen Bank as legislation requires it. However this legislation is unique and clearly would not have been drafted this way if not requested by the bank's executive. This interaction with Mr Dipal sums up the systemic reason that the poor are represented on the board –

Q: Researcher: Why does the Grameen Bank have the poor on the board?

A: Deputy Managing Director: "You have two options: representation (of the borrowers) or no representation: we prefer yes" (Penny/Barua, 2005: Personal Conversation 1).

This simple statement sums up the Grameen Bank attitude to participation: quite simply you either do have the poor on the board or you don't. Because of who it is, the bank does. The Grameen Bank executive work to ensure that the bank and its members are not two separate entities. The executive attitude is that the bank is there for the poor to take where they want (for example Yunus in Bornstein, 1996: 129), the staff are there to support this to happen – the Grameen Bank IS its members, so this needed to be reflected in the composition of the board.

⁵⁷ Specifically, approval from the Bangladesh Bank.

⁵⁸ In 1998 Muhammad Yunus spoke of this change as 'urgent' (Yunus, 1999: 178), yet in April 2005 there was no sign of change in the near future. This gives some indication of the difficulty in working within legislation; something other Bangladesh microcredit organisations do not need to do.

Practicalities

The present Chairman, Mr Hussain Tabarak has been Chair since August 2002. He is a retired senior civil servant and diplomat whose career includes roles as Director General of the Pakistan Ministry of Foreign Affairs (1968-1972), Foreign Secretary Government of Bangladesh (1975-1978), and Ambassador of Bangladesh to the United States (1978-1982). "On our board of directors, the role of the chairperson is vitally important, particularly as nine out of the thirteen members of the board are representatives of the borrowers who are usually illiterate" (Yunus, 1999: 178).

Government board appointees have in the past all been senior civil servants, adding to their chances of going out-of-favour with changes in government and political 'pleasure' (Government of Bangladesh, 1995: 1(1)). The unspecified length of their appointment makes their postings unpredictable introducing insecurity to the individuals and instability to the organisation.

With nine elected board members representing the members, the board is particularly strong in policy making; the elected board members know exactly how decisions will affect membership, and are directly accountable to other members for their actions when they return to their homes where their fellow Grameen Bank members are their close neighbours.

The board meets four times a year in Dhaka. Prior to the meeting all departments are asked if they have any issues needing board attention or a final decision, and an agenda is prepared. A few days prior to the meeting the Managing Director meets with the Chairman and briefs him on the agenda. The day before the meeting the elected board members arrive and are briefed on the agenda by the Company Secretariat. This is also an opportunity for the elected members to voice any issues or concerns they have. These may include environmental difficulties such as flood or famine, violence, or markets and members' difficulties. They may wish to boast of some personal, child's or centre's success, complain about or compliment a staff member, or bring forward a policy request, such as a need for increased housing loans. Generally when the newly elected board member comes to Dhaka for her first board meeting, it is the first time she has been to Dhaka. In the evening they are treated to a tour of Dhaka, perhaps the zoo, the television station or some music. On the morning of the meeting they will again meet with the Secretariat, and also

the Managing Director. Again the agenda is explained, and Yunus listens to the news they have brought from across the country.

“I meet exclusively with the elected members and the Secretariat only. Again I brief them in their language on the board agenda and get their feedback: I answer questions, listen to suggestions and doubts, and explain again where necessary. I encourage them to open up and discuss personal issues and suggestions for the Grameen Bank. They often need to unload: members will ask them what they have done at the meeting, how these things will work for them – they come with specific things to ask” (Yunus, 2005: Personal Conversation 1).

The meeting itself is in the afternoon and all the executive staff attend as well as staff relevant to matters arising. Yunus raises questions of general nature such as law and order.

“We hear their voices on the general situation across the country, law and order, corruption, markets, the poor people and their sufferings: how price increases such as diesel [prices] have affected people” (Yunus, 2005: Personal Conversation 1). Members can complain about government services and this acts as a voice to the government through the government board members. Government members may first hear of corruption or abilities of local government officials at the meeting. In return they explain and get a feeling for their policies by outlining them to the elected members, it may be the first time non-government board members have heard about these policies.

Yunus sees getting the benefit of the elected members as partly psychological, while trying to understand what they are trying to say. Management must be sympathetic; “sometimes we may just see that they are uncomfortable with something; perhaps a redesign of the rules is required. Perhaps we’ll ask them to consider the issue, to come back to another meeting after discussion at home. This allows them to say ‘My friend thinks...’ or ‘We heard that another branch does it this way...’ ” (Yunus, 2005: Personal Conversation 1).

Elected members are very interested in everything and bring information from across the country. Importantly issues do not need decisions right away so that

discussion “can be taken back to the village” (Barua, 2005: Personal Conversation 1). An example of a decision swayed by the elected board members is interest rates: elected members were happy that interest rates stay up for loans as the savings interest rate would also have to go down if the loan interest rate went down.

After the meeting the elected board members generally visit around the building meeting up with staff that used to work in their branch. “Whatever I did as a board member I enjoyed a lot. I would like to do it again!” said Dipali Rani (Borua, 2005: Interview).

For the elected board members expenses are paid to Dhaka for her and an accompanying family member (male) and all board members are paid a small remuneration for their time, which is the government rate for directors of government boards.

The above discussion has highlighted the efforts that are made to assist the elected board members to fully contribute, showing an organisational intention to ensure the poor are not just “at the decision-making table” but contributing to quality “conversation” (Gaventa, 2004: 21).

Capacity

Muhammad Yunus believes that the capacity of the elected board members is getting much better with each new board and that the elected board members are uniquely able to contribute to the organisation.

By tradition as the board changes every three years all the new and departing elected members have a workshop and go through a great amount of sharing of experience with the effect that experience is accumulating over time and new board members are supported to make quality contributions. “For example; how to disagree with management to best effect, how not to get them upset: if you are uncomfortable, how to say it: how to use your voice in formal and informal meetings. There is much better participation with each new board” (Yunus, 2005: Personal Conversation 1).

Yunus says that members must be quite “tough” to get through the selection process and that each time at least four stand out. “They would be world leaders except for

their literacy. They show such wisdom, hard work, patience” (Yunus, 2005: Personal Conversation 1). He also notes that the Grameen ownership structure is unique. Unlike a NGO run by a group of friends or associates or a rich person that “may put a token hand-chosen ‘poor’ person on the board who can be removed if they don’t agree, the Grameen process is prescribed and must be followed” (Yunus, 2005: Personal Conversation 1).

Yunus sums up why the elected board members are so effective –

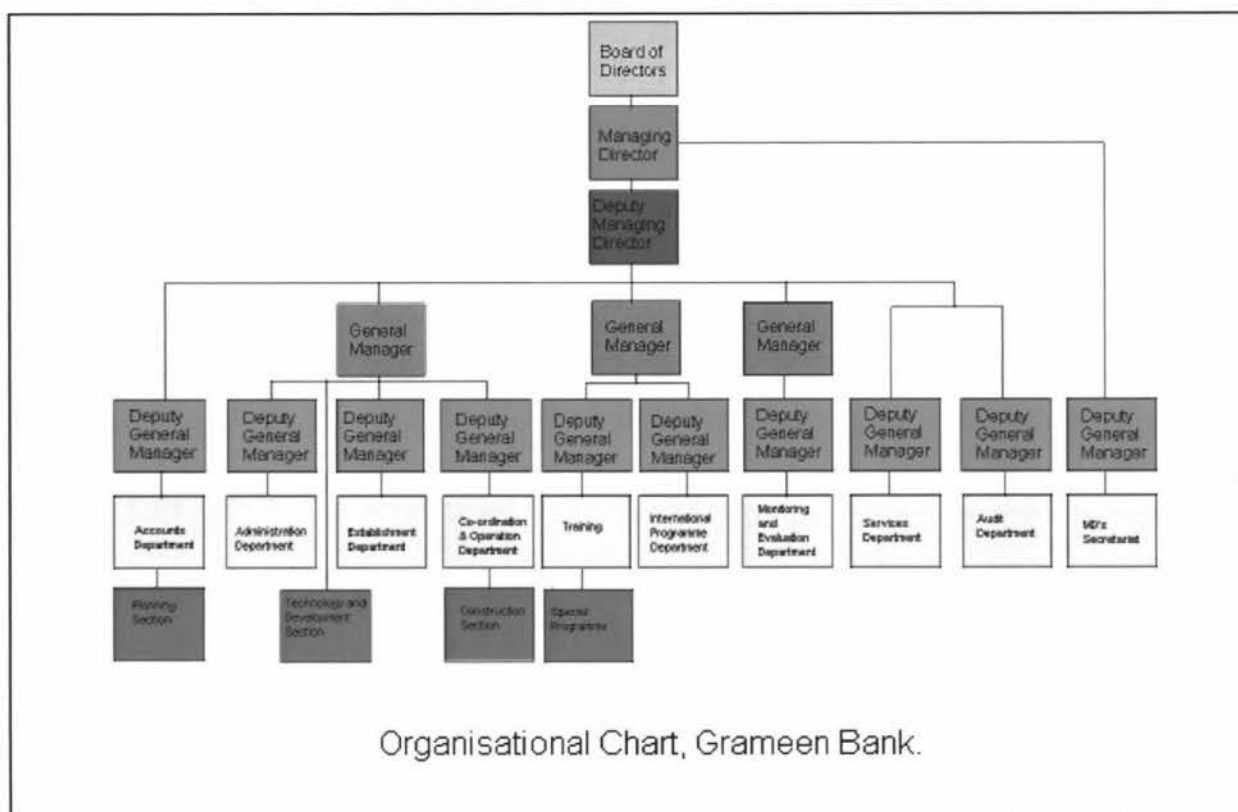
“Grameen members are talking about their life, not a technicality. At home they must face a very hostile audience. They cannot get away with anything – their friends/members are everything in their lives. They may be illiterate – but they know what hurts them and helps them.” Muhammad Yunus, Founder and Managing Director (Yunus, 2005: Personal Conversation 1).

The bank’s efforts to increase the capacity of elected board members shows the organisational intention to improve participation within decision making processes (Gaventa, 2004: 21), while the resultant capacity increase indicates the achievement of participatory governance (Schneider, 1999: 533).

Some recommendations to the Grameen Bank regarding board member capacity are discussed in Chapter 7.

Organisational Chart

Box 5.ii – The Grameen Bank Head Office Structure as at March 2005.



General Manager upwards have been with the bank for many years “they grew with the Grameen Bank as it grew” (Rabbi, 2005; Personal Conversation).

The zonal structure of the organisation has already been discussed and can be seen diagrammatically in box 5.i.

Each of the 21 zones operates reasonably autonomously as the “physical and philosophical leadership of the zone” (Barua, 2005: Personal Conversation 2).

“Each Zonal Manager is like a mini-Dr. Yunus; committed, person of the people, a role model, visionary, able to contribute from own experience. Their role is to create an enabling environment, always in connection, transparent and friendly. The Zone level is non-policy, head office liaison, the guardian of the Grameen values in the zone” (Barua, 2005: Personal Conversation 2).

This shows the commitment to creating an organisational culture of transparency and openness, with participation at all levels, while also remaining focussed on the organisation's purpose. Communication between and within the zones and head office and the manner of this communication is crucial to the organisation and is discussed further later in this chapter.

Audit

The Ordinance, section 23 (Audit) requires all accounts be audited by two internationally reputed audit firms (Government of Bangladesh, 1995: section 23(1)). The Bangladesh Bank also audits the bank annually on behalf of the government and section 22 (Accounts) requires that any Bangladesh Bank directions are complied with (Government of Bangladesh, 1995: section 22). Grameen Bank accounts are available on the internet, with monthly updates available soon after the end of the month.

The Grameen Bank prides itself on being a corruption free organisation while backing that pride with continuous, rigorous and intense scrutiny. The basis of this ethos is transparency, with all exchanges of money and loan discussions carried out in front of the centre. This is backed up with a large Audit Division, 30 staff under a general manager as at March 2005, which constantly checks on all levels and areas of the organisation.

Despite corruption in Bangladesh being commonplace and often accepted as a "survival strategy" (Holcombe, 1995: 104), evidence considered by Susan Holcombe and published in 1995 "suggests that there is little corruption in the Grameen Bank" (Holcombe, 1995:105). This conclusion is based on a) an independent survey undertaken by the Bangladesh Bank in 1987 that found no evidence of bribes being needed to take out loans, and b) analysis of the Grameen Bank's own records of reasons for job terminations that found only 2 of 263 dismissals in three months in 1991 were for corruption, and these were for staff employed for 9 and 14 months each (Holcombe, 1995: 105).

The Bangladesh Bank annual audit takes about six to nine months continuous work to complete, although computerisation is expected to speed this up in future. As the

Grameen Bank does not follow 'standard' banking practice it is often difficult for auditors from a conventional banking background to understand the operation. Mr Dipal states "we spend a lot of time educating the Bangladesh Bank as they are not used to us and they are always asking the same questions. All is new to them, we have to teach Central Bank about microfinance! For example they ask 'Why do you only take women?'" (Barua, 2005: Personal Conversation 1).

This strong emphasis on audit helps strengthen both the bank's corporate and participatory governance in the areas of transparency, accountability, integrity of financial reporting and quality of the audit system (for example OECD, 2004: 24/25, OECD with OAS, 2002: 7, Schneider, 1999: 533).

Staff

In his 1999 autobiography Muhammad Yunus notes that although there is no one secret to the bank's success, "the hard work and dedication of our bank workers is a most important part of it" (Yunus, 1999: 160). Yunus describes his staff as, above all else, teachers. "They are teachers in the sense that they help borrowers to unfold their full potential, to discover their strengths, to push their horizons and their capabilities further than ever before" (Yunus, 1999: 163).

In the 1995 World Bank report on the Grameen Bank's performance and sustainability the authors noted that –

"The leadership of Dr. Yunus has been instrumental in the bank's growth. In addition, its decentralised management style, emphasising monitoring, evaluation and adaptability in decision making, has enabled its innovative processes to be replicated at all levels.... Combined with extensive field-level training for new recruits and older staff based on problem-solving skills, the Grameen Bank has created a cadre of dedicated professionals, who are motivated as much by a desire to help the rural poor as by personal financial incentives" (Khandker, 1995: 49).

This highlights the bank's inclusive management style, showing emphasis on participation throughout the organisation. With now over 12,000 staff, increasing by 2,500 by 2010, the Grameen Bank is a major Bangladeshi employer. Working

for the bank is seen as a good secure job in a country where a high value is placed on education, but salaried employment is hard to come by. However Grameen understands that its success is in the hundreds of thousands of daily interactions between staff and members, a threatened strike in 1991 is considered to have been the biggest threat to the bank's survival; "Everything depends on the bank workers going to the centre meetings regularly and doing their work systematically" (Barua in Bornstein, 1997: 275).

Susan Holcombe's 1995 publication on the management of the Grameen Bank considered if the behaviours of area managers corresponded to the organisation's value of empowerment. Her answer was a qualified 'yes'.

