



Grameen Bank: Lending Dignity of Existence to the Have-nots

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In 2006, the Nobel Prize for Peace was awarded jointly to Grameen Bank and its founder Prof Muhammad Yunus. Grameen Bank had been incorporated exactly 23 years earlier in 1983 as a microfinance organization and community development bank catering to the impoverished rural population of Bangladesh. By 2006 the bank had spread to 2100 branches across 80,257 villages in Bangladesh with 24,700 employees; the bank had lent US\$ 6.55 billion up to 2006 out of which US\$ 5.87 had already been repaid. The bank had maintained a recovery rate of more than 96 % right through. The loans were advanced without resorting to collateral security for the primary reason that most of the borrowers, being part of the impoverished, bottom-most segment of the population just did not have anything to offer as collateral security. The Nobel Prize was awarded in recognition of the “the efforts to create economic and social development from below.” The citation mentioned,

“From modest beginnings three decades ago, Yunus has first and foremost through Grameen Bank, developed micro-credit into an ever more important instrument in the struggle against poverty. Grameen Bank has been a source of ideas and models for the many institutions in the field of micro-credit that have sprung up around the world.”

Genesis

The genesis of Grameen Bank can be traced to a research project initiated by Prof Muhammad Yunus, a Fulbright scholar at Vanderbilt University and Professor at Chittagong University,

in 1976, to examine the design of a credit delivery system for the rural poor. In 1983 the project and its activities were re-organized under an independent body called Grameen Bank through government legislation.

The primary philosophy of the bank is that charity is not an answer to poverty; it drives away an individual's initiative and ushers in dependency. All human beings, including the poorest are endowed with limitless capabilities and they need to be unleashed to fight poverty. The objective of the bank was to create financial independence among the poor. The bank encourages each of its borrowers to eventually become net savers to enable creation of local capital among the hitherto poor. This has been the source of funding fresh advances in each village. The bank has been able to create an alignment of interest between the new borrowers on one side and the depositor-shareholders on the other.

The bank's primary target has always been the poorest of the poor. Further it focused on women, who received 95 % of its advances, for a variety of reasons. Women had less access to alternatives like bank credits and incomes in traditional societies; consequently they had inequitable share in the family decision-making process. Lending to women had secondary effects like empowerment of marginalized segment of the society.

Business Model

Normally a bank raises its resources (funds) through share capital, loans, deposits etc. Each of these will have different



cost and the overall cost of capital to the bank shall be the weighted average cost of the funds from the various sources. These funds are deployed by the bank to various segments in the form of loans and advances with varying terms of interest and repayment. The bank would ensure that the overall return from the deployment will be marginally higher than the cost of funds. The difference is known as the “spread”. The spread should cover all the operating expenses of the bank, it should also cover the defaults in repayments and the surplus, if any, would be the profit of the bank. The higher the spread, the more comfortable the bank would be. The business of micro-finance would have its own special characteristics. In the first place the services of a microfinance company, which the Grameen Bank was, were meant for the poorest of the poor, the bottom of the pyramid in the society. This segment in developing countries would be characterized by low level of education, poor standard of living and consequently very little financial literacy; this segment would normally have very little or no personal assets and no access to the banking sector. In such a situation it becomes the onerous task of the micro-finance institution to educate, usher in financial literacy and groom the customers to become bankable. This calls for high level of commitment, continuous efforts and unique sensitivity to the needs and characteristics of the customers. Most of the loans and advances will be of very small denominations that a normal bank would rarely like to handle. These make the cost of operation per customer high; the risk of failure will also be very high. These make the business of micro-finance extremely delicate and challenging.

Programs

The loans were given for a large variety of purposes: tube-wells, agricultural implements, support to village enterprises, for live-stock, seasonal loans, loan to leases, creating drinking water and sanitation facilities etc.

