

## Grameen Bank's Housing Program for Rural Poor in Bangladesh: A Case Study

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### **Abstract:**

Even though access to affordable housing is a basic requirement for human well-being, the majority of people in most developing nations occupy the most rudimentary forms of shelter. As a developing nation, Bangladesh is no exception to this rule. The differences in the quality of housing between developed and developing nations are tremendous; in terms of floor area per person, the city average for Dhaka was 40 sq. ft in 1990 compared with over 650 sq. ft. in Washington, DC (Pacione, 2001). The failure of government housing programs to provide affordable housing has forced the majority of the poor population to live in unsanitary conditions. However, the initiative of the Grameen Bank's housing program (GBHP) is legendary and has been helping to alleviate these living conditions. The GBHP has proved that even without collateral, a bank can still build up good relations with the poorest of the poor and grant them credit, and this is a cost-effective way to build decent housing. The success story of micro-lending project of Grameen Bank is well-known worldwide, but little is known about GBHP. Hence, it is essential for urban geographers, especially for practitioners who are working towards providing affordable housing for the poor, to learn about GBHP. The purpose of this paper is thus to examine the rate of success of GBHP in Bangladesh and what impact it has had in providing affordable housing for people who live under the poverty level.

**Keywords:** Grameen Bank Housing Program | GBHP | Bangladesh | affordable housing | collateral free lending

### **Article:**

## **1. INTRODUCTION**

Even though access to affordable housing is a basic requirement for human well-being, the majority of people in most developing nations occupy the most rudimentary forms of shelter. As a developing nation, Bangladesh is no exception to this rule. The differences in the quality of housing between developed and developing nations are tremendous; in terms of floor area per

person, the city average for Dhaka was 40 sq. ft in 1990 compared with over 650 sq. ft. in Washington, DC (Pacione, 2001). The failure of government housing programs to provide affordable housing has forced the majority of the poor population to live in unsanitary conditions. However, the initiative of the Grameen Bank's housing program (GBHP) is legendary and has been helping to alleviate these living conditions. The GBHP has proved that even without collateral, a bank can still build up good relations with the poorest of the poor and grant them credit, and this is a cost-effective way to build decent housing. The success story of micro-lending project of Grameen Bank is well-known worldwide, but little is known about GBHP. Hence, it is essential for urban geographers, especially for practitioners who are working towards providing affordable housing for the poor, to learn about GBHP. The purpose of this paper is thus to examine the rate of success of GBHP in Bangladesh and what impact it has had in providing affordable housing for people who live under the poverty level.

## **2. HISTORICAL BACKGROUND OF GRAMEEN BANK HOUSING PROGRAM**

### **2.1 ORIGIN OF GRAMEEN BANK**

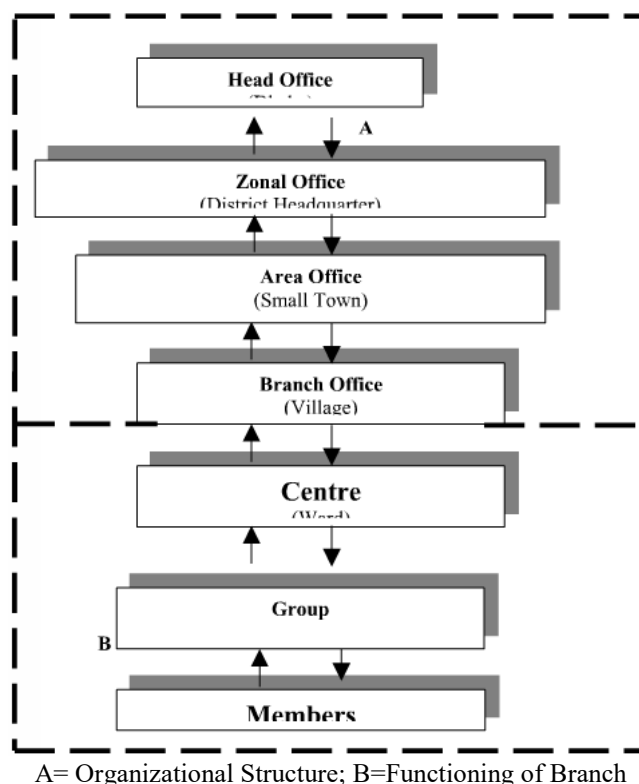
Grameen means "rural" in the native (Bangla) language. The origin of the Grameen Bank can be traced back to 1976 when Professor Muhammad Yunus, Head of the Rural Economics Program at the University of Chittagong, launched an action research project to examine the possibility of designing a credit delivery system to provide banking services targeted at the rural poor (<http://www.grameen-info.org>). Later, the Grameen Bank Micro-lending Project came into operation with the following objectives:

- extend banking facilities to the poor and eliminate the exploitation of the poor by money lenders;
- create opportunities for self-employment for the vast multitude of unemployed people in rural Bangladesh;
- bring the disadvantaged, mostly the women from the poorest households, within the fold of an organizational format which they can understand and manage by themselves; and
- reverse the age-old vicious circle of "low income, low saving and low investment", into virtuous circle of "low income, injection of credit, investment, more income, more savings, more investment, more income." (<http://www.grameen-info.org/bank/hist.html>)
- In October 1983, the Grameen Bank Project was transformed into an independent bank by government legislation. Today the Grameen Bank is owned by the rural poor whom it serves. Borrowers of the Bank own 90 percent of its shares, while the remaining 10 percent is owned by the government. The total number of borrowers is 2.6 million, and 95 percent of them are women. Grameen Bank has 1,188 branches and works in 42,776 villages. Today, there are 73,175 centers across the country (Grameen Bank Monthly Update, 2003) (Fig. 1).

#### **2.2.1 Types of Loans And Eligibility For Housing Loan**

GBHP provides four different types of housing loan (Table 1) which are paid back within a maximum period of 10 years. The annual interest rate for housing loans is 8 percent. In general, Grameen Bank members get preference over non-members and borrowers must meet the following criteria:

- The member must be a 3rd time loanee in order to qualify for the pre-basic housing loan. To qualify for the other three types of housing loan, he/she must be a 4th time loanee with a perfect record of past repayment.
- The homestead land, which is most likely to be in the husband's name, must be transferred to his wife's name. If the family does not own land, she can borrow additional money to buy some.
- The 'Centre' to which she belongs must be at least three years old, with excellent loan repayment discipline, and should be "dowry-free". The center should have its own center house. The installment payments/repayment records in the center should be perfect. The center should have experience with joint-venture loans.
- Preference is given to homeless, landless, abandoned, divorced, and widowed women who have no income-earning male family-members. The first housing loan in the 'Centre' goes to the poorest and the neediest.
- The center willing to set up a model village by purchasing land at a selected location shall be preferred to those centers having individual and scattered sites.