"In a society where the cultural norms are fatalism, deference to authority and concern with status or hierarchy, Grameen has achieved a reversal of direction. It appears to be in the process of establishing its own culture of empowering management in a larger society that remains fatalistic, hierarchical, and authoritarian" (Holcombe, 1995: 99)

This suggests that the hierarchy are managing, against cultural norms, to let go of some of the power of their position, as noted by Chambers as necessary for genuine participation (Chambers, 1996: 241). The fact that this culture has been so readily accepted by staff highlights that under the superficial behaviour required to survive in Bangladeshi society, remains the egalitarian dream of Golden Bengal.

Recruitment

A candidate's job application process is the start of the applicant's introduction to the 'Grameen Way' as unlike "almost all organisations" (Yunus, 1999:164) in Bangladesh, the Grameen Bank runs a corruption free merit-based recruitment process⁵⁹. This strong adherence to values indicates strong governance by way of setting and ensuring of the ethical tone of the organisation and setting the basis for transparent operations (NZSC, 2004:11, OECD 2004, 24).

⁵⁹ "Almost all organisations require a non-refundable deposit with each application. Each job interview costs about ten times what the application cost... a bribe can range anywhere from twice to twenty times the monthly salary the job will bring" (Yunus, 1999: 164).

All staff are recruited straight from University or High School, a masters in any subject for a Branch Manager, or High School for Centre Managers. To build motivation and commitment the bank has found that young people without any previous work experience are best as they found that “[p]revious work experience always distracts people from the kind of things we want them to do at Grameen” (Yunus, 1999: 160). In particular a ‘cardinal rule’ is to avoid hiring anyone who has worked in a traditional bank, believing it would take too much time to “reprogramme them to our iconoclastic ways” (Yunus, 1999: 160).

Cultural pressures to stay within the circle of the family and making it difficult for single women to find lodging, plus their triple worker/mother/home maker role, conspire against women taking up and staying with Grameen work. Also Grameen Bank work is frequently more difficult for women than men, as cultural norms prevent women using bicycles and motorbikes to journey to distant centres, meaning women must walk or find more expensive transport to go to a centre a male could visit by cycle (Holcombe, 1995: 93). With 96% of the membership female, less than 10% of staff are female (Bornstein, 1997: 187) an area of frustration for Yunus where he feels: “we have not succeeded. This is one area where we have failed miserably” (Yunus in Bornstein, 1997: 188). However women are represented at all levels of the organisation up to general manager level (one of three general managers)⁶⁰.

Grameen’s policy is to hire people from diverse socio-economic backgrounds in the belief that “diversity brings strength” (Yunus, 1999: 165).

⁶⁰ My experience with Grameen Bank staff was that they were very proud of the female staff they worked with. Susan Holcombe in her book (1995) notes that managers often took special steps to involve female staff members or to facilitate their work. “The efforts of these managers to support female staff was remarkable both in terms of the surrounding cultural expectations, but also because their own family patterns were traditional” (Holcombe, 1995: 93).

Training

The training processes emphasise the strong 'learning' culture of the bank which in turn strengthens the participatory nature of the organisation as input is sought, and valued, from all levels of the organisation and the hierarchy let go of power to field staff.

Grameen has its own training institute located at head office in Dhaka. Trainee Branch Managers have a two-day briefing at the institute and then head to a branch for six months on-the-job training, interspersed with three one week sessions at the training institute after each two month segment. When they are sent to the field for their training they are told: "Observe everything carefully. When your training is over, your task will be to create a Grameen branch of your own which will be better in every respect than the one in which you spent your first six months" (Yunus, 1999: 161).

Usually this is the first time that young university graduates face the reality of poverty in their country and "at first they want to run away from this intolerable situation" (Yunus, 1999: 162) but then they see that the hard work produces results: "They can see the changes, they can feel them, touch them... It's right here and now before their eyes... They want to be instruments of change themselves" (Yunus, 1999: 162).

When they return to Dhaka to the Training Institute trainees are encouraged to report their observations and openly debate with senior management the operations of the bank, its processes and rules. Examples of the changes these new managers have brought about include annual branch athletics meetings for members' children, and an annual branch meeting on the branch's birthday.

Individuality and political and social awareness are encouraged. "Above all we want to develop a problem-solving attitude among our workers. Poverty is the greatest problem facing mankind today. In wrestling with this on an everyday basis a multitude of problems will arise" (Yunus, 1999: 165).

Due to the intensive six month training required for managers, the number of branches available to train staff is a limitation on the speed with which the bank can expand.

Performance incentives

Grameen has three major staff performance incentives that ensure alignment behind the organisation's goals, a corporate governance indicator. These are a generous pension scheme, 'stars' for achievements, and the 'Gold Cup'.

Grameen pays its staff on a scale compatible to working in the government service, that is a level that is not considered to be high. However it has attractive pension schemes for retirement after 10 or 20 years service. Initially, in line with the government service, the pension was only available after 20 years service, but this came forward to ten years service to ensure an enthusiastic staff.

The pension includes a large employer payout and medical benefits, plus one-year leave for those retiring at 60. These benefits are emphasised in staff training, and no benefit is paid to any staff "leaving by the back door", (Barua, 2005: Personal Conversation 2) that is, if they are dismissed. This helps to ensure staff are not tempted by corrupt practices in breach of company rules, which would be a dismissal offence if the offence was serious.

Positive performance incentives are provided by colour-coded stars that are given to branches and staff for 100 percent achievement of a specific task. Staff can wear their stars as a 'badge of honour', and the branch can print their stars on stationary to show their achievement in the areas of a) 100% repayment of loans, b) profitability, c) meeting all branch financing from earned income and deposits, d) 100% of Grameen children educated, and d) taking all borrowers out of poverty (Barua, 2002: 36). Stars are confirmed only after the verification procedure is completed by the audit department (Yunus, 2005a: 10/11), a branch (or a staff member) having five-stars indicates the highest level of performance⁶¹.

Every six months each area and zone has an award for best branch and centre managers, as well as awards for creating new records such as numbers of children in

⁶¹ As at the June of 2005, out of 1,573 branches: 989 branches received stars (green) for maintaining 100 per cent repayment record; 1072 branches received stars (blue) for earning a profit; 805 branches earned stars (violet) by meeting all their financing out of their earned income and deposits; 243 branches have applied for stars (brown) for ensuring education for 100% of the children of Grameen families; 39 branches have applied for stars (red) indicating branches they have succeeded in taking all its borrowers' families (usually 3,000 families per branch) over the poverty line (Yunus, 2005b: 10/11).

schools, beggars in the Struggling Members Programme, and profit levels. The 'Gold Cup' is presented annually with a Tk100,000 (NZ\$2,000) prize for use in celebrations⁶² and includes an award for the best audit.

The performance incentives all work to ensure organisational alignment behind the work of the organisation in a balanced way. For example, there is no incentive to pressure members to take more loans if they are at risk of not being repaid. Encouraging members to send their girls to school becomes as important as encouraging them to save.

Grameen Field Staff

"Generally, Bangladeshi young men and women have a strong sense of social responsibility. Students have always been at the forefront of social and political movements in our society. They were in the front lines of our war of Liberation. And they still make enormous personal sacrifices for national causes" (Yunus, 1999: 163).

Work as a Grameen Bank field staff member can be difficult. A brief analysis of their job highlights how the organisational culture ensures alignment to the organisation's goals and reinforces the organisation's values. The typical day of a Grameen field worker is described in box 5.iii.

⁶² This award has "an elaborate marking system" (Barua, 2005: Personal Conversation 2) that averages across each branch ten areas including number of stars, branches in profit, savings level to outstanding loans, number of higher education loans to members' children, student scholarships, per head average loan size, and number of members with special investments. The Gold Cup is presented to the top Zone, the top Area within each Zone, and the top Branch within each Area. There are also awards for the runner-up and second runner-up. "This sportsman like mentality helps to avoid tension in the workplace. The awards ceremonies allow a chance to celebrate, have a cultural function, enjoy song and dance, and members families and staff can get together" (Barua, 2005: Personal Conversation 2).

Box 5.iii. A Typical Grameen Field Worker's Day.

A typical Grameen bank worker's day, a composite of the 12,000 staff we now (1999) employ:

Name:	Akhtar
Age:	27
Monthly salary:	Tk2,200 (NZ\$44), including housing allowance, medical subsidy and commuting allowance.
Bonus:	Two months salary paid during two <i>Eid</i> holidays.
6 a.m.	Wake up, wash, pray, have breakfast.
7 a.m.	Akhtar goes to the branch, gets a bicycle, documents and carrying bag and pedals to a centre.
7.30 a.m.	Forty bank borrowers await Akhtar; they are seated inside the bamboo hut which they have constructed in their own time and by their own efforts. The borrowers sit in eight rows, each with their own group members. Each group chairman holds the passbooks of her group's five members including her own. Akhtar collects the loan repayments and deposits from each group.
9.30 a.m.	Akhtar bicycles to another centre for his second meeting. During the course of the week he attends ten different centres that he is in charge of, thus each week he meets all four hundred borrowers for whom he is responsible and collects repayments for loans and savings deposits.
11 a.m.	Akhtar visits the homes of members and offers advice. This is an important part of his duties, a practical part of teaching and keeping track of the borrower's needs and problems.
12 noon	Back at the branch office, Akhtar fills out all the reporting forms and enters all the records in the ledger. After the branch manager signs off, Akhtar's duties are complete. As not even a taka discrepancy is permitted, he cannot relax until everything is processed.
1.30-2 p.m.	Lunch break, a cup of tea with his fellow workers.
2 p.m.	Funds collected in the morning are disbursed as new loans in the afternoon. The workers all help the branch manager with this task.
3 p.m.	Once the loan disbursements are finished, Akhtar and his fellow workers record the loan information in the ledgers.
4.30 p.m.	Akhtar drinks tea and talks to his fellow workers.
5.00-6.30 p.m.	He visits a centre which is experiencing difficulties with some loans, or organises an educational programme for the children.
7 p.m.	Akhtar returns to the office, does some paperwork and retires for the day.

Source: Yunus, 1999: 166/167.

Many of the early decisions on how the Grameen Bank would operate were based on looking at what conventional banks were doing, and doing the opposite (Yunus,

1999: 104) and some of these results were highlighted in box 5.iii. For example the bank comes to its members, rather than expecting the members to come to a central location. Staff are expected to spend a maximum amount of time OUT of the bank office getting to understand their members and their lives⁶³. “Staff of the Grameen Bank work really hard, more than at any other bank” says Rabea Khatun, 13 year Grameen member and present elected board member (Khatun, 2005: Interview). Grameen work often involves miles of walking or riding, initially bicycles and now more often small motor scooters.

Firoza, who was to become the first female branch manager, recalls in David Bornstein’s book ‘The Price of a Dream’, that at her job interview she was asked by Professor Yunus “Can you walk far?” (Bornstein, 1997: 110) and that on her first day of work she was told to “report to her manager under a tree” as her job would be to encourage women to join the bank (Bornstein, 1997: 111).

Firoza noted how the nature of the Grameen work was difficult but became addictive –

“Soon Firoza’s father noticed that his daughter was growing thinner; most of the time she left for work at dawn and did not return home until it was dark. ‘Sometimes I didn’t even eat any lunch. I was missing family functions. It got to the point where my father and my brothers started pressuring me to quit. And I myself thought, ‘I can’t do this job anymore, it’s killing me’. But the next morning I’d think, ‘No, I’ll go and see how they’re getting on.’ Soon, if I missed one day from the field, I felt terrible.’ Eventually... Firoza’s father relented when he saw how attached she was to her job. ‘A particular kind of joy comes from my work,’ she explained. ‘There was a time when the Grameen Bank was my whole world’” (Firoza in Bornstein, 1997: 112).

Although the Grameen Bank may initially attract applicants because it is a secure salaried position in a country where such jobs are rare, the personally and physically challenging nature of the work means that generally only those prepared to dedicate

⁶³ To ensure transparency, and that staff are not a burden on members, bank staff are not allowed to accept so much as a cup of tea when visiting members’ houses.

themselves to the empowerment of rural poor women will carry on with Grameen work, thus reinforcing the values of the bank and its founder.

Internal Communication

There is continuous formal and informal communication between head office and the Zones and at different levels. The Grameen Bank's ability to communicate across the organisation stands out and is intrinsic to its success. Numerous communication linkages based on transparency and openness and the organisation's purpose serve to keep the organisation in touch with the reality of the grassroots daily struggle, ensuring organisational focus. This ability of members and staff at all levels of the organisation to influence the company is an indicator of stakeholder influence, an indicator of both participatory and corporate good governance (for example Chambers, 1996: 241, OECD, 2004:24), while quality formal and informal communication channels is a good corporate governance indicator.

For example –

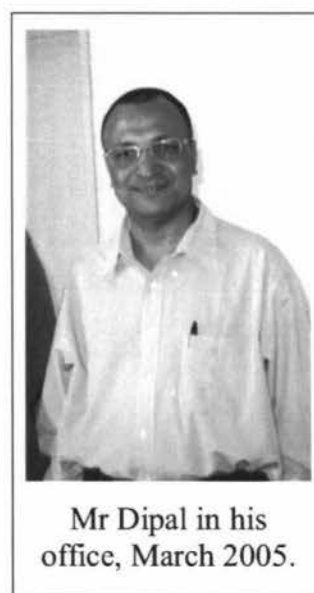
- The use of consultation and discussion on major policy. "Decision-making in Grameen... is collegial and consultative. Major policy decisions are discussed and drafted in committee. Proposals are circulated for inputs. In Grameen there is freedom to write, doubt, criticise" (Holcombe, 1995: 75);
- Promulgation of internal strategy, policy and rules from head office;
- "[W]riting to the Managing Director is a widely accepted mechanism for proposing new ideas" (Holcombe, 1995: 86);
- Daily reporting of written off debt recovery;
- Monthly Branch narrative reports about borrowers' lives, accidents, and the situation and activities of the branch, are sent to the zonal manager and circulated within head office. "Everyone is saying their problems, borrowers, staff, management, there are no barriers, no editing. All is in hand writing, not with computers" (Mohammed, 2005: Personal Conversation);
- Picnic Days and Awards ceremonies attended by the executive;

- Board meetings bringing grassroots local information from across the country into the board room;
- Intensive oversight of the centre manager by the branch manager, the branch manager by the area manager, the area manager by the zonal manager, and the Zonal Manager and entire Zone by the Head Office Audit Office;
- It is the job of Centre Manager to know how members are coping with and utilising loans;
- The annual survey to see how many members are out of poverty requires regular survey of all members' households.

Strategic Plan and Planning

Setting and reviewing high-level strategy is fundamental to setting organisational purpose, a principle role of corporate governance (for example OECD, 2004: 24). The Grameen Bank does not have a formalised strategic plan but does have an informal internal document that Mohammad Yunus says is highly considered but not fixed. "Goals are set such as to have 100% of members out of poverty by 2015, and all branches to have five stars by 2015" (Yunus, 2005: Personal Conversation 1).

The strategic planning process is both formal and informal. It includes continuous discussion amongst staff, formal proposals submitted by branches or zones, to visionary planning sessions amongst the executive. Mr Dipal describes strategic planning as teamwork; "We are a team, we cannot make decisions on our own, cannot operate on our own, only as a team!" he says laughing at their individual helplessness (Barua, 2005: Personal Conversation 1).



Mr Dipal in his office, March 2005.

Annual and Financial plans are approved each year by the Board, as well as short-term (three years) and long-term (five years) plans.