Grameen bank became best-known for its system of Solidarity Lending. A lender must belong to a five-member group. The group is not expected to give guarantee for a loan to an individual member and it is not responsible for the repayment of the loan. Only the individual is responsible for the repayment. The group had to oversee that each of the individual borrower behaved in a responsible way and that none got into a repayment problem. In case the group could not abide by this code, none of its members would be eligible for credit from Grameen Bank any time in future. The bank minimized written documents and paperwork; it operated on trust. The bank insisted that the borrowers saved small amounts regularly under a number of funds like emergency

fund, group fund etc. These funds helped as insurance against contingencies.

Village Phone Program was initiated to enable women entrepreneurs start the business of providing wireless payphone service in rural areas. This program earned the bank the 2004 Petersburg Prize worth Euro 100,000 for its contribution to technology development.

Struggling members program was started to create independent livelihood for beggars. Beggars were given interest-free or near interest free loans with long repayment periods. The repayment was structured on weekly basis in sync with their repayment capacity. The borrowers of this program were provided life insurance cover without any extra cost.

Operational Data

By the close of 2011, the bank had 8.37 million borrowers, 96.12 % of them women. It had 22,128 employees in 2,565 branches covering 81,380 villages. The cumulative loan disbursement was US\$ 8.82 billion out of which only US\$ 75 million was outstanding.

Of the total equity capital [US\$ 7.17 million] of the bank 97 % was owned by the poor borrowers and the rest 3 % by the Govt of Bangladesh.

Social Transformation

Grameen Bank promoted a set of values to make its borrowers into good citizens. These were enshrined in the “Sixteen Decisions” which became a code of conduct for the borrowers. These included commitment to educate their children, to usher in prosperity, to upgrade their houses, to ensure quality drinking water, to insist on good sanitation practices and facilities, to austerity, not to give or take dowry, to collective participation in all social activities, to help each other etc. (Annexure-1). The “Sixteen Decisions” had the impact of creating an emotional bonding among its borrowers and the bank; it imputed values and meanings to the relationship much beyond the relationship that a normal bank would have with its clientele. It had the impact of raising the aspirations of the people touched by the bank thereby leading to prosperity and development.

Grameen Bank claimed very high repayment rates – over 98 % though some quarter raised doubts about the way in which the statistics were presented. The bank claimed that more than half



of its beneficiaries had risen out of acute poverty through the association with the bank.

Associate Ventures

Grameen Bank had grown into a family of enterprises. They included Grameen Trust, Grameen Fund, Grameen communications, Grameen Energy, Grameen Telecom, Grameen Education, Grameen Fisheries, Grameen Business Development, Grameen Phone, Grameen Software, Grameen Cybernet, Grameen Knitwear and Grameen Udyog.

Grameen foundation supported micro finance institutions in the following regions and countries:

Asia-pacific: Bangladesh, China, East Timor, Indonesia, India, Lebanon, Pakistan, Phillippines, Saudi Arabia, Yemen.

Americus: Bolivia, Dominican Republic, El Salvador, Haiti, Honduras, Mexico, Peru, USA.

Africa: Cameroon, Egypt, Ethiopia, Ghana, Morocco, Nigeria, Rwanda, Tunisia, Uganda.

Awards and Recognitions:

In 1994 Grameen Bank received the highest civilian award in Bangladesh, the Independence Day Award. Low-cost Housing Program initiated by Grameen Bank won a World Habitat Award in 1998. The Grameen Phone Program won the 2004 Petersburg Prize worth Euro 100,000 for its contribution of Technology to Development. The Nobel Peace Prize came in 2006 jointly to Prof Yunus Mohammed and Grameen Bank. This was the first time that a business organization had been bestowed the Nobel Peace Prize. The Norwegian Nobel Committee focused attention on dialogue with the Muslim World, on women's perspectives and on the fight against poverty.

"When Taslima Begum, a housewife turned entrepreneur from the north of Bangladesh, accepted the Nobel peace prize in Oslo in December 2006, it was a proud moment for Bangladeshi women. The Nobel citation said the prize was awarded to Muhammad Yunus and Grameen Bank "for their efforts to create economic and social development from below".