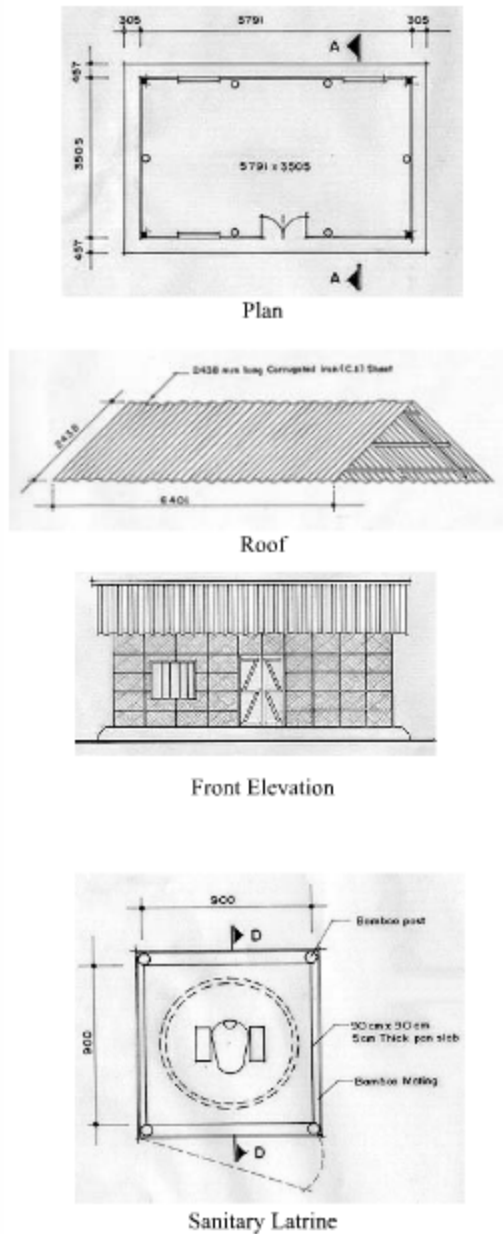
Source: Grameen Bank, 2003

**Figure 1.** Hierarchy of the Organizational Structure of Grameen Bank

**Table 1.** Types of Housing Loan Provided by Grameen Bank

| Category       | Loan amount (TK)           | Minimum age of membership (Year) | Minimum age of branch (Year) | Minimum age of centre (Year) | Maximum terms of repayment (Year) |
|----------------|----------------------------|----------------------------------|------------------------------|------------------------------|-----------------------------------|
| Pre basic      | 0-5000 (US\$ 88)           | 3                                | 3                            | 3                            | 3                                 |
| Basic          | 5001-7000 (US\$ 123)       | 4                                | 3                            | 3                            | 4                                 |
| Improved Basic | 7001-12000 (US\$ 123-211)  | 4                                | 3                            | 3                            | 6                                 |
| Moderate       | 12001-25000 (US\$ 211-439) | 4                                | 3                            | 3                            | 10                                |

Source: Yunus, 2003.



Source: Grameen Bank Support Group, 1997

**Figure 2.** Plan, Elevation, Section and Other Details of GB's Basic

### 2.2.2 Main Procedures of GBHP

A bank branch is set up with a branch manager and a number of center managers and covers an area of about 15 to 22 villages. The manager and the workers start by visiting villages to familiarize themselves with the local milieu in which they will be operating and identify the prospective clientele, as well as explain the purpose, the functions, and the mode of operation of the bank to the local population. Groups of five prospective borrowers are formed; in the first stage, only two of them are eligible for, and receive, a loan. All members are obliged to attend the weekly meetings at the center, an essential part of the whole discipline. Each center deals with 8 groups. The group is observed for a month to see if the members are conforming to the

rules of the bank. Only if the first two borrowers begin to repay the principal plus interest over a period of six weeks, do the other members of the group become eligible themselves for a loan. Because of these restrictions, there is substantial group pressure to keep individual records clear. In this sense, the collective responsibility of the group serves as the collateral on the loan (Barua, 1999).

### **3. HOUSING DESIGN, TECHNOLOGY, AND QUALITY**

As Bangladesh is a flood prone country, rural houses are washed away every year. Floods affect most people, but the poor are the worst hit (Newaz, 2003). In rural Bangladesh, houses are built with a thatch roof, bamboo pillars, and walls of mud or jute stick which collapse during the flood. The low durability of thatch roofs and bamboo pillars puts a huge pressure on the poor population. So the Grameen replaced the thatch roof and bamboo pillars with corrugated iron (CI) sheet and reinforced concrete cement (RCC) pillars, which have long durability. Each R.C.C pillar is 5.25 square inches by 11 feet. They are constructed on brick foundations at the corners of the house, with six intermediary bamboo posts, each with bamboo tie beams, wooden rafters and purlins supporting corrugated iron roofing sheets included. Every house has a sanitary latrine (one slab with 4-5 rings). Figure 2 shows the basic design of the house proposed by GBHP. However, the owners may have choices to divide the internal space into a sleeping/sitting area and a kitchen.

Initially pillars, sanitary slabs, and rings were supplied by the GB's housing building materials project located at the different areas where GB operates, while C.I. sheets are procured by loanees from the open markets. The total cost for the construction of a standard rural house provided by the Grameen Bank is 12,300 TK (US\$ 307.50). All the technology is economical to the poorest member of the community and made by simple and adjustable technology to permit the house to be locally built and maintained by locally available know-how and resources (Grameen Bank, 2003).

### **4. HOW IS GBHP BECOMING SUCCESSFUL?**

GBHP has come with the noble objective to provide shelter to the poor and therefore make them one step closer to being self-dependent. Grameen Bank is offering only an 8 percent interest rate against housing loans, which is much less than that of other organizations. Perhaps this is the main reason that GBHP has been able to reach to the poorer class of society. The main characteristic of the Grameen Bank's success relates to the ability to distinguish clearly between need and demand, and the fine tuning of response to the demand, capacity and affordability of the beneficiary group. The housing program is thus not constrained by access to land and utilities, building codes, and donors' conditions. The loan processing is very quick and a wide range of loan amounts is available, determined by the actual need and affordability for the borrower rather than a prescribed scheme. Thus, on the whole, there is a lot of choice and freedom available to the borrower in the whole process. Most importantly, these procedures have evolved out of a participatory process of decision-making, which reflects both borrower preferences and lender prerequisites. The success of the GBHP has been realized already in Bangladesh and the "Grameen bank historical data series 2000-2002" is given below (Table 2) to illustrate changes over time.