The lack of a formally set out strategic plan, along with the lack of formalised vision and mission statements, is counter to generally accepted 'best practice' in the West, but clearly the organisation has been able to both keep aligned to and achieve its purposes without these tools.

Structure in Operation: Company Overhaul from Grameen I to Grameen II.

From 1976 to 2000, the Grameen Project, then the Grameen Bank, coped with business upsets and natural disasters, and grew from strength to strength. However by late 1999 an alarming trend was emerging of members struggling to repay loans and then dropping out from their groups. How the bank recognised this, reinvented itself, and overhauled processes of 20 years and millions of loans, highlights the participatory and responsive organisational structure in action.

This overhaul of the Grameen Classic system to The Grameen Generalised system, also known as the change from Grameen I to Grameen II, from the perspective of General Manager Nurjahan Begum and Principle Officer Golam Morshed Mohammed, is outlined in Appendix III. It highlights the Grameen Bank emphasis on discussion, an emphasis on participation at all levels, the desire to understand the real issues of the membership, the strong teamwork and motivation of staff, how personal attention is given to individual members and their families and community, and how staff are given independence to handle situations as they see appropriate, while being governed, that is guided and monitored, by the head office. From this the interrelatedness and the resultant strength of the organisation's governance, management and operational systems can be seen, while also highlighting the participatory nature of the organisation and the effectiveness of the governance systems in detecting and ensuring an appropriate response to adverse trends.

5.2 – CHAPTER CONCLUSION

This chapter has taken a deeper look at the structures and processes of the Grameen Bank through the lenses of corporate and participatory governance so that we are able to analyse its governance in the next chapter⁶⁴. Overall we can see a large organisation with both autonomy at all levels, along with strict standards and audit procedures, along with an organisational culture⁶⁵ that encourages questioning of both the surroundings and the organisation itself, a culture quite in contrast to Bangladeshi cultural norms.

The legislation establishing the bank has provided a firm governance foundation reflecting corporate governance standards by requiring the board to provide stewardship to the organisation, setting a process for board membership, and requiring the board to act with regard to public interest (Government of Bangladesh, 1995: 8(2)). This legislation also sets up the basis of good participatory governance, in that it requires the participation of major stakeholders (that is the recipients/owners/members and the government), in a manner that is highly transparent with elected board members, although still lacks visibility with regards to government appointments, as the government appointment process is not clear and the length of appointments unspecified.

The role of elected and appointed board members, and indeed the executive that attend the meetings, are quite different and it would simply be wrong to suggest that their contribution is expected to be equal. In no way could the expectation on nine illiterate/semi-literate members be the same as for three senior civil servants with high formal education, and bank executives with a minimum of a master's degree and many years experience in business. It is these different contributions that provide the strength in the board of directors; the elected board members invaluable

⁶⁴ For in depth consideration of these processes through the lens of the management discourse the reader is recommended Susan Holcombe's 1995 book 'Managing To Empower. The Grameen Bank's Experience of Poverty Alleviation', and for the processes of the building of a visionary company, to James Collins and Jerry Porras's 1994 book 'Built to Last: Successful Habits of Visionary Companies'.

⁶⁵ Johnson and Scholes (2002) define *organisational culture* as "the basic assumptions and beliefs that are shared by members of an organisation, that operate unconsciously and define in a basic taken-for-granted fashion an organisation's view of itself and its environment" (Johnson & Scholes, 2002: 45).

contribution is the reality of the daily struggle of the bank members/owners, the intimate knowledge of how Grameen policies will effect membership, and accountability back to the grassroots for Grameen policy; the government appointed members contribute an important connection with the upper levels of government and an ability to foster constructive relationships with it, and a knowledge of the 'bigger picture' of government poverty reduction measures; while the executive bring their business acumen and determined, almost zealous, focus on addressing the systemic causes of rural poverty. To ensure the maximisation of the elected board members contribution, emphasis is placed on supporting them and building their capacity over time, supported by a participatory approach throughout the organisation.

Having the poor on the board was done on the principle that they *should* be there as the organisation was about *their* lives, signalling an organisational intent to behave in a participatory way, and that the power to lead the organisation would be with the poor. This decision has turned out to be a further benefit to the organisation as the poor have been able to assist the organisation's focus on holistic development with great effect. The participation, linked with the setting of an organisational culture of questioning and learning, is seen throughout the organisational structure suggesting that participation is embedded in the organisation.

A weakness in the organisational structure is the low percentage of female staff members which appears to be due to Bangladesh cultural norms, rather than the organisation's intent.

Well performing governance is also reflected in the strengths of the organisational alignment behind the organisational purpose. Staff incentives are linked to members' success including sporting type competitions and rewards, and the organisational culture includes the motivation of being involved in a purpose beyond personal financial benefit.

In summary, on the surface the dominance of the illiterate/semi-literate poor on the board means that the governance of the organisation is unconventional and does call into question the quality of its governance. However it *is* in keeping with the unconventional *modus operandi* of the bank; the unconventional structure reflecting an organisation where conventional banking has been 'turned on its head' in order

to serve a new client base. The board of directors reflects the membership, which in turn reflects the organisation; an organisation for the poor, assisted by compassionate and educated staff. Given the success of the unconventional *banking* style it would clearly be inappropriate to dismiss the unconventional *governance* style, and in fact in returning to the research questions in Chapter 6, I will suggest that the board structure may not be quite as unusual as it first appears.

The organisation has created a firm structure for setting the purpose and means of the organisation, and ensuring they are achieved.

PART 4 – RESEARCH FINDINGS

CHAPTER 6 – RESEARCH FINDINGS

This chapter returns to the research questions posed in chapter 1 by bringing together the information on governance and the Grameen Bank laid out in the preceding three chapters.

SECTION 6.1 – IS THE GOVERNANCE OF THE GRAMEEN BANK PARTICIPATORY?

The question of whether the governance of the Grameen Bank is participatory is considered from three angles as outlined as the framework for participatory governance analysis in chapter 2: a) organisational intent; b) recipient input; and c) results. Each is considered separately and then drawn together into a conclusion at the end of the section.

a) Organisational Intent

As outlined in the participatory governance framework in section 2.3, a prerequisite for participatory governance is a deliberate intention of the organisation to have recipient partnership in the organisation's governance. This requirement remains implicit in the participatory governance debate, although it is a prerequisite to actual quality participation. It will be considered if there is a deliberate intent within the Grameen Bank to have recipient partnership. This will then be considered more closely by assessing if there is a) a focus on quality participation, b) an attempt to understand the lives and needs of recipients, c) a structure to ensure accountability, transparency, openness, and d) the building of the capacity of recipients to participate in governance.

My research suggests that the values of the Grameen Bank are such that they would not consider operating in any other way; they just *are* a participatory organisation; a bank by and for the poor (Yunus in Bornstein, 1996: 129). With the stewardship of

some of the country's educated elites, representation of the marginalised is intrinsic to the organisation's purpose and they just simply would not be the Grameen Bank without participatory governance.

Further the bank has a lot to gain from participation. When attempting to address the issue of poverty, its founder Muhammad Yunus realised that one needed a 'worm's eye view' (Yunus, 1999: 5) of the issues; that one cannot sit in a remote and privileged location and expect to fully understand the systemic causes of destitution and inequity and how they can be addressed. This mirrors and addresses Robert Chambers' concern of patterns of dominance between 'upper's and lower's' that must be avoided to ensure accountability of an organisation to the grassroots (Chambers, 1996: 241). The genuine input of the poor has been crucial to the success of the bank as seen in its social and financial results which show a highly effective and efficient poverty reduction programme; characteristics that Schneider and Rahnema in particular suggested should be found in an organisation with participation and participatory governance (Rahnema, 1992: 117, Schneider, 1999: 533). To back this intent, throughout the organisation from head office to centre level "decision making is consultative, involving subordinate staff and clients" (Holcombe, 1995: 75).

Clearly some of the organisation's structures and processes serve to support more than one of the areas highlighted by the framework, such as having the poor on the board. That not only builds a focus on the recipients, but also ensures their input.

Is there a focus on Quality Participation built into the Organisation's Structures and Processes?

Next we consider if there is evidence of quality participation built into the organisation's structure and processes. Quality participation is built into the organisation's structure and processes by having members own the majority of the bank's shares and ultimately some members being elected as board members. This is a pragmatic tool to ensure a strong focus on the poor at the highest levels of the bank. Further, once at the board level, the poor are supported to contribute to ensure power differentials are minimised, and the quality of conversation (Gaventa,

2004: 21) and their resultant input is maximised. This participatory approach is not isolated to the board interactions but resonates through the organisation as a deliberately designed organisational culture of learning, problem solving and empowerment. This is a culture that is quite against the cultural norms of the surrounding society of fatalism, deference to hierarchy and concern with status (Holcombe, 1995: 99), again showing the ability of the hierarchy to minimise barriers to quality participation within the organisation and with organisational stakeholders by reducing “internalised forms of powerlessness” (Gaventa, 2004: 24), reducing the dominance of ‘uppers’ while enabling ‘lowers’ to take more responsibility (Chambers, 1996: 241), and confronting and transforming power relationships (Chambers, 2005: 115).

Participation is also supported by staff incentives being tied to the success of members, meaning staff are accountable for the success of the members they are working with, and need to know their clients and what matters to them and their families. This staff accountability reflects one of Schneider’s three participatory governance pillars (Schneider, 1999: 533). This is an example of the next area to consider, whether there are attempts to understand recipients.

Understanding of the Lives and Needs of Recipients

The ability of the poor to pay is fundamental to the bank: it is how the bank survives. Therefore understanding the reality of the lives and needs of the poor so they can be positively impacted is vital for organisational survival and leads to the uncovering of the hidden, unseen, and unsaid reality of the poor (Chambers, 2005: 108). This focus on understanding recipients serves to both increase the voice of the poor while also strengthening the receptivity of the hierarchy to such voice; proposed by Gaventa and Goetz as the two ends of the continuum of genuine participation (Gaventa, 2004: 18).

Numerous examples of this can be seen in the bank. For example the foundation of the organisation was the desire of the founder to understand and address the causes of the destitution he saw around him and this initial quest is still reflected throughout the organisation. Again, having members elected as board members and

supported to maximise their contribution ensures a strong voice for the poor at the upper levels of the organisation. Staff training emphasises listening to the poor, coming to understand their situations, and hopefully to respect their needs and perspectives, and the organisational culture encourages dialogue and questioning both within the company and in the community it serves. And again with staff personal and financial incentives tied to the success of their clients, the incentive is to know what matters to members and their families.

Indirectly, the organisational focus on holistic development such as the 'star' and 'gold cup' awards, the Grameen Network, and the education programmes, rather than just encouraging the taking of loans, suggests that the organisation has a holistic picture of the lives and needs of the rural poor. Overall it is apparent that the hierarchy does attempt to understand the lives and needs of the recipients.

Accountability, Transparency, and Openness

Remembering that the participatory governance discourse has grown partly from the government governance discourse; openness, transparency and accountability (for example OECD with OAS, 2002) have become three of the five principles of participatory governance as outlined in box 2.iv. The importance of accountability is supported by Schneider who sees it as a pillar of participatory governance (Schneider, 1999: 533), and accountability is also raised as a concern by many commentators including Chambers (1996), Gauri and Galef (2005), Stiles (2002), and Tandon (1996).

Within the Grameen Bank these are partly assured with a system based on enshrining the basic governance structure, including financial transparency, in legislation. This serves to ensure continuity and accountability of governance in a political environment that, although often turbulent, places a high value on legal processes, and addresses Stiles' concern to ensure democracy in the formulation of NGO boards (Stiles, 2002:844). Accountability is further provided by numerous links within the Grameen structure; the board structure provides an accountability link to members, and from/to the government. Elected board members are accountable to the general membership in their close knit communities and

government appointed members are accountable to the government, while also providing a level of accountability to the bank and its members for government and government departments.

The legal requirements for government and independent external audits provide a high level of financial accountability and transparency that is backed up with a strong internal audit department. The bank's structure means all staff are accountable for their actions to higher management, again backed up by the audit department checks. The executive are accountable to each other because they all deeply believe in the purpose of the organisation and rely on the peer support the executive team provides (for example Barua, 2005: personal conversation 1). The executive are also directly accountable to the membership at board meetings via the elected board members and at regular celebrations at branch, area and zonal offices.

In sum, many of the potential concerns of accountability within NGOs outlined in chapter 2 are addressed. Specifically a) Chamber's concern of a lack of grassroots accountability caused by dominance patterns between 'uppers' and 'lowers' (Chambers, 1996: 241) is addressed by institutionalised behaviour patterns to minimise this effect, b) Gauri and Galef's concern that institutional ambiguity makes it unclear who the organisations are accountable to (Gauri and Galef, 2005: 2056) is addressed by the members owning the bank and being provided with a strong governance role, c) Tandon's concern that accountability will boil down to organisations providing finance (Tandon, 1996: 53) is no longer valid as the bank does not need outside credit, but was probably not relevant due to the board structure being enshrined in legislation and the accountability links addressed above, and d) Stiles' concern that NGO boards need to be accountable to someone other than the CEO (Stiles, 2002: 844) is also addressed by the links outlined above.

Transparency, relating to the ability to access timely and relevant information on an organisation (OECD with OAS, 2002: 7), is especially important due to the high level of corruption in Bangladeshi society. The Grameen Bank emphasises transparency in all transactions, from an individual savings or loan transaction, to election of officials, to corporate financial reporting and again this is backed up with the use of a strong audit department and emphasis on clear communication and swift reporting on financial and social impact matters. Further, staff are not allowed

to accept anything from members, dismissal is instant for any sign of corruption, and the generous staff pension scheme is tied to non-dismissal. The international and local community is welcomed at the bank putting all activities 'out in the open'.



Present elected board member board Rahima Begum (at centre with pot) at her home with family in Patuakhali, March 2005. Elected board members are directly accountable for their actions back in their homes where they live alongside their fellow Grameen members.

Openness, relating to how the organisation listens to stakeholders and takes up their suggestions (OECD with OAS, 2002: 7), has been addressed above when discussing participation of stakeholders and is backed up by the learning and consultative culture of the organisation that means feedback is welcomed and acted upon, even actively sought. It will be further considered under the section considering the detection of recipient input.

A weakness in the accountability, transparency and openness of the structure is the appointment and removal of government board members which is carried out by government. It is therefore beyond the control of the organisation and involves government processes unknown and unclear to the bank. It is particularly a concern given the important role of the government appointed members to balance the skills of the elected board members and the role of the Chairperson being a government

appointee and is further addressed in the discussion of corporate governance in section 6.2.

Capacity Building

Another of Schneider's participatory governance trilogy is capacity building (Schneider, 1999: 533) which complements Chambers' suggestion that 'lowers' should over time be able "to do more and take more responsibility" (Chambers, 1996: 241). These have been reflected as 'capacity building' in the tasks of participation outlined in box 2.iv. There is a structure in place to build the capacity of recipients in general and to participate in governance in particular. In fact capacity building is a major focus of the organisation. Personal decision making, leadership qualities and life skills are encouraged from the level of members learning to sign their own names, to using that signature to apply for a loan of money, to electing group and centre representatives and ultimately board members, the sixteen decisions, members' training programmes, and higher education loans and scholarships. The regular use of democratic processes (including voting and negotiation) within the centres increases the use of such processes by members in wider society, such as by voting and standing for election at local level. When members are elected to the board they are trained and supported to make a full contribution. Support for members' children's education extends from primary to tertiary, growing a whole new generation with otherwise unimaginable skills and capacity. The result of the increased capacity is the "enabl[ing] and empower[ing]" of the poor to "gain for themselves the better life that is their right" (Chambers, 2005: 115).