Tashima Begum, who had used her first 1,500 taka (£12) micro-loan to buy a goat in 1992 and went on to

become an elected director of Grameen's board, said: "My parents gave me birth, but Grameen Bank gave me a life." (Al-Mahmood, 2012)

The New Challenge:

The new decade starting from 2011 saw Grameen Bank face to face with new challenges. The Government of Bangladesh, under the leadership of Ms Sheikh Hasina as Prime Minister, initiated steps to remove Prof Yunus Mohammad from the position of Managing Director of Grameen Bank on the ground that he was 70, well past the retirement age prevalent in Bangladesh. Yunus as also the well wishers of Grameen Bank had reservations; but government prevailed. A year later, on 2nd August 2012, the cabinet of Ms Sheikh Hasina amended the 29 year old law governing Grameen Bank, thereby bestowing absolute powers on the government appointed Chairman to choose the Managing Director instead of the decision being left to the collective wisdom of the members of the Board of Grameen Bank.

Mohammad Yunus had nurtured Grameen Bank to be an autonomous institution making its own decisions and managing its own affairs. The Board of directors had 12 members of which three were government nominees including the Chairman. The rest nine were elected from among the 8 plus million members (share-holders) of the bank. In 2012, government held 3 % of the shares of the bank while the rest 97 % were held by the 8 plus million members of the bank who were from rural Bangladesh. Of this 94 % were women, all of them of humble financial means and low education. Prof Yunus had consciously focused on rural women because he believed that women were stronger in fighting poverty. As a result Grameen Bank was essentially an institution built by the sweat and toil of rural Bangladeshi women.

The initiatives of 2011 and 2012 amounted to the government taking over the Grameen Bank from the people who had nurtured it into a unique institution.

The arguments that the Bangladesh government put forward for these steps were: (a) the elected members of the Grameen Bank were not adequately educated and experienced to manage the complexities of a large banking institution and (b) the interest rates charged by the Grameen Bank was much higher (at about 20 % per annum) compared to the normal bank's interest rate (at about 12 %) in Bangladesh.



The elected members were definitely not educated to become directors in conventional banks. Their strength was that they have experienced poverty in first-hand and have fought through it to a level to be able to deliberate on helping others and on deciding the course of action of the Grameen Bank. They have risen through the ranks of Grameen Bank through integrity and dedication to the cause that the bank stood for; they were acceptable to the rank and file of the members of the bank. Whether rapport with the ground reality could substitute high-sounding qualifications was a debatable point. Another pertinent question was: What added more strength and sustenance to the Grameen Bank? Empowerment, dedication and the grit in swimming through the sea of poverty by the once impoverished Bangladeshi citizens or the high qualifications and experience of the bureaucrats?

As for higher interest rate, Grameen Bank argued that its loans and advances were in smaller denominations and larger in numbers making the cost of servicing the customers much higher than in conventional banks. The risk profile of the customers of Grameen Bank was also much higher than those of the conventional banks. This meant higher default-risks and hence the need for increased provisions. This is a pattern observed in micro-finance organizations of other developing countries also.

What was not stated, perhaps, was the lurking fear that Prof Mohammad Yunus might enter politics and the goodwill he had with 8 plus million shareholders of the Grameen Bank would play havoc in rural Bangladesh. To add fuel to the fire, some months back Prof Yunus had ridiculed politicians as a class in some of his speeches.

The menacing moves of the government were viewed with concern and alarm by development economists across the world apart from the large number of shareholders in Bangladesh. This was happening at a time when other institutions in Bangladesh, where government had significant control, were earning bad name for inefficiency and nepotism. Government and public projects were increasingly marked with high level of corruption. World Bank had cancelled financial assistance of US\$ 1.2 billion to Padma Bridge Project on the issue of corruption at high places in the government (Bernstein, 2012).

At stake was the autonomy and sustenance of an institution built through grass-roots democracy in an innovative and

unique manner by millions of impoverished and mostly illiterate, female social entrepreneurs as a collective enterprise. Would Grameen Bank continue to remain a light-house of hope and aspirations for the impoverished people across the globe or would it fall behind the black curtain of time as a broken dream?