**Table 2. Housing Built by GBHP from 2000-2002**

| <b>Description</b>                 | <b>2002 (Million US \$)</b> | <b>2001 (Million US \$)</b> | <b>2000 (Million US \$)</b> |
|------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| Yearly loan disbursement (general) | 272.04                      | 286.31                      | 268.62                      |
| Yearly loan disbursement (housing) | 2.08                        | 1.01                        | 1.41                        |
| Total Disbursement for the Year    | 274.12                      | 287.32                      | 270.03                      |
| Cumulative Total Disbursement      | 3810.89                     | 3536.77                     | 3248.06                     |
| No. of Houses Built                | 558055                      | 545121                      | 533041                      |

Source: Grameen Bank, 2003

The GBHP has made a significant impact on the lives of its members in terms of income, and the restoration of self: confidence and human dignity. These can be summarized in the following way:

- a) Housing is not seen anymore as a "Luxury Frill" but a Source of Inspiration: GBHP establishes greater bonds amongst the family members. Housing brought greater peace, joy and happiness in their families and a new source of self-dignity and self-confidence.
- b) Housing is perceived as a vital investment for the poor: Poor people constantly fight against nature and social ordeals for survival in Bangladesh. The house built funding from GBHP is helping to protect poor families from the onslaughts of nature as well as anti-social elements, e.g., diseases and other illegal social activities. It thus increases the productive capacity of the inmates of a well-built house.
- c) Source of space and privacy and protection: Space and privacy provided throughout the housing program of GB have given them a new meaning of life. They can conduct the income generating activities at their homes and therefore feel less hardship with more return.
- d) Source of incremental material development: A house can be built only where there is some homestead land. But many of GB borrowers do not have even a piece of land. So, there is a provision for loans for the purchase of homestead land. One can purchase homestead land first and gradually can get housing loans. It has been also observed that borrowers spend much more than the amount given as housing loans out of their own savings in order to have a bigger floor space. They make an incremental investment in housing materials over time. They proved to be more enterprising and they improved their material base subsequently.
- e) The program provides social empowerment of women: The land title should be in the name of women borrowers before construction of house. So, title to the land and house is vested with the women, which ensures that they obtain improved status within the family and society.
- f) The program provides a source of environmentally friendly qualities of life: If poverty is looked at as a major pollutant of human habitation on earth, GBHP has been working towards reducing this in a society which has suffered due to environment degradation. GBHP attempts to encourage and motivate its members to have better housing, better drinking water, a cleaner environment, more plants and trees, better sanitation and health. These are being supported by the specific credit programs of Grameen i.e. the housing loans, the sanitary latrine loan, the hand

tube well loan. Grameen is also creating a chain of nurseries for seedlings and plants. All these contribute to the creation of a better environment (<http://www.grameen-info.org/bank/hist.html>).

## **5. FUTURE CHALLENGES FOR GBHP**

Since 1968, the Bangladesh Water Development Board (BWDB) has been continuously developing a 'Safe Haven' through embankment projects to provide safety against flood. The embankment covers about 32 percent of the flood vulnerable lands (Nishat, 1989). The land within the embankment is flood free and naturally the price of that land has been increased in last few decades. The land is, therefore, out of reach to the poor for its high price. As a result the poorer class is taking shelter outside the embankment. Unfortunately, the GBHP does not yet have any fixed hazard avoiding criteria in case of selecting land for housing, such as checking whether the piece of land is located in a flood or cyclone vulnerable zone. These factors are, perhaps, limiting their success to some extent.

The majority, the poorer group, is constructing new houses with GBHP in flood prone lands, but after a few years the house is again moderately flooded. So, there was the necessity of fixing compulsory sustainable housing design criteria in GBHP for the borrowers. The point to be noted is that GB has developed a housing design with RCC pillars and CI sheets for safe housing and of course GB is encouraging them to use those materials but there is necessity to fix the criteria which would make the borrowers bound to follow that technology. This would, no doubt, bring more success to the program.

In GBHP, sometimes there arise some internal tensions while approving a housing loan to a particular member of a group. Here, the poorest persons who do not have a piece of land are not eligible for getting the housing loan. This leaves out the extremely poor. It is a moot point whether micro-credit can at all address the vulnerability of the extreme poor. But with around 20 percent of the rural population falling in this category, the NGO agenda has to face up to a major challenge that a significant portion of its potential clients are excluded (World Bank, 1996). So, GBHP should think about some other innovative ideas which can serve the neediest and landless people with a house. In addition, given the facts that the country has limited choices of land due to over population and flood proneness, people are cutting forests for housing construction which is naturally destroying the environmental balance. As a result, GBHP should