Organisational intent conclusion

In conclusion, organisational intent is a prerequisite for genuine participatory governance and recipient partnership if traditional patterns of power are to be "confronted and transformed" (Chambers, 2005: 115) and "internalised forms of powerlessness" overcome (Gaventa, 2004: 24). These power relations form the key to participation, and it is no coincidence that recent publications have begun to

focus on them more and more (for example Chambers 2005). The intangible, crucial, and until recently underacknowledged, nature of power relations coincides with and compliments the intangible, crucial, and only recently acknowledged nature of governance.

The extensive interlinking of the Grameen Bank accountability structures throughout governance, management and operations of the organisation indicate the depth of participation in the organisation. This underlines the deliberate intention of the organisation to be participatory and in particular serves to increase the voice of the poor and receptivity to it (Gaventa, 2004: 18).

b) Recipient Input

Considering whether recipient input can be detected helps to determine whether the participatory governance intentions of the organisation have actually been put into place. This can be seen by assessing the again interrelated areas of a) governance processes, to see if they prescribe recipient input, b) monitoring of results, to see if they include results of importance to recipients, and c) evidence of locally appropriate structures and processes.

Overall, the recipients' governance input can be detected both directly and indirectly in the organisation. It can be seen directly in initiatives such as the increase in maximum housing loan size, loan insurance, and the extension of loan insurance to the husbands of members. Indirectly the whole method of operation of the bank is based on Muhammad Yunus' initial research on addressing the systemic causes of poverty, which in turn was based on listening to poor people talk about their lives and slowly over time creating and adapting a system that was suitable to local conditions.

As already discussed there is a prescribed process to ensure direct recipient input into governance and policy, that of the election and support of members onto the board, which ensures direct input by the poor into governance and policy. This assists to provide the equal partnership of recipients in processes, one of the tasks of participatory governance as outlined in box 2.iv in reflection of the expectation in the new aid paradigm (for example International Monetary Fund 2004: 1, NZAID

2005: 1/2). The partnership with the poor is supported by the bank balancing the strengths and weaknesses of the different board members: the strength of the poor being their ability to make and understand the effects of policy, while other board members balance the lack of knowledge of the elected members in other areas such as international finance, audit, and resource management, by taking the lead in these areas.

One of the primary areas for results monitoring are the ten indicators to measure movement out of poverty. These indicators are holistic, considering many aspects of the woman's life, and were set in a consultative process with member contribution and finally approved at board level. There is in fact no conflict between the monitoring of social benefits and financial indicators, as the bank considers them equally important; staying financially viable is only important inasmuch as it supports its social mission. However it does highlight an important aspect of participation, monitoring what is important to recipients so that more of the organisational power is passed to them (for example Chambers, 1996: 241).

The first of the principles of participatory governance as proposed in chapter 2 is the use of structures and processes that are appropriate in local circumstances. As already discussed, enshrining the board structure in legislation serves to ensure continuity of governance in the turbulent local political environment that places a high value on legal process. Locally appropriate processes can also be seen in the introduction of items of cultural importance to members such as loan insurance.

Most of the processes (such as those to elect board members) use consensus decisions, rather than majority decisions which uses/enhances the Bangladeshi enjoyment of dialogue. The supportive structure of groups and centres uses/enhances the close-knit Bangladeshi communities. The composition of groups is arranged to ensure there is the least possible opportunity for power imbalances between group members. This works to ensure women have the maximum amount of control of their loans, groups can support each other, and all women have an opportunity to be selected as leader of a group: leading to increased empowerment.

Also appropriate to counter the highly corrupt Bangladeshi society is the Grameen Bank emphasis on transparency in all transactions, from an individual savings or loan transaction, to election of officials, to corporate financial reporting; summed up

as: 'The more eyes the better' (Bornstein, 1996: 44) meaning that transactions always take place in the open in front of as many people as practical. The member/group/centre structure ensures all centre financial transactions take place in front of others with the whole centre in attendance at the point the money is given to the staff member and accuracy checked at every level. At the branch office the centre manager is checked by the branch manager, the branch office is checked by the area office and so on through the chain to head office, with checking by the audit department.

One question that keeps arising when considering the participatory nature of the Grameen Bank is how, as discussed, the bank prides itself on its openness and transparency, while operating in a country at the top of the 'most corrupt' index. This highlights the question as to whether the organisation can really be reflecting the society around it.

When looking beyond the present day corrupt practices which can be understood as outlined in chapter 3 as arriving out of recent historical events, it is impossible to miss the connection of the Grameen Bank values with the Golden Bengal dream of equity, justice, social harmony and cultural effulgence; the principles of the Awami League of the independence movement of nationalism, democracy, socialism and secularism; and the Awami League manifesto for democracy, self-government, and eradication of corruption and structural injustice. This is the political dream that Muhammad Yunus and his colleagues grew up with and can be seen in a) the strong sense of compassion still noticeable amongst staff and b) in the values of the founder Muhammad Yunus, specifically his compassion, leadership, innovation, independence, curiosity, questioning and personal quest; all now qualities seen in the organisational culture today. That early Bangladeshi political leaders betrayed the dream of Golden Bengal and plunged Bangladesh deeper into a downward spiral of corruption and individual self-interest does not mean that this dream died amongst the people. All except the younger Grameen members and certainly most, if not all, of their families will also have ascribed to that dream when struggling for independence in 1971, a struggle that I have observed is never far from the minds of Bangladeshi people.

Two of the other large development organisations started at similar times to the Grameen Bank, namely ASA and BRAC, also reflect this dream, indicating how widespread its influence was at the time. ASA was founded in 1978 as “a social action organisation to conscientise, mobilise and organise people who were poor and powerless to resist oppression, [and] injustice and to assert their rights of access to institutional resources” (ASA, 2006: 1). BRAC was started in 1972 and their vision is “a just, enlightened, healthy and democratic Bangladesh free from hunger, poverty, environmental degradation and all forms of exploitation based on age, sex, religion and ethnicity” (BRAC, 2006:1). All these organisations have ‘tapped into’ their country’s historical ethical roots and thus fulfil a desire of the Bangladeshi people for lives based on the principles expressed as Golden Bengal. It appears that part of the reason that the Grameen Bank has survived and expanded so successfully is that the bank’s values resonate with the Bangladeshi people.

In summary, the ability to detect recipient input would indicate an operational participatory governance structure and in the Grameen Bank this can be detected in the processes, activities and structure of the bank. This reflects the strength of receptivity to voice within the organisation (Gaventa, 2004: 18). Further, the values of the Grameen Bank do reflect the wider Bangladeshi society, an ethical undercurrent that was hidden by necessity due to a turbulent recent history. Perhaps the work of Grameen and other Bangladeshi development organisations can hasten the arrival of the dream of Golden Bengal?

c) Results

Overall we need to examine if the results of the organisation fit with the expectations of participatory governance. As summarised in box 2.iv, the expectation would be that an organisation with participatory governance should show results of increased voice and receptivity to voice, capacity building, empowerment, transparency and overall performance and commitment to recipient needs (for example, Gaventa, 2004: 18, OECD DAC, 1995: 8, Rahnema, 1992: 117, Schneider, 1999: 533). Further, Chambers suggests that for empowerment of women to occur, participation is central (Chamber, 2005: 110).

Having members elected as board members is a powerful tool that gives the poor a strong voice at the top of the organisation and a communication link with senior government officials that are appointed to the board by the government, thus also enhancing civil society representation and democratisation (OECD DAC, 1995: 8). This direct representation of the poor on the board is legally enshrined which makes the increase in voice stronger (Gaventa, 2004: 18/19). Elected board members regularly attend international events or host international guests and Mohammad Yunus uses his international reputation to campaign regularly at international level for poverty to be fully addressed.

Empowerment and capacity building form two of Schneider's pillars of participatory governance (Schneider, 1999: 533). Increased empowerment, in particular with regards to women, can be seen throughout the organisation's strongly positive results as extensively discussed in chapter 4, including income benefits, control of household decisions, health benefits, family education improvements, and control of fertility. Further, the pension scheme empowers women to plan for when they are no longer able to work. As discussed above, a major focus of the organisation is the capacity of members and their families, which in turn is reflected in the increase in empowerment with value placed on each member gaining "a straight back" (Mortuza quoted in Bornstein, 1997: 103). Capacity building is also reflected in the increase in women moving from microcredit loans, to the larger and more flexible micro-enterprise loan⁶⁶.

The organisational commitment to recipient's needs has been discussed above with regard to organisational intent. Further, having government appointed board members is a pragmatic tool to ensure a level of government support for the organisation and communication with it. Having the poor and senior government representatives on the board provides a direct link between the marginalised and the government elite, strengthened because the interaction is legally enshrined. The resultant empowerment of members and increased voice within the democratic

⁶⁶ For example this rose from 71,500 micro-enterprise loans in the year 2003, to 211,500 in 2004, to 605,750 by October 2005: with an average micro-enterprise loan size increase from 20,351 taka, to 21,594 in that time and the present largest loan of 1.2 million taka (NZ\$24,000) (Grameen Bank, 2004: 22, 2005: 26; Yunus, 2005b: 4).

general election system forces the government to 'listen harder' (Gaventa, 2004: 18) to the poor women in the general electorate.

Schneider in particular emphasised accountability as a pillar of participatory governance (Schneider, 1999: 533). The multiple accountability linkages particularly within the organisation, but also externally to the government have already been discussed. Further, the organisation has taken on a role of promulgating microcredit to an international audience, so accepts accountability for its actions in international forums.

With regard to results, the literature suggests that with a participatory governance system we should see evidence of overall positive results, probably better than other players in the same industry (for example Chambers, 2005: 110, OECD DAC, 1995: 8, Rahnema, 1992: 117, Schneider, 1999: 533). As already discussed, overall financial and social impact results are strongly positive. Direct comparison of other microcredit organisations within Bangladesh and internationally is difficult due to the different ways organisations run their loan systems and different operating environments. However, the Grameen Bank is the only microcredit organisation in Bangladesh to have the membership directly represented on their board in a legally enshrined process and so, on the surface, should have better participatory governance than the other large microcredit organisations. The theory suggests this should mean that they are basing policies on better information and implementing their policies more effectively and efficiently (Schneider, 1999: 533). Research in 2004 by Shah Nawaz at the Centre for Development Studies at Flinders University in Australia compared the Grameen Bank against the other two large Bangladeshi microcredit organisations BRAC and ASA. He found that the Grameen Bank reached more poor and very poor households and had overall better social and economic results when looking at the variables of education, income, occupation, food intake, land ownership, type of house⁶⁷, access to medical assistance, access to water, and type of toilet (Nawaz, 2004: 9). 1998 research by Pitt and Khandker comparing 1800 Bangladeshi households found that schooling of girls only increased when mothers borrowed from the Grameen Bank and not when borrowing from BRAC or ASA (Pitt and Khandker, 1998: 1998).

⁶⁷ Including ownership of clothing, furniture, electronic items and total household assets.

In conclusion, the results of the organisation do fit with the expectations of participatory governance; in particular the bank appears to have better results than similar organisations with less participatory governance. This backs up the literature predicting these results and in particular that of Chambers who noted how participation was especially important in the empowerment of poor women (Chambers, 2005: 110)

Section Conclusion

The question of the participatory nature of the Grameen Bank was first posed when considering how the governance of the Grameen Bank could possibly work with nine or twelve members who were illiterate/semiliterate rural poor women. To assess this we considered participation in general and then more specifically considered the participatory governance discourse. This concluded with a definition of participatory governance as governance with an emphasis on participation by recipients in locally appropriate ways. The purpose of participatory governance was both for pragmatic reasons, in that it is believed to lead to better financial and social results, and because on principle it is simply fairer to ensure the poor have maximum influence over their own development (for example Chambers, 2005: 110, OECD DAC, 1995: 8, Rahnama, 1992: 117, Schneider, 1999: 533).

To provide a framework to analyse the Grameen Bank's participatory governance box 2.iv firstly summarised the principles and tasks of participatory governance. This was followed by a three point framework of factors to consider when analysing if the Grameen Bank governance was participatory. Each point in the framework had subsidiary questions for probing more deeply into the issue.

Put simply the three points of the framework were to consider if the organisation appeared to *intend* to have participatory governance, and if it did, was there evidence of this intention actually being *carried out*. And finally, if there was evidence of participatory governance being carried out, was there evidence that the organisation's *results* were those predicted by the participatory governance literature; although if the first two questions were positive, and the third negative, the accuracy of the literature may have been in question.

Chapters 3, 4 and 5 of the thesis discussed the background to the Grameen Bank and the present day operational extent, structure, and results, so that the three points of the framework could be addressed, as they have now been at the start of this section. As the above discussion has shown the answers to all these questions is 'yes'.

Firstly it does appear that the organisation intends its governance to be participatory. It has put structures into place to have recipient partnership, and to ensure a focus on recipients, quality participation, understanding of the lives and needs of recipients, accountability, transparency, openness, letting go of the power of hierarchy, and to build the capacity of recipients to participate in governance.

Secondly, the recipient participatory input at governance level can be detected in the policies and activities of the organisation, not least in the existence of the organisation that came into being after active listening to the needs of the rural poor. There is a prescribed process to ensure direct recipient input into governance, and policy and processes that are appropriate to the local conditions.

And finally the results of the organisation do fit with the strongly positive results predicted in the literature, in particular Chambers (2005), Schneider (1999), Rahnema (1992) and OECD DAC (1995). Amongst the membership (and wider society) voice and reception to voice are strengthened, capacity is increased, the poor are empowered, and the organisation appears to have more positive results than the comparable organisations with less participatory governance. In short they have escaped the apparently inescapable (Chambers, 2005: 108), that of a life of poverty. With regards to accountability, a concern amongst many authors (for example Gauri and Galef, 2005: 2056, Schneider, 1999: 533, Stiles, 2002: 844, and Tandon, 1996: 53), the Grameen Bank has set up a network of interrelated accountabilities based on an organisational mission of addressing the systemic causes of poverty; a mission dear the heart of staff and members alike.

Interestingly the results highlight the reinforcing relationship of strengthening voice and receptivity. For example the strengthening of the voice of members by familiarisation in the use of democratic processes has led to strengthened 'use of democratic voice' at general elections, forcing politicians to ultimately 'focus harder' on poor rural women as part of their electorate. Also the mandating of the board structure has resulted in poor rural women sitting alongside members of the

government elite at the Grameen Bank board meetings, which results in heightened awareness of the daily struggle of rural women by those at the upper levels of the government administration. Thus, strengthening voice has served to strengthen receptivity. As Schneider (1999) notes that increased capacity links to and supports increased empowerment, we could also say that increased voice links to and supports increased receptivity. It is also notable that the strengthening of voice extends to the voice of the poor reaching the international arena through its founder and other staff; something not directly necessary for the bank's survival and profitability, but essential for its purpose.