Prof Bala Bhaskaran wrote this case solely to facilitate classroom discussion. The case is not intended to illustrate either effective or ineffective handling of an administrative situation.

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Annexure-1: 16 Decisions

1. We shall follow and advance the four principles of Grameen Bank: Discipline, Unity, Courage and Hard work – in all walks of our lives.
2. Prosperity we shall bring to our families.
3. We shall not live in dilapidated houses. We shall repair our houses and work towards constructing new houses at the earliest.
4. We shall grow vegetables all the year round. We shall eat plenty of them and sell the surplus.
5. During the plantation seasons, we shall plant as many seedlings as possible.
6. We shall plan to keep our families small. We shall minimize our expenditures. We shall look after our health.
7. We shall educate our children and ensure that they can earn to pay for their education.
8. We shall always keep our children and the environment clean.
9. We shall build and use pit-latrines.
10. We shall drink water from tubewells. If it is not available, we shall boil water or use alum.
11. We shall not take any dowry at our sons' weddings, neither shall we give any dowry at our daughter's wedding. We shall keep our 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. We shall collectively undertake bigger investments for higher incomes.
14. We shall always be ready to help each other. If anyone is in difficulty, we shall all help him or her.
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.



Annexure-2: Past Fourteen Years at a Glance (1997-2011) In Million US\$

No	Particulars	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	Exchange Rate: 1US\$=Taka	45.45	48.5	51	54	57	57.9	58.45	60.31	65.79	69.91	68.62	68.72	69.1	70.39	79.67
1	Authorised Capital	11	10.31	9.8	9.26	8.77	8.64	8.55	8.29	7.6	7.15	7.2	50.93	50.65	49.72	43.93
2	Own Fund :															
	Paid-up Capital	5.41	5.32	5.2	5	4.77	4.77	4.98	5.27	4.83	4.55	4.64	5.21	7.58	7.78	7.17
	Capital and Other Reserve	2.02	39.34	34.59	32.67	30.95	30.47	135.9	72.89	66.82	82.87	80.85	88.44	90	96.82	91.64
	Miscellaneous	18.9	3.75	9.08	9.2	10.3	13.12	21.92	27.26	43.17	47.31	51.92	54.02	57.25	59.44	59.11
	Sub-Total :	26.33	48.41	48.87	46.87	46.02	48.36	162.8	105.4	114.8	134.73	137.41	147.67	154.83	164.04	157.92
3	Deposits	109.5	107.67	108.8	113.2	125.8	154.6	227.7	345.4	482.9	634.27	758.92	940.09	1206	1492	1475
4	Other Sources of Fund	28.54	13.57	15.53	7.39	3.65	2.47	1.86	59.13	51.41	53.88	82.4	91.95	105.73	102.83	110.67
5	Borrowings	248.5	223.42	228.2	196.8	171.6	120.5	72.08	48.02	29.14	26.53	26.13	25.19	24.16	22.57	19.17
6	Assets :															
	Loan and Advances	312	334.23	282	244.1	229.1	231.4	287.8	345.7	439.2	488.41	547.16	666.28	815.61	971.99	974.51
	Investment	101.2	37.26	93.86	96.83	90.23	69.45	91.27	119.8	151.8	282.42	356.54	418.07	546.32	678.46	660.39
	Cash and Bank Balance	8.25	9.69	7.92	4.48	7.3	7.62	10.01	13.23	14.9	12.87	13.64	19.34	18.76	18.64	21.46
	Fixed Assets	16.55	18.12	19.34	17.83	16.58	15.91	15.59	15.02	14.52	14.95	16.25	16.92	19.31	21.14	18.7
	Other Assets	32.12	35.17	40.94	43.3	40.33	36.37	59.67	64.28	57.84	50.77	71.28	84.29	90.67	91.23	87.73
	Total Assets	470.2	434.47	444.1	406.5	383.6	360.8	464.4	558	678.3	849.42	1004.9	1204.9	1490.7	1781.5	1762.8
7	Own Fund as % of Loan & Advances	8%	14%	17%	19%	20%	21%	57%	30%	26%	28%	25%	22%	22%	17%	16%
8	Own Fund and Deposits as % of Loans & Advances	44%	47%	56%	66%	75%	88%	136%	130%	136%	157%	164%	163%	163%	170%	168%
9	Total Income (Before Provision)	62.07	62.29	61.88	55.7	55.56	52.5	61.2	77.87	112.4	134.89	155.06	174.61	209.8	252.05	267.67
10	Expenses :															
	Salaries & Other Related Expenses	20.51	22.1	23.96	21.78	19.6	19.97	21.21	20.68	25.37	28.97	36.02	43	55.32	65.9	62.82
	Interest Expenses	19.25	18.14	20	18.13	18	15.42	18.89	26.25	34.76	49.65	65.67	79.41	102.29	131.1	133.53
	Other Expenses	5.59	4.52	4.1	4.04	4.35	4.46	4.79	7.05	10.79	13.63	17.75	20.64	26.14	30.76	26.61
	Provision Expenses	16.41	15.38	12.33	11.55	12.58	11.62	10.2	16.89	26.28	22.64	34.06	12.57	20.67	13.54	36.12
	Total Expenses:	61.76	60.14	60.39	55.5	54.53	51.47	55.09	70.87	97.19	114.89	153.5	155.62	204.42	241.3	259.08
11	Net Profit	0.33	2.12	1.51	0.2	1.04	1.04	6.11	7	15.2	20	1.56	18.99	5.38	10.75	8.59