This analysis has provided a unique participatory governance case study highlighting a number of areas. Firstly it highlights a governance model that due to the nature of the Grameen Bank (that is, a business providing development services) has potential application in the not-for-profit, government, and business paradigms. Secondly it has also shown how an organisation can turn Gauri and Galef's 'institutional ambiguity' (Gauri and Galef, 2005: 2056) of the not-for-profit sector into an 'institutional duality', balancing mission and survival, or purpose and practicalities, and proving that a social development organisation can be accountable to its recipients. Thirdly it clearly demonstrates the benefits of participation, from Chambers' vision of "confronting and transforming over-centralised power... [to] enable and empower... [the] marginalised, powerless and poor" (Chambers, 2005: 115), to Gaventa and Goetz's voice and receptivity continuum (Gaventa, 2004: 18), and to Schneider's participatory governance trilogy or building blocks of empowerment, accountability, and capacity building (Schneider, 1999: 533).

This research has also highlighted the lack of, and a need for, a promulgated standard for participatory governance. Such a standard could usefully assist other organisations intending to create a participatory organisation or wishing to evaluate their own structure and processes.

The purpose of the Grameen Bank's participatory governance is that representation of the marginalised is so intrinsic to the organisation's purpose that they simply would not be the Grameen Bank without this participation. They did not set out to

create an international benchmark for participatory governance; they set out to relieve the effects of poverty by listening to those it affects.

SECTION 6.2 – HOW DOES THE GRAMEEN BANK COMPARE TO CORPORATE GOVERNANCE ‘BEST PRACTICE’? DOES THERE APPEAR TO BE ANY CONFLICT BETWEEN ‘BEST PRACTICE’ PARTICIPATORY AND CORPORATE GOVERNANCE?

The first question of how the Grameen Bank compares to corporate governance best practice is considered from the four angles as outlined as the framework for corporate governance analysis in Chapter 2: a) high ethical standards; b) organisational purpose; c) monitoring; and d) governance structure. Each is considered separately and then drawn together into a conclusion that will also consider if there is any conflict between participatory and corporate governance.

a) High Ethical Standards

The role of values and ethics⁶⁸ as explicitly stated in the two modern day corporate governance standards was explored in chapter 2. The OECD standard states a responsibility of the board is the application of “high ethical standards” (OECD, 2004: 24), and the NZSC standard lists the observation and fostering of “high ethical standards” as one of nine principles of corporate governance (NZSC, 2004: 11). The discussion went on to highlight the important role of high ethical standards to back up other governance intangibles such as fairness, good faith and constructive relationships, as these in some way needed to be trust based and would not stand alone without an ethical foundation (OECD, 2004: 4). I then theorised that ‘real’ high ethical standards at governance level should be reflected within the corporation, and evidence of high ethical standards in the corporation will likely reflect high ethical standards at governance level. So in order to consider the values of the Grameen Bank from the lens of corporate governance we will consider both

⁶⁸ Although *values*, defined as “moral principles or accepted standards” (Gordon ed, 1982: 1297), and *ethics*, defined as a “code of conduct considered correct” (Gordon ed, 1982: 380), are not identical in meaning, for the purpose of this question they are considered sufficiently similar concepts to be basically interchangeable.

a) if there is evidence of high ethical standards in the corporation, and b) if there is evidence of high ethical standards in the corporate governance.

Overall, there is strong evidence of high ethical standards from the bank's founding purpose of engaging the injustice of poverty (Yunus, 1999: 12), backed up with procedures and policies such as staff rules banning gift taking, senior executives on government pay scales, the placement of head office in a poor suburb of Dhaka, and the very fact that the bank is owned and governed by its members: poor people who could never have demanded a structure so favourable for themselves.

High ethical standards are in evidence and from the corporate governance lens the most noticeable areas are: the clearly specified election processes for the selection of the elected members and the support of those stakeholders to make quality contributions when at the decision-making table (Gaventa, 2004: 21); the transparency of all financial transactions; the lack of corruption; the openness to, and in fact encouragement of, questions, questioning and feedback; and the emphasis on partnership with stakeholders.

Further, there is evidence of constructive relationships with shareholders and the ability of shareholders to engage with the entity that both the OECD and NZSC suggest is a principle of corporate governance principles (NZSC, 2004: 11; OECD, 2004: 7). Key to this successful relationship with shareholders is that 94% of shareholders are the members of the bank; therefore the bank's alignment behind the organisational purpose of the member's business success ensures that the owner's interest is the bank's purpose. The other 6% shareholder is the government and they also are aligned with the organisation's purpose as they see the Grameen Bank as an important part of the nation's efforts to relieve poverty.

Constructive relations with shareholders are also ensured by their legally enshrined representation on the board, both the government as 6% owners, and the members via the elected board members. Once selected, elected members are strongly supported by the executive to ensure they can contribute as fully as possible.

Both the OECD and NZSC again emphasise the equitable treatment of, (OECD, 2004: 7) and respect for the interests of, (NZSC, 2004: 11) stakeholders. In the Grameen Bank the board is required by the Grameen Bank Ordinance to act with

regard to public interest. The complexity of issues surrounding poverty requires an understanding of the needs of wider society and respect for key stakeholders (other than the shareholders) is reflected in involving the members' communities in bank activities such as celebrations, the explaining of bank's structures, and the emphasis on education for members' families. Subsequent to the early days of the Grameen Project, the Grameen Bank never enters a community without invitation, to ensure members are supported within the community structure and there is emphasis throughout the bank's processes, and especially when starting a new centre, on listening to and addressing the concerns of the community. However, some conflict with some community stakeholders, such as money-lenders that have been making a living by charging high interest to women is inevitable. The two standards considered acknowledge this potential conflict by the use of non-binding language such language as "take into account" (OECD, 2004: 24) and "respect the interests of" (NZSC, 2004: 11).

The interests of staff (as stakeholders) are central to the success of the organisation. The learning and questioning culture of the bank and a high level of autonomy within the zones (within strict policy parameters) encourages staff contribution to organisational change.

Given the flow-on effects of poverty on global society, a wider definition of stakeholders could include the international community. This group is engaged by the executive lobbying and educating the international community on issues of poverty and microcredit.

Again the OECD and the NZSC emphasise the timeliness and integrity of disclosure of financial, performance, ownership and governance matters, and formal and transparent board election processes (NZSC, 2004: 11, OECD, 2004: 7/25). At the Grameen Bank all financial figures are published on the internet with unrestricted access in both taka and US dollars soon after monthly figures are known, and an annual report including full financial disclosure is published when required audits are completed. The annual reports include information on the board of directors, annually determined figures for movement out of poverty of members, and information on loan utilisation. An approximately eight page report with extensive details such as ownership information, membership numbers, number of loans,

proportion of female members and numbers of beggars involved in the Struggling Members Programme is also available on the internet and updated soon after month's close (all the above can be accessed from <http://www.grameen-info.org/>).

Information on the organisation's corporate governance is available, but it is not easily accessed via internet as is frequently found on corporate and NGO websites, for example the governance of AusAID referred to in chapter 2 (AusAID, 2003: 99) and, although less informative than AusAID, the microcredit organisations BRAC (BRAC, 2005: 1) and ASA (ASA, 2005: 1). This I would construe to be an oversight rather than evidence of a lack of ethical standards, although it is recommended that the bank review this.

The election of the nine representatives of the membership is legally prescribed (Government of Bangladesh, 1995: sections 8, 9, 10 & 11) and formal and transparent. However the appointment of the government appointed board members including the chairperson is not transparent, with the potential for the appointment and removal of government board members for unknown reasons at any time, even though in the past they have generally been appointed for a term of three years to coincide with the elected members' election cycle. The lack of input into the appointment of the chairperson, an especially important position given the need to balance the strengths and weaknesses of the elected board members (NZSC, 2004: 11, Yunus, 1999: 178), is a concern as a chairperson without appropriate skills or experience could severely impede the organisation's work. However this lack of formality and transparency does not negatively affect the organisation's ethical standards, especially given that the bank is pursuing legislative change to correct this.

In conclusion the Grameen Bank and its governance have a firm ethical basis that is reflected in positive and transparent relationships. Both the OECD and NZSC standards referred to have an emphasis on high ethical standards being one of six board responsibilities (OECD) or one of nine corporate governance principles (NZSC). However, on deeper analysis, both standards undermine its importance by the use of non-authoritative language, namely the word "should" (NZSC, 2004:11, OECD, 2004: 24) is used rather than 'must' or 'need to'. While the non-authoritarian wording could be construed as being appropriate for 'standards' rather

than ‘rules’, it does downgrade the importance of the principle. I propose that each standard should be amended to “as the foundation of good governance, high ethical standards must be applied at all times”.

b) Organisational Purpose

The overarching definition of governance used in this paper has emphasised the setting of purpose and means of an organisation and taking accountability to ensure they are achieved. This has been supported by the strategic governance discourse (for example OECD, 2004: 24). Overall, notwithstanding the lack of specified vision and mission, the organisation’s purpose has been well established and is well understood, and the organisation is strongly aligned behind its purpose.

Policy is strongly influenced by the board and in particular by the elected board members, with financial matters more the domain of government appointed members. Resultant strategies, plans and budgets are lead by the executive. Emphasis is placed on discussion and consensus in planning matters with the involvement of the entire executive as well as the board. Clear performance goals regarding membership levels and movement out of poverty have been set by the executive and appear to be being achieved, for example the goal to have 5 million members by the end of 2005 had been met by October 2005 when membership had risen to 5.3 million (Yunus, 2005b: 1). It is however recommended that the bank occasionally review whether the poverty indicators are still relevant.

The means to achieve organisational purpose and the organisation’s alignment behind this purpose is supported by the compassionate mission of the bank’s founders along with strict adherence to policies and procedures and staff and member incentives. For example staff incentives align with organisational goals, which in turn align with member/owner goals. This reinforces the organisational culture, in turn reinforcing the organisational values (for example Speth in Holcombe, 1995: Foreword). The board composition is such that all members have vested interests in making the bank as effective and efficient as possible: the elected members as the bank’s operations directly affect their lives; the appointed members

as the government sees the Grameen Bank as performing part of the government's expected role in the easing of poverty.

The change from Grameen I to Grameen II from 2000 to 2002 shows how the bank was able to almost re-invent itself to achieve its purpose within a changed business environment, indicating the ability of the governance structure to "identify and manage potential and relevant risks" (NZSC, 2004: 11). The instigation of the Struggling Members Programme as outlined in chapter 4 is also an example of the bank adapting their programme to meet an environmental niche. Ultimately one assumes this successfully fulfil both the organisational purpose of poverty elimination while meeting the need for new members that take Grameen loans, minimising another organisational risk that the bank will eventually exhaust its potential membership base.

The OECD standard emphasises the importance of the board selection of key executives and both the OECD and NZSC note the importance of aligning executive pay to the organisational purpose (NZSC, 2004: 11, OECD, 2004: 24). At the Grameen Bank, the Grameen Bank Ordinance empowers the board to appoint the CEO and executive and requires central bank approval for the appointment of the CEO. In reality, to some extent, the CEO and executive selected themselves many years ago by choosing to establish or join the unique Chittagong University research project. The selection of a new generation of executive will be a challenge to the bank. Although specific training and succession plans for senior managers is outside the extent of my research, I do note the intention of Muhammad Yunus to retire as CEO to become Chairperson and be replaced by Mr Dipal Barua once legislation has been amended to allow Yunus' appointment as Chair.

Staff and director's pay follows the Government pay scale except that the Government pension is paid only after 25 years rather than after ten years at the Grameen Bank. This means that there is no personal financial incentive behind the fulfilment of organisational purpose for the CEO, executive and directors. However, the compassionate mission and high ethical standards of the organisation means that high remuneration is not expected and the achievement of the bank's social purpose is sufficient reward. This fixed pay scale appears to be in conflict with the OECD's recommendations of aligning "executive and board remuneration

with the longer term interests of the company and its shareholders” (OECD, 2004: 24) while sitting comfortably with the NZSC principle that this remuneration be “transparent, fair, and reasonable” (NZSC, 2004:11). It is suggested that the OECD standard is overly focused on *remuneration* to align executive and director’s interests with organisational purpose, while the NZSC misses the concept of alignment entirely. A potential alteration to both standards would read – “the board should ensure executive and director alignment behind the longer term interests of the company and its shareholders”.

In conclusion we see that the Grameen Bank ensures organisational purpose and reflects the standards of good strategic governance as promulgated by the OECD in that it reviews and guides strategy, major policy, budgets, and objectives (OECD, 2004: 24). It is noted that the NZSC standard does not reflect the strategic governance discourse, being more focussed on process and risk management than the setting of organisational purpose. Thus the NZSC standard reflects more the governance discourse centred on governance as a means to support the flow of finance, and is therefore interpreting ‘governance’ too narrowly and could potentially be amended to correct this.

c) Monitoring

Taking accountability to ensure organisational purpose is achieved requires appropriate monitoring of the organisation and, as discussed, the corporate governance discourse is embedded within the contractarian paradigm and a past focus on governance as a means of assuring the investment needs of publicly owned corporations. It is therefore not surprising that both the OECD and NZSC principles have an important role for the board in ensuring sound financial processes, external audit processes, monitoring governance processes, and risk management (NZSC, 2004: 11, OECD, 2004: 24).

The Grameen policy of having all financial transactions verified at all levels from the group upwards provides integrity in its financial reporting and monitoring base. This is supported by a strong audit department and staff disincentives to act in a dishonest manner. Quality in the external audit system is provided by a system

established at the conception of the project and enshrined in legislation requiring annually two external auditors, appointed by and reporting to the board and changed after three years, and a government audit (Government of Bangladesh, 1995: sections 22 & 23).

Financial Risk Management is a priority with a financial early warning system primarily around loan defaults with bad debt checked daily. Although risk assessment is not otherwise formalised, monitoring of performance objectives has proven to be able to detect adverse trends seen with the detection in 1999 of weakening repayments, and then the ability to find out what was going wrong. This also highlights the strength of communication throughout the organisation.

In conclusion, overall the bank has strong internal monitoring based on a policy of transparency and a large audit team looking at both financial and social results, underpinned by legislative requirements.

d) Governance Structure

Although logic tells us that good governance requires an appropriate structure to ensure that the governance objectives can be and are met, this is not specified by either of the standards considered, an oversight probably caused by the common error referred to in chapter 2 of confusing 'governance' with 'board of directors'. Notwithstanding this lack of reference within the standards, the Grameen Bank has a strong governance process interlinked with its management and operational processes.

Overall the Grameen Bank structure is unconventional in that the elected and appointed board members have quite distinct roles and the senior executive (other than the Managing Director), while not members of the board, have an important role contributing to and supporting the board to ensure that, in particular, the elected members can contribute as fully as possible and to balance the skill sets of the appointed and elected members. However, executive support of the board is expected within organisations, and full board membership of the executive is also *not* unusual for large corporations, so that in the final analysis this may be just

another example of the same board functions being presented in a different way (Pettigrew & McNulty, 1998: 250).