12	Provision Balance	50.69	61.59	66.45	70.17	63.18	64.4	60.68	49.35	41.12	40.42	67.98	80.09	82.37	76.7	91.21
13	Bad Debt	0.42	1.32	4.45	4.15	15.89	9.41	13.31	26.36	30.4	24.69	10.78	7.31	22.11	17.36	12.38
14	Bad Debt Recovery	0.13	0.14	0.12	0.2	0.82	1.81	2.28	2.55	12.95	9.17	6.19	14.64	9.71	8.24	4.96
15	Accumulated Disbursement (inclu. Housing Loans)	2224	2653	2978	3248	3537	3811	4180	4615	5227	5954	5199.6	6095.8	7211.5	8445.3	8823.9
16	Number of Employees	12628	12850	12427	11028	11841	11709	11855	13049	16142	20885	25283	24240	23283	22255	22128
17	Number of Members(million)	2.27	2.37	2.36	2.38	2.38	2.48	3.12	4.06	5.58	6.91	7.41	7.67	7.97	8.34	8.37
S. No	Particulars	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
18	Number of Centres	64701	66712	67691	68467	68591	70928	74703	81609	99502	121755	136619	140976	144106	144619	144095
19	Number of Villages	37937	39045	39706	40225	40447	41636	43681	48472	59912	74462	80678	83566	83458	81376	81380
20	Number of Branches	1105	1137	1149	1160	1173	1178	1195	1358	1735	2319	2481	2539	2562	2565	2565
Source: http://www.grameen-info.org/index.php?option=com_content&task=view&id=39&Itemid=429																