One important part of a governance structure is a formal (NZSC and OECD), and transparent (OECD), and rigorous (NZSC) board nomination and election process (NZSC, 2004: 15, OECD, 2004: 24). This area has been discussed above, noting that for elected board members the process is very clear, transparent and rigorous, but that for the government appointed members the process is not clear.

For the monitoring of the organisation and the ability of shareholders and stakeholders to influence the organisation there must be clear formal and informal communications channels throughout the organisation, processes that the OECD suggest the board should “oversee” (OECD, 2004: 25). Formal communication channels exist through the membership of some members on the board and formal internal reporting on social and financial matters. Informal communications are supported up by a learning and questioning culture that values input from staff, numerous social events where the executive interact with the branch, area and zonal offices, and a strong sense of camaraderie amongst and between staff and members. Again the organisation focuses on the needs of the poor as this is how the organisation survives, meaning that communication between staff and members is essential and valued.

Further, the organisation’s structure ensures the contribution of key stakeholders (as recommended for example in NZSC, 2004: 11, OECD, 2004: 21/24). Grameen members and the government are addressed as discussed above, as they are also the company’s shareholders. The wider community in which each branch operates is always consulted before a new branch opens as member and staff safety is paramount and as already described in Appendix III, when the Grameen Bank included the families and communities of members when they made the overhaul from Grameen I to Grameen II. Staff members’ ability to influence the organisation has also already been discussed earlier in this section.

Two other examples illustrate stakeholders’ ability to influence the organisation. When the bank relied on outside loans to finance its operation, these finance institutions were able to put conditions on the bank’s operations, such as discussed in chapter 3 when Muhammad Yunus was required to open a branch away from

Chittagong to prove the model could work where he was not well known. My own experience, discussed in chapter 1 and further in chapter 7, of being welcomed to research the bank and the great interest in my findings, backed up this willingness to consider input from Grameen's wider community.

The overarching definition of governance requires the board to take accountability for the organisation's performance to stakeholders and shareholders. As has been discussed in section 5.1, the board structure provides an accountability link to members, and from/to the government, with elected board members accountable to the general membership in their close-knit communities and government appointed members accountable to the government. The legal requirements for government and independent audits provide a high level of financial accountability and transparency. Further, the Managing Director is a board member and as the public face of the Grameen Bank he is highly involved in publicising and encouraging the use of microcredit and accounting for the actions on the bank, such as his central role in organising the 1997 microcredit summit in Washington DC.

The NZSC corporate governance principles emphasise the need for a balance of independence, skills, knowledge, experience and perspectives amongst the directors (NZSC, 2004: 11). In the Grameen Bank, balance is provided by the mix of board members and attendance and input by the executive at each meeting. In this way business experience and knowledge of the business, the reality of members' lives and experiences and how the bank influences them, and knowledge of the movement and machineries of government are brought to the board table by the executive, the elected board members, and the appointed board members respectively.

In conclusion the Grameen Bank has a strong governance structure supporting the governance roles. This structure has grown out of the ethical foundations of the organisation in that transparency, openness to stakeholder participation, and accountability for actions, are all embedded in the company's structures and processes, while the balance of skills on the board arose partly from the pragmatic need to have government support, and the organisation's principle of ensuring participation of the poor.

Section Conclusion

In summary the questions of how the corporate governance of the Grameen Bank compares to accepted 'best practice', and if this in any way conflicted with participatory governance, were first posed in chapter 1 when considering how the Grameen Bank could work with nine of twelve members illiterate/semiliterate rural poor women. To assess this we looked in chapter 2 at the corporate governance literature and found that its foundations were within the contractarian approach which tends to see governance as a mechanism to "orient corporate managers toward the criterion of corporate value" (Davis, 2005: 144). We noted that this discourse is undergoing a period of re-evaluation (MacAvoy and Millstein, 2004: 1) and tending to trend towards an emphasis on strategic corporate governance, corporate social responsibility, and governance as oversight and evaluation; as visible to some extent in the two standards more closely considered, those of the OECD (2004) and NZSC (2004). Further it was found that extensive research into corporate governance appears to have led to the conclusion that there is no one best way to 'do' governance (for example Davis & Robbins, 2005: 293, MacAvoy & Millstein, 2004: 37) but that organisational values and board member's ethics appear to be the basis of good governance (for example NZSC, 2004: 11, OECD, 2004: 4/24).

To provide a framework to analyse the Grameen Bank's corporate governance we firstly considered in some detail the standards promulgated by the OECD (2004) and NZSC (2004). Then a four point framework of factors to consider in order to analyse the Grameen Bank corporate governance was created, with each point in the framework having subsidiary questions for probing more deeply into each issue.

Put simply, the four points of the framework were to consider if the organisation appeared to have *high ethical standards*, had established a clear *organisational purpose* and had ensured *alignment* of the organisation behind this purpose, had appropriate *monitoring* in place, and if overall there was a clear governance *structure* in place to ensure the governance roles mentioned could be carried out effectively. Chapters 3, 4 and 5 of the thesis discussed the background to the Grameen Bank and the present day operational extent, structure, and results so that

the four points of the framework could be addressed, as they have now been at the start of this section.

As with section 6.1, all the answers appear to be positive. There is evidence of high ethical standards from the organisation's original purpose, through its processes, organisational culture and its millions of daily interactions with shareholding members whom the organisation revolves around. The organisation has a clear purpose and the organisation is aligned behind it despite its vision and mission not being specified. The organisation has also shown an ability to set and communicate and achieve bold strategies and adapt to changing adverse conditions which clearly relates to the organisation's ability to monitor its performance and the environment around it. The organisation thus does possess the ability to monitor itself. And finally, there is a clear governance structure that supports the governance roles of setting high ethical standards, setting organisational purpose, and monitoring to ensure they are achieved.

Although on the surface the Grameen Bank governance structures, in particular the majority of membership of poor illiterate women, is unconventional, the bank does in fact compare well with the overarching purpose of governance as well as present day corporate governance best practice as outlined by the OECD and NZSC. Given that much of what the Grameen Bank does is also unconventional to traditional business, especially banking, it is not surprising that its governance structure is unconventional too. This backs the hypothesis that high ethical standards are the backbone of good governance.

Analysis of the Grameen Bank has highlighted areas for amendment of both the OECD and NZSC standards which although useful, failed to highlight some of the fundamental purposes, roles, and needs, of a well functioning governance structure.

In conclusion, and in answer to the question of potential clash between the best practice demands of corporate and participatory governance, far from there being a conflict it seems that the participatory nature and participatory processes of the organisation have a strong effect on its governance and this appears to complement, and perhaps even strengthen, its corporate governance. The emphasis on participation serves to support the organisation's purpose, strengthening the corporate culture of the bank, and ultimately bringing better results.

6.3 – CHAPTER CONCLUSION

Research into the Grameen Bank has found that despite the lack of engagement between the discourses of participatory and corporate governance there does appear to be an overlap in the ‘best practice’ requirements of each. The same participatory governance structure that gives such strong voice to the beneficiaries/customers, that is the legally mandated board structure, also works to ensure strong shareholder engagement and stakeholder input. Participatory processes to ensure transparency and openness also serve to support the corporate governance need for these, while the corporate governance need for shareholder input also meets participation’s aim of understanding the need of recipients. Perhaps most importantly the very same ethics that ensured the bank had participatory governance also gives the organisation a sound basis for its corporate governance.

Participatory and corporate governance could be said to be in a symbiotic relationship in the Grameen Bank; the participation symbolises the organisation’s purpose, while the corporate governance keeps a focus on the bottom line and the need for financial stability; the yin and the yang of an organisation in balance; institutional ambiguity or paradox having become institutional duality.

Good participatory governance seems to be based on a mindset, an organisational intention to ensure that the voices of the least powerful stakeholders are heard, and of putting into place a structure to ensure their messages are received. Likewise good corporate governance starts from a mindset too; with an organisational intent to act in an ethical manner, the basis of best practice corporate governance. This does not dismiss the need in both areas for sound skills and abilities to back up the good intentions.

It is interesting to note that the various organisations, which have copied the Grameen Bank’s approach to microcredit, have not picked up the Grameen governance structure when often all other processes have been picked up; even to the level of shared software (Personal Observation, 2003: *Moris Rasik* microcredit bank, East Timor; Yunus, 2005: Personal Conversation 1). The Grameen Bank participatory governance structure does require considerable support by way of time, effort and resources and without a proper understanding of its value new microcredit banks may have considered it unnecessary; probably to the long-term

detriment of the new organisation. The other possibility is that the structure was completely overlooked due to the somewhat intangible nature of governance⁶⁹.

Serving a complex market where high finance, corporate structure and extensive operations come alongside issues of corruption, equity, power relations, and hope, the Grameen Bank is marketing hope versus hopelessness, possibilities versus valuelessness; what it does is *pivotal* to the lives of its clients and to the elected board members as the Grameen Bank in most cases is the centre of their community life and has been a rare opening into a life of fullness and purpose. Although it is hard to imagine such passion in many banks with a comparable membership size, this does not mean that the lessons from the Grameen Bank can be dismissed for other corporations. In the final chapter we now consider what lessons from the Grameen participatory corporate governance style may be transferable to other organisations.

⁶⁹ For example in his 2004 research that found Grameen Bank performance stood out as better than the two other major Bangladeshi microcredit organisations ASA and BRAC, Shah Nawaz does not even consider the various governance structures. He suggests that the Grameen Bank better results may be due to better member discipline (Nawaz, 2004: 9).

CHAPTER 7 – DISCUSSION AND CONCLUSION

7.1 – THESIS CONCLUSIONS

In summary we have used an overarching definition of governance as *the steering of an organisation; the system, and the action of, setting the purpose and means of the organisation, and taking accountability for ensuring they are achieved* and seen that in both the development and corporate worlds, its importance had a resurgence in the 1980s resulting in both areas now being of great academic and industry interest.

The paper illuminated that the discourses on development and corporate governance have diverged but are now heading, at different speeds, along the path of greater societal contribution, with participatory governance perhaps the natural extension of stakeholder input to corporate governance. However, the corporate emphasis on profitability and participatory emphasis on process again highlighted the question of whether the two paradigms co-exist.; a question that Gauri and Galef brought up as the institutional ambiguity faced by NGOs and as relevant to the Grameen Bank (Gauri & Galef, 2005: 2056).

The turbulent Bangladeshi political setting where a hopeful post-independence population had to abandon its liberation dream in the efforts to survive increased corruption and selfish resource grasping (Mascarenhas, 1986: 170) was introduced. The values of Golden Bengal of equity, justice, social harmony and cultural brilliance, were discussed, showing how they were reflected in the call for liberation, and how they became a part of the life and works of the Grameen Bank founder Muhammad Yunus.

It was noted how in the early days when the bank was still a research project, within its slow unfolding, there were laid the foundations of the present day governance system. The bank evolved from a few people with a compassionate desire to help the poor, into the bank we see today with a wide mandate focussing on the systemic alleviation and elimination of poverty and its effects. Microcredit is a major tool, but the Grameen Bank does not, and has never, limited its operation to only financial transactions. The bank has grown into a large organisation with numerous subsidiary companies all with the primary values based missions as their driver.

Although the bank now operates at a healthy profit, it has taken many years to reach this secure position. Staff are remunerated with a secure but low salary, but it is the members whose lives have most profited by the bank's results, in many cases from lives subjected to cruelty and shame to lives of meaning and pride with a 'straight back'. The bank's performance against the criteria of financial sustainability and outreach to the poor are good, but in the area of impact the results for over two million formerly destitute and powerless women is over two million personal miracles.

The legislation establishing the bank provided a firm governance foundation reflecting corporate governance standards, by requiring the board to provide stewardship to the organisation, setting a process for board membership, and requiring the board to act with regard to public interest (Government of Bangladesh, 1995: 8(2)). This legislation also set up the basis of good participatory governance in that it required the participation of major stakeholders (that is the recipients/owners/members and the government), in a manner that is highly transparent with elected board members, although it still lacks visibility with regards to government appointments.

The research results found that the governance of the Grameen Bank is participatory with an organisational intent to be participatory, evidence of recipient input into governance, and results fitting with the strongly positive results predicted in the literature, in particular Chambers (2005), Schneider (1999), Rahnema (1992) and OECD DAC (1995). In particular the organisation has managed to counter concerns with accountability also highlighted by the literature (for example Gauri and Galef, 2005: 2056, Schneider, 1999: 533, Stiles, 2002: 844, and Tandon, 1996: 53) by setting up a network of interrelated accountabilities based on the organisational mission of addressing the systemic causes of poverty; a mission dear the heart of staff and members alike.

The results highlighted the reinforcing relationship of strengthening voice and receptivity and provided a unique participatory governance case study highlighting a number of areas. It highlighted a governance model that, due to the nature of the Grameen Bank (that is, a business providing development services), has potential application in the not-for-profit, government, and business paradigms. Further it

showed that an organisation can turn Gauri and Galef's 'institutional ambiguity' (Gauri and Galef, 2005: 2056) of the not-for-profit sector into an 'institutional duality' balancing mission and survival and proving that a social development organisation can be accountable to its recipients. It also clearly demonstrated the benefits of participation and highlighted the lack of, and a need for, a promulgated standard for participatory governance.

The purpose of the Grameen Bank's participatory governance is that representation of the marginalised is so intrinsic to the organisation's purpose that they simply would not be the Grameen Bank without this participation. They did not set out to create an international benchmark for participatory governance; they set out to relieve the effects of poverty by listening to those it affects.

In regards to the second research question it was found that the Grameen Bank compares well to corporate governance best practice standards. There is evidence of high ethical standards from the organisation's original purpose, through its processes, organisational culture and its millions of daily interactions with shareholding members whom the organisation revolves around. The organisation has a clear purpose and the organisation is aligned behind it despite vision and mission not being specified. The organisation has also shown an ability to set and communicate and achieve bold strategies and adapt to changing adverse conditions, which clearly relates to the organisation's ability to monitor its performance and the environment around it. There is a clear governance structure that supports the governance roles of setting high ethical standards, setting organisational purpose, and monitoring to ensure they are achieved.

Although on the surface the Grameen Bank governance structures, in particular the majority of membership of poor illiterate women, is unconventional, the bank does in fact compare well with the overarching purpose of governance as well as present day corporate governance best practice as outlined by the OECD and NZSC. This backs the hypothesis that high ethical standards are the backbone of good governance.

The analysis highlighted areas for amendment of both the OECD and NZSC standards to encourage in them the highlighting of some of the fundamental purposes, roles, and needs, of a well functioning governance structure.

Finally it appears that, in answer to the question of potential clash between the best practice demands of corporate and participatory governance, far from there being a conflict it seems that the participatory nature and participatory processes of the organisation have a strong effect on its governance and this appears to complement, and perhaps even strengthen, its corporate governance. The emphasis on participation serves to support the organisation's purpose, strengthening the corporate culture of the bank, and ultimately bringing better results.

In conclusion, it has been found that good participatory governance is based on a mindset, an organisational intention to ensure that the voices of the least powerful stakeholders are heard, and of putting into place a structure to ensure their messages are received. Likewise good corporate governance starts from a mindset too; with an organisational intent to act in an ethical manner, the basis of best practice corporate governance; without dismissing the need in both areas for sound skills and abilities to back up the good intentions.

We are now in a position to provide a definition of participatory corporate governance –

Participatory Corporate Governance is the steering of a business organisation in a participatory manner. This means the system, and the action of, setting the purpose and means of the business, and taking accountability for ensuring they are achieved; while ensuring the participation of stakeholders. The purpose of participatory corporate governance is the quest for the duality of fairness and maximised business results

So far this paper has looked at the history and present day extent of the Grameen Bank and in section 7.3 we will return to the overarching research question regarding what relevance participatory governance has to corporate governance. Muhammad Yunus and his colleagues have created a visionary company based on ethical principles, however a difficult time is ahead for the organisation when its founding staff reach compulsory retirement at 59 in 10-15 years time. With this in

mind, implications and recommendations for the bank's governance are discussed in the next section.

SECTION 7.2 – RECOMMENDATIONS TO THE GRAMEEN BANK

The present combined executive and board governance structure works well for the company. However, the ability of the Grameen Bank board of directors to govern the organisation is particularly influenced by two factors; a) the short-term nature of appointments, three years for elected members and an unknown and insecure period for government appointees; and b) the fact that all board members are elected/appointed by processes outside of the control of the organisation, which means that the bank cannot ensure the board has a balance of skills, knowledge, experience and perspectives that it may otherwise choose (see in particular NZSC 2004: 11).

Potentially in the next 10 to 15 years, without careful preparation, the organisation could begin to lose its ‘sense of direction’ and suffer internal ructions caused by the loss of the knowledge and direction of the executive as they retire and are replaced by people without the intimate understanding of the project; combined with a lack of depth of understanding of the organisation by the governance board due to the short-term and ad hoc nature of their appointments; underpinned by the lack of a clearly defined purpose and core values of the organisation.

It is not hard to foresee a future in 2015 where all 10 million members have risen out of poverty just as the project initiators begin to reach retirement. Without specific guidance the board and management may have difficulties grappling with the purpose and direction of the bank. What *are* the essentials of the Grameen Project? For example, being village based has proved to not be a core value, even although it was a basic principle at the inception of the bank. Is the bank’s purpose microcredit or alleviating poverty and serving the poor? What if microcredit outlived its usefulness? Will the bank get into the business of issuing plastic cards and installing money machines? At the request of my hosts at the Grameen Bank I provided the bank with a preliminary report on my findings on its governance. To ensure the Grameen Bank is able to remain focused and aligned past the retirement of its instigators, I recommended that consideration be given to the Project’s Founders clearly outlining the bank’s mission, vision and core values⁷⁰; and that

⁷⁰ Subsequent to my report to the Grameen Bank the Bank published its 2004 annual report and stated its vision to be ‘Banking for the Poor’ and its mission as ‘By providing comprehensive

consideration be given to how the board of directors can be strengthened so that they are better able to guide the organisation past the retirement of the founders.

To ensure that the Grameen Bank board of directors continues to have participation from the genuine grassroots, the most marginalised and poorest of the poor, and uses the abilities of the members to their maximum effect, I recommend that the board discuss and consider the following issues –

1) As the bank continues to expand there will be an increasing difference between the poorest and the more wealthy members. It is also likely that those elected to the board will be from the wealthier members, being long standing members with excellent repayment records, perhaps from a centre, branch, or even zone, where poverty has been eliminated amongst the members. Do the board members therefore feel comfortable that they can still adequately represent the needs of the new and poorer members? Should processes be put in place to ensure board members are involved with newer and poorer members, such as visits to new branches and centres?

2) Again, as the bank expands if the number of elected board members stays at nine, the number of members each board member represents in her constituency increases. Should measures be put in place to ensure the board member is aware of the concerns of her whole constituency? For example a programme to visit each branch at least one time in her term of office.

3) As the elected members are likely always to be women, are the elected members comfortable that they are adequately able to represent the needs of male members?

4) The system for election of board members was created at a time when the capacity of members to act as directors of the company was less than it is now. Now, many members have large loans and therefore increasingly complex businesses. Also members have a growing role in local councils. Increasingly there will be members able to work as a Director based on their own maturity, business skills, and life skills and their ability to give sound advice through their own abilities, not simply as elected representatives of the members. However with the

financial services, we empower the poor to realize their potential and break out of the vicious cycle of poverty' (Grameen Bank, 2005: Inside Front Cover).

system as it now stands, no member can be appointed based on her abilities and no exceptionally good member can work past her three year term. Is it time to consider a change to the board structure to acknowledge and benefit from the increasing capacity of Grameen members? Perhaps a board member or members could be elected from amongst the outgoing elected board members for a second term.

5) Again, as the capacity of elected board members increases, is it appropriate to give the members some more formal training on the expectations of a director? This could include some of the more formal aspects of corporate governance such as how to monitor management performance and how to set organisational and individual performance objectives.

It is noted that these suggestions will increase the workload on the elected members. However, in an organisation of the size and turnover of the Grameen Bank, it is realistic to expect directors to allocate a reasonable amount of time to fully contribute to the organisation's governance.

Also as discussed in Chapter 6, it is recommended the bank make information on its governance more easily accessible and put into place a system of occasional review of the poverty indicators, given that it may be appropriate to review this level upwards from time to time⁷¹.

⁷¹ For example the minimum level of education of children may be expected to rise to include high school education at some point.

SECTION 7.3 – OUTLOOK

The Grameen Bank manages to balance best practice corporate governance with genuine participatory governance and has been highly successful as an organisation measured along both social and financial indicators. In so doing they have avoided the potential institutional ambiguity that can impede civil society organisations, created a unique structure, and set the benchmark for participatory corporate governance. The basis of this successful governance appears to be that the values of the organisation that are reflected in the governance structures, these values in turn arising from the personal values of the founder Muhammad Yunus, and in turn reflecting a society with deep historical roots in the intertwining of life and spirituality.

Participatory tools are recommended to support institutional duality by pragmatically contributing to positive financial outcomes, while supporting high ethical standards by ensuring the organisation is responsive to the needs of its least powerful stakeholders. Organisations wishing to use participatory corporate governance should start with a genuine organisational intent to increase the voice of the least powerful, to be followed up with the placement of a structure to ensure it. The basic framework of participatory corporate governance is –

- 1) The setting and maintaining of high ethical standards;
- 2) An organisational intention to have stakeholder/recipient participation;
- 3) The creation of, and alignment behind, organisational purpose;
- 4) Ensuring recipient/stakeholder input;
- 5) The monitoring the organisation and analysing results to ensure positive indicators regarding participatory governance expectations; and
- 6) The creation or existence of a governance structure that supports these governance roles and ensures accountability of board members.

This style of governance can be used by any organisation genuinely wishing to involve their otherwise powerless stakeholders in governance, in part as a tool for forming positive and constructive relationships and using governing as part of an

empowerment process. As with all governance issues there is no one model that will promise excellence in governance and results, but the following five principles are suggested for a corporate body deciding to recruit from its least powerful stakeholders for the board.

- 1) Consider how best to support the poor to contribute at board level. This may include ensuring executive support and having peers at the same level; this works to maximise the quality of, and benefits from, their input;
- 2) Consider how to balance the strengths and abilities of the poor with their areas of weakness, in particular consider who else is needed on the board;
- 3) Consider the process for appointment of board members taking into account that; a) ensuring that the board members representing the poor are elected in an open and transparent manner means that they can confidently speak for and represent their peers: b) a thorough selection process adds to the status of the position and the initial confidence of the board member crossing the new threshold into the board room: and c) the process should be designed to ensure that those selected are committed to the success of the organisation;
- 4) Ensure that the board members representing the poor are appointed for a set period of time so that they are able to speak out on issues with confidence that they will not be dismissed from the position;
- 5) Realise you are making a long-term commitment. The ability of the poor will increase over time but their capacity cannot build if the first step is not taken.

In particular, microcredit organisations, other organisations involved in social and economic development, and government agencies and entities, should be seriously considering the implementing of a participatory corporate governance model while other businesses should consider this as part of their wider corporate social responsibility. Participatory corporate governance perhaps could also lead to an increased focus on high ethical standards as the foundation to good governance and provides a standard for governance of civil society organisations.

This paper has also highlighted some areas for future research. Firstly I suggest that it would be useful to know why the Grameen governance model has not been

replicated, how this has affected the participatory nature of those organisations, and if the results of this can be seen in the organisational results and impacts. The second suggested area of research is to use the lens of participatory corporate governance in the ‘corporate’ world, and consider how in publicly owned corporations and government organisations, governance can assist to create an institutional duality combining quality participation with ensuring a healthy financial ‘bottom-line’. Thirdly, research of organisations with the lens of ethical governance, or governance as the foundation and monitor of an ethical organisation, would move the governance discourse towards governance as a force for the common good. Fourthly it would be fascinating to analyse to what extent the values of the Grameen Bank have influenced the wider Bangladeshi culture in the communities in which they serve.

Finally, this research has highlighted how governance can support ‘uppers’ to use their “power to empower” (Chambers, 2005: 209) fitting into the discourse as proposed by Robert Chambers (2005) of viewing power and relationships as “the core of development”⁷² (Chambers, 2005: 209). Therefore it is suggested that given that governance, power, and relationships are intertwined intangibles, the three could be specifically linked together in future research.

I would like to refer again to the words to Grameen Bank staff. The following three quotations summarise the purposes of corporate participatory governance; firstly that it leads to better business decisions: secondly that in principle it is only fair for recipients to have control of the decisions that affect them: and finally the ultimate purpose of good governance in a development setting, the results in terms of individual lives.

“Grameen members are talking about their life, not a technicality. At home they must face a very hostile audience. They cannot get away with anything – their friends/members are everything in their lives. They may be illiterate – but they know what hurts them and helps them.” Muhammad Yunus, Founder and Managing Director (Yunus, 2005: Personal Conversation 1).

⁷² Two issues that he says have been “almost pathologically repressed and neglected” in the development discourse (Chambers, 2005: 207).

Q: Researcher: Why does the Grameen Bank have the poor on the board?

A: Deputy Managing Director: “You have two options: representation [of the borrowers] or no representation: we prefer yes” My Dipal Barua, Founding Staff Member and Deputy Managing Director (Penny/Barua, 2005: Personal Conversation 1).

“Initially microcredit was to feed people, to save her from hunger and the money lender. We are dreaming – that we could become a full bank, who would know they [the poor] would repay the loan? We didn’t know they could handle bigger loans. Slowly the human development – improvement of lives. We didn’t imagine the women could save money – mobilise so much. Each phase leading to the next level. We didn’t imagine we would see the next generation. We taught the mother to sign her own name; now her children are at University” Mrs Jannat E. Quanine, Founding Staff Member and Deputy General Manager (Quanine, 2005: Personal Conversation).

This paper has served to highlight the important role of governance in the success story of the Grameen Bank. If we are to genuinely pursue the journey of addressing the injustice of poverty the role of effective values-based governance must be properly understood, to which purpose I offer this thesis.

APPENDICES

APPENDIX I – GRAMEEN BANK ORDINANCE, 1983 (AS AMENDED UPTO [SIC] 1995). SECTIONS 8, 9, 10, AND 19.

8. Direction and superintendence. - (1) The general direction and superintendence of the affairs and business of the Bank shall be entrusted to a Board of Directors to be constituted in accordance with the provisions of this Ordinance and such Board may exercise all such powers and do all such acts and things as may be exercised or done by the Bank.

(2) The Bank, in discharging its functions, shall act prudently with due regard to the public interest.

(3) Until the first Board is constituted, the Managing Director shall exercise all powers and do all acts and things as may be exercised or done by the board.

9. Board.- (1) The Board of Directors of the Bank shall consist of the following Directors, namely :-

(a) three persons to be appointed by the Government,

(b) nine persons to be elected by the borrower shareholders in the manner prescribed by rules.

(2) Notwithstanding anything contained in sub-section (1), the Managing Director shall be an ex-officio Director of the Board, but he shall have no right to vote.

10. Chairman.- (1) There shall be a Chairman of the Board who shall be appointed by the Government from amongst the appointed Directors.

(2) If a Vacancy occurs in the office of the chairman or if the Chairman is unable to discharge the functions of his office on account of absence, illness or any another cause, the Government may authorise any other director; other than the Managing Director, to discharge the functions of the Chairman during the period for which he is so unable.

11. Term of office of Directors.- (1) Appointed Director shall hold office during the pleasure of the Government.

(2) An elected Director shall hold office for a term of three years and shall continue in office until his successor enters upon his office.

19. Functions. - The Bank shall provide credit with or without collateral, security, in cash or in kind, for such term and subject to such conditions as may be prescribed, to landless persons for all types of economic activities including housing, but excluding business in foreign exchange transaction, and may carry on and transact the several kinds of business hereinafter specified, that is to say,-

(a) the accepting of money on deposit;

- (b) the borrowing of money for the purpose of the Bank's business against the security of its assets or otherwise;
- (c) the issuing and selling of bonds and debentures;
- (d) for the purpose of securing loans and advances made by the Bank, accepting pledge, mortgage, hypothecation or assignment to the Bank of any kind of movable or immovable property;
- (e) undertaking the management, control and supervision of any rural organisation, enterprise or scheme for the benefit or advancement of landless persons;
- (f) the buying, stocking and supplying on credit to landless persons of industrial and agricultural inputs, livestock, machinery, implements and equipments and industrial raw materials and acting as agent for any organisation for the sale of such goods or livestock
- (g) the subscribing to the debentures, being debentures repayable within a period not exceeding ten years, of any body corporate concerned with economic activities in rural areas;
- (h) the purchasing of shares of any body corporate, the object of which is to provide services to landless persons;
- (i) the custody of savings certificates, title deeds and other valuable articles and the collection of the proceeds, whether principle, interest or dividends of any such securities or saving certificates;
- (j) the paying, receiving, collecting and remitting of money and securities within the country;
- (k) the acquiring, maintaining and transferring of all movable and immovable property, including residential premises, for carrying on its business;
- (l) carrying out survey and research, issuing publication [sic] and maintaining statistics relating to the improvement of economic condition of the landless persons;
- (m) providing professional counsel to landless persons regarding investments in small business and such cottage industries as may be prescribed and service projects by landless persons;
- (n) encouraging investments in such cottage industries as may be prescribed and service projects by landless persons;
- (nn) undertaking income-generating projects for landless persons;
- (o) providing services to the borrowers regarding all kinds of insurances;
- (p) constituting, promoting, issuing, organising, managing and administering Mutual Funds or unit Trusts of any type or character, and acquiring, holding, dealing, selling, paying or disposing of or dealing in shares, certificates or securities of such Funds or Trusts;
- (q) rendering managerial, marketing, technical and administrative advice to borrowers and assisting them in obtaining services in those fields;
- (r) the opening of accounts or the making of any agency arrangement with, and the acting as agent or correspondent of, any bank or financial organisation;
- (s) the investing of its funds in Government securities;
- (t) the selling and realising of all properties, whether movable or immovable, which may in any way come into the possession of the Bank in satisfaction or part satisfaction of any of its claim and the acquisition and the holding of, and generally dealing with, any right, title or interest in any property, movable or immovable, which may be the Bank's security; and

(u) generally the doing of all such acts and things as may be necessary, incidental or conducive to the attainment of the object of the Bank.