Annexure-3: Performance Indicators & Ratio Analysis, December 2011

No.	Particulars	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Institutional characteristic:											
	Exchange Rate 1 US\$ = Taka	57.9	58.45	60.31	65.79	69.91	68.62	68.72	69.1	70.39	79.67
1	Total assets (In million USD)	391	467	558	678	849	1,005	1,205	1,491	1,781	1,763
2	Number of offices	1,332	1,357	1,525	1,944	2,626	2,813	2,884	2,911	2,914	2,912
	Number of employees	11,699	11,846	13,038	16,142	20,885	25,283	24,240	23,283	22,255	22,128
Outreach indicators:											
3	Number of branches	1,178	1,195	1,358	1,735	2,319	2,481	2,539	2,562	2,565	2,565
4	Number of members (In millions)	2.48	3.12	4.06	5.58	6.91	7.41	7.67	7.97	8.34	8.37
5	Number of active borrowers (In millions)	2.08	2.87	3.7	5.05	5.96	6.16	6.21	6.43	6.61	6.58
6	Number of active borrowers per branch (year-end)	1,766	2,402	2,722	2,912	2,571	2,482	2,448	2,508	2,578	2,566
7	Number of loan officers	7,448	7,495	7,925	9,166	12,048	14,561	14,000	13,262	12,613	12,537
8	% of women members (%)	95.20%	95.44%	95.66%	96.27%	96.70%	96.85%	96.88%	96.79%	96.39%	96.12%
9	Average loan balance per borrower (USD)	106	96	90	85	80	86	104	123	143	144



Loan portfolio											
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
10	Loans (Principal Amount) disbursed (In million USD)	274	369	435	612	727	731	906	1,151	1,366	1,362
11	Number of loans disbursed (In millions)	2.13	3.19	3.81	5.09	6.45	6.37	7.18	8.25	8.61	8.00
12	Total loan outstanding (gross) (In million USD)	220	276	334	427	476	530	646	792	943	945
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
13	Current (Performing) loans (In million USD)	216	268	324	416	463	509	623	757	914	909
14	Overdue loans (In million USD)	2.00	6.35	6.11	7.28	8.51	14.91	17.99	20.82	8.99	12.79
15	Portfolio growth rate	1.99%	26.48%	24.72%	39.66%	18.32%	9.26%	22.22%	23.20%	21.26%	13.48%
	Sustainability/Profitability ratios:										
16	Return on equity (ROE)	2.93%	10.63%	8.98%	21.22%	25.83%	1.79%	21.21%	5.64%	10.74%	8.97%
17	Operating self sufficiency (OSS)	102.00%	111.10%	109.88%	115.65%	117.41%	101.02%	112.20%	102.63%	104.46%	103.31%
18	Financial self sufficiency (FSS) %	99.60%	107.88%	105.70%	110.40%	112.28%	94.84%	106.07%	99.21%	99.20%	95.79%
	Asset / Liability management ratios:										
19	Yield on gross portfolio (nominal)	17.98%	18.51%	18.89%	19.24%	20.21%	19.12%	19.03%	19.43%	19.69%	19.80%
20	Cost of funds ratio	5.19%	6.18%	7.15%	7.38%	8.07%	8.43%	8.56%	8.89%	9.24%	9.07%
	Portfolio Quality:										
21	Portfolio at risk ratio (PAR)	1.77%	2.84%	2.94%	2.57%	2.69%	3.88%	3.67%	4.39%	3.01%	3.86%
	Efficiency and productivity ratios:										
22	Productivity per loan officer	291	399	487	579	520	442	465	509	552	553
23	Operating expense ratio	11.19%	10.52%	9.22%	9.87%	9.71%	10.60%	10.83%	11.36%	11.24%	10.06%
24	Personnel expense / Loan portfolio	8.70%	8.12%	6.88%	6.92%	6.60%	7.11%	7.32%	7.71%	7.67%	7.07%
25	Cost per borrower (In USD)	12.33	10.5	8.44	8.27	7.78	8.87	10.29	12.89	14.83	13.56

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Came to academia after 18 years of corporate experience. Was instrumental in building up Icfai Business School, Ahmedabad ab initio into a prominent management school in 15 years. Has many papers and cases published in refereed journals. His paper, *Innovating for Competitiveness*, won the best paper award at Nirma National conference in 2001; another paper, *Affirmative Action – an Alternate Approach*, won the best paper award at Bharatidasan Institute of Management International Conference in 2010. Areas of interest include entrepreneurship, finance, innovation, incubation, business & technology strategy, knowledge management etc. Is mentor to some entrepreneurs, non-executive director on some companies and member of academic boards of some Universities/Institutions. At present he is Director, Shanti Business School, Ahmedabad.