APPENDIX II – LOAN STRUCTURE

The Basic Loan

The term of the *Basic Loan*⁷³ is from three months to three years. The repayment rate can vary depending on the needs of the business and lump sum repayments can be made. Fresh loans can be extended after six months or loans disbursed in several instalments according to the investment needs. Each borrower has her own loan ceiling that depends on her performance and deposited savings as well as the performance of her group and centre (Khan & Wahab, 2003: 12/13). Members can become a 'Gold Member' if they achieve a 100% repayment record for seven consecutive years. "A gold member goes into a faster track of loan size enhancement, besides getting special honours and privileges" (Khan & Wahab, 2003: 7). Each borrower is required to make weekly savings, the minimum size of which varies depending on the size of the loan⁷⁴. 50% of savings can be accessed at any time as long as repayments remain on schedule. A borrower having problems repaying her loan can convert her loan into a *Flexi-Loan* that reschedules her basic loan. A borrower is considered to be a defaulter if she cannot repay the due amount according to her schedule within six months. The bank has a central assumption, backed up by more than 25 years experience, that 'The Poor Always Pay Back', so unpaid loans are written-off after one year "as part of financial prudence, but the amount is never forgotten nor forgiven" (Barua, 2002:15). 'Written-off' funds are recategorised as *Flexi-Loan(2)* of which 11% had been recovered in September 2002 (Barua, 2002:16), and Tk132,620,649 (NZ\$265,241) was recovered in 2003 (Grameen Bank, 2003:55).

The interest rate charged on the Basic Loan is 20% on a declining basis that equates to a flat rate of 10% (Yunus, 2004:5).

Table All.i. shows the top 15 purposes for which members took out basic loans. This shows an emphasis on leasing land or primary production (cows, rice, vegetables, fish and poultry) and moving into low-capital trading businesses and the basic and ubiquitous Bangladeshi transport unit, the cycle-rickshaw.

⁷³ Known as *Ishohoj Reen* or Easy Loan.

⁷⁴ Since 2002 there has been no group savings scheme.

Table All.i. The top 15 purpose for which members took out basic loans as at 2003.

Order	Item	# of loans
1	Milch cow	430,518
2	Cow fattening	421,956
3	Paddy husking	254,000
4	Grocery shop	246,986
5	Rice/Paddy trading	200,983
6	Land lease	111,437
7	Bamboo works	95,924
8	Paddy cultivation	90,512
9	Stationary shop	64,549
10	Bullock	70,673
11	Vegetables trading	63,496
12	Rickshaw	55,736
13	Cloth trading	50,454
14	Fish trading	41,303
15	Poultry raising	35,784

Source: Grameen Bank, 2003: 21

Microenterprise Loans

Some borrowers are able to move ahead in businesses faster than others, for reasons such as proximity to the market or the presence of experienced male members in the household. These members are eligible for larger loans, called micro-enterprise loans that have no restriction on the loan size. As at April 2005, 395,612 members have micro-enterprise loans with a total of Tk8.60 billion (NZ\$172 million) disbursed under this category of loan. The average micro-enterprise loan size is Tk21,738 (NZ\$434.76), with the maximum loan taken so far being a loan of Tk1.2 million (NZ\$24,000) to purchase a truck which is operated by the husband of the borrower (Barua, 2005: Personal Conversation 3).

Table All.ii shows the top 15 purposes for which members took out microenterprise loans. It shows a movement out of primary production towards trading business needing greater set-up capital as well as into larger transport units, highlighting a progression from smaller to larger businesses as members' business capacity increases.

Table AII.ii. The top 15 purposes for which members took out microenterprise loans as at 2003.

Order	Item	# of loans
1	Grocery shop	18,037
2	Stationery shop	12,881
3	Cloths shop	7,225
4	Sewing machine purchase	5,994
5	Village phone	5,788
6	Medicine shop	4,189
7	Fruits stall	4,078
8	Iron shop	2,132
9	Shoe shop	1,787
10	Sweetmeat shop	1,748
11	Boat for transportation	1,365
12	Baby taxi	763
13	Bicycle parts shop	694
14	Shallow tube-well	562
15	Electrical parts shop	395

Source: Grameen Bank, 2003: 23.

The Housing Loan

The Housing Loan was introduced in 1984. The Grameen Bank considers housing for the poor to be “a vital investment” because –

“Shelter is one of the basic requirements for a person to organise his/her thoughts, discipline for action; (a house is) not a luxury or frill, but a source of inspiration; (a house is) protection from weather and disease; (a house) provides space and privacy; (a house is) preceded by incremental material development; (a house is a) vital investment for the poor, as a work place or factory” (Barua, 2002: 25).

When Grameen first started its housing loans, critics rejected the idea, saying housing was a ‘consumption item’, not a ‘productive activity’, and therefore the poor would not be able to pay the loans back (Yunus, 1999:241). Now under Grameen’s Housing Programme, 619,106 houses had been built by April 2005 (see table AII.iii). Loans vary from Tk5,000 to Tk25,000 (NZ\$100 to NZ\$500) that

must be paid back within 3 to 10 years depending on loan size (See table AII.iv), with larger loans having more time allowed for repayment. The interest on a housing loan is 8% (Yunus, 2005a: 8/9).

1990 to 1993 elected board member Manzira Khatoon and her three children were abandoned when her husband lost his job and remarried. She took a Grameen Housing Loan and describes the day she was able to start building her own house as “the happiest day of my life” (Manzira Khatoon in Yunus, 1999: 224). Grameen Bank staff check to ensure houses are built within six months of the payment of a housing loan (Bornstein, 1997:155).

The Housing Programme won the Aga Khan International Award for Architecture in 1989. A basic latrine is a required attachment for every house. An example of the Basic Grameen Style house can be seen in chapter 5.

Table AII.iii – Total number of houses built.

Date	Total # of housing loans
1984	0
1989	60,000
1994	295,702
1999	511,583
2004	603,687
April 2005	619,106

Source: Grameen Bank, 2003:15.

Table AII.iv – Housing Loans.

Type of House	Loan Size	Repayment time
Pre-basic	Tk5,000 (NZ\$100)	3 years
Basic	Tk7,000 (NZ\$140)	4 years
Improved Basic House	Tk7,001 – 12,00 (NZ\$140-240)	6 years
Moderate House	Tk12,001-25,000 (NZ\$240-500)	10 years

Source Barua, 2002:25.

Higher Education Loans

Children of Grameen members who succeed in reaching the tertiary level of education are eligible for higher education loans (to a maximum of two children), covering tuition, maintenance, and other school expenses. By April 2005, 5,773 students received higher education loans. Of them 5,287 students are studying at various universities; 86 are studying in medical schools; 154 are studying to become engineers; and 246 are studying in other professional institutions. (Yunus, 2005a: 5.)

These loans are to the children themselves. There is no interest payable on these loans until study is complete, at which time the annual interest rate is 5%.

In summary we can see loan services designed around the needs of the members. They are intended to provide maximum flexibility with positive incentives to stay regular with payments and greater loans once the member's capacity has increased. The provision of housing loans is an example of having actively listened to understand the reality of the lives of the membership and provide the services they say they need, not what 'uppers' from a distance thought the 'lowers' should have. The higher education loan is an example of how the bank addresses the systemic causes of poverty, in this case by assisting the children of members to get the education needed to move the family permanently out of poverty.

APPENDIX III – STRUCTURE IN OPERATION: COMPANY OVERHAUL FROM GRAMEEN I TO GRAMEEN II.

Nurjahan Begum started work with the Grameen Bank when she completed her Master's degree at Chittagong University in October 1977 and is now one of three General Managers.

In 1998 Bangladesh experienced severe flooding for three months and not just one, but two crops were lost. The bank had to invest a large amount of money to repair houses and businesses; "we had to inject a lot of money. We did this thinking that, as in the past, if the members can start their businesses back, then they can repay." In fact members had problems, "they became a little bit overburdened – in reality they could not pay and therefore did not come to meetings."

It was realised that the bank had to find out what was going on, to know how to deal with the problem. To know the actual situation, all Heads of Department adopted one experimental branch, one of the lowest performing ten or twelve branches in the whole of Grameen. "We each created a task force team of four people, including another head office colleague, and went to the branch. We would go there for three or four days, every week someone from the team was there, trying to find out the solutions." The team would meet every week to discuss their findings and reported monthly to Dr. Yunus. "In my branch in Mymensingh we found that people needed some more time. So many things can cause non-payments: she is willing to pay if we give the opportunity: she needs some rescheduling."

"Ideas came from all over, including Dr. Yunus, the board members, the ten teams, and suggestions from branch level. There was a lot of conversation, discussion, trying to understand what was going on. Gradually the flexi-loan came this way. We thought 'why not open the door for members to decide themselves when they want to repay depending on their businesses'" (Begum, N, 2005: Personal Conversation 2).

Finally after much discussion, changes were agreed, and with the approval of the Managing Director changes began to be implemented at branch level. "We started

with a training programme to convince our people. After 25 years of one system there was long and very serious discussion about the new system". Workshops were held where more and more questions were raised. "There was gregarious discussion, participation discussion, at each centre, branch, area, zone and audit team. As new things came up we clarified them and wrote them into the *Shahiika*, the help book."

Results were observed for quite some time with frequent zonal conferences to discuss the system. "This change has made us stronger, now we can expand again as the pillars have been made stronger." Nurjahan Begum, General Manager. (Begum. N, 2005: Personal Conversation 2.)

Golam Moshed Mohammed, now a Principal Officer with the bank's International Programme, was branch manager of the Bashun Gazpur branch, the first branch to fully implement the Grameen II system.

"In 2000 we realised that the Grameen Classic system was too tight for our borrowers. Loan terms were one year; not more, not less. Instalments were 52 per year, they were fixed and equal which may not suit a business or if there was sickness or an accident. If borrowers wanted to pay all a loan off they cannot do this, staff have no authority to receive more than the fixed instalment. Weekly savings was fixed at 2 taka per borrower, again no more, no less. Savings were for a group fund only with no individual savings. The group administered the savings but only one person could lend from it at a time. Also the loan ceiling could increase by 1,000 taka each year only which was not enough for some businesses to expand. This was too tight for our borrowers, they cannot move" (Mohammed, 2005: Personal Conversation).

When it was decided to change the system, Golam's zonal manager asked him if he was interested in introducing the new system at his branch: "I was a senior manager with a lot of experience and my branch was most prominent with lots of borrowers, 100% repayment rate, large loans and a convenient location close to Dhaka with good transport". He agreed to introduce it and went for training with the area manager and programme officer, and was trained and examined on the new system.

Golam credits his staff with great professionalism, energy, and activity and says they had a good working relationship (four of seven centre managers were women). He met with his staff and “I gave a speech about how I want to go to our borrowers, about how we need a long time to introduce this system. They said ‘we can do this in a short time! We want to complete this first in Bangladesh’. Each zone was implementing the system in one trial branch so there was competition. They wanted to work hard and do this first!”

Working late into the nights, in three days they had worked out all the loan and group savings balances and made 2,000 copies of the forms. Then they met with 30 centre chiefs to explain the changes, and the next day met with the final 37 centre chiefs. “We explained that the new policy of Grameen was designed according to borrowers’ business lives and culture. Some wanted to discuss ‘why do you want to do these new things – members want to know’. So we discussed all day. There was a zonal office expert there to assist who also made a speech on the new system.”

Centre Chiefs were concerned that some members would agree but some would not; some were conscious of these issues, some not. Golam proposed “if I introduce the new system when you join the new system you can get new facilities’ – we can discuss this person by person”. But still some borrowers did not want the new system. “A husband, child, son says no, ‘I know the old system for 17 years, 18 years, so I don’t want new system’.”

Golam realised that the task of convincing individuals of the benefits of the new system was large and requested the help of the Area Manager and Zonal Managers and for one week all eleven managers spent the all of day explaining: mornings at centres, afternoons with husbands and sons. “Then I proposed to staff that one person in each centre receive new system so she can run it and the other borrowers can see how it works. So we started with 67 centres, 67 borrowers. Within one month about 50% of borrowers are interested in the new system.”

The group funds were carefully divided and became personal savings accounts useable at any time, and special savings for major events, giving greater independence to members. “You can operate any time, it is your own freedom with no dependency on your group and other members”. This in particular made borrowers interested in the new system and within 1½ to 2 months all the borrowers

came into it. The borrowers were very pleased with this account as they could easily deposit more money. “Borrowers came rapidly to the Generalised System as they wanted to save. They could get high profit for long-term investment. In Dhaka most people are working so people are looking for this kind of use for money.”

The branch reported weekly and monthly to higher management and was checked to ensure the change was happening in the proper way. When the branch declared it was complete they were audited and assessed. Auditors went to centres and asked borrowers if they joined for their own interest or manager’s interest. And if yes, why? What are the benefits? “After the auditors recommendation we are declared the first branch to institute Grameen II. Then other branches want to join also so we helped other branches to do also. I shared my experience with other managers.”

“For two months we did a lot of work; discuss with borrowers, husbands, children, at markets, stores, discuss with *imam*⁷⁵, teachers, local leaders; what are the benefits, what are the systems. The main benefits were dividing the group fund, receiving loans according to business capacity, instalments that suited business peaks and payment ability and loans of whatever length you wanted. We worked to 9-10 at night for two months.”
Golam Moshed Mohammed, Principal Officer. (Mohammed, 2005: Personal Conversation.)

As mentioned to the introduction to this Appendix in chapter 5, the way the need for this overhaul, and the manner it was developed and implemented, shows an open, participatory and responsive organisation.

⁷⁵ *Imam* means a religious teacher and is generally associated with the Islamic religion.

APPENDIX IV – LIST OF BOXES, INTERVIEWS, AND PICTURES.

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Rabea Khatun	Dhaka Zone – Central	5 th March	Kim Penny
Mr Dipal	Head Office	10 th March	Kim Penny
Rahima Begum	Patuakhali Zone - South	10 th March	Sheikh Mohammad Yunus
Monwara Begum	Patuakhali Zone - South	10 th March	Sheikh Mohammad Yunus
Bulbuli Akter	Narayangonj Zone – Central East	14 th March	Sheikh Mohammad Yunus
Muhammad Yunus	Head Office	15 th March	Kim Penny
Golam Morshed Mohammed	Head Office	16 th March	Kim Penny
Ferdous Ara Begum	Bangladesh Broadcasting Authority	17 th March	Kim Penny
Srimoti Diplai Rani Borua	Dhaka Zone - Central	19 th March	Kim Penny
Jannat E. Quanine	Head Office	21 st March	Kim Penny
Nazma Begum	Dhaka Zone - Central	21 st March	Sheikh Mohammad Yunus
Muhammad Yunus	Head Office	22 nd March	Kim Penny
Mr Dipal	Head Office	23 rd March	Kim Penny
Mosammad Asma Begum	Rajshahi Zone – West	24 th March	Sheikh Mohammad Yunus
Tabarak Husain	Head Office	29 th March	Kim Penny
Nurjahan Begum	Head Office	2 nd April	Kim Penny
Mr Dipal	Head Office	7 th April	Kim Penny

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⁷⁶ The term 'Begum' is used in Bangladesh in a combination of ways that does not sit easily with Western referencing systems: it is a respectful title for an important woman, but is also taken in a way similar to the way a westerner may use a family name. Therefore there is no family connection between these three women with 'Begum' in the position of surname.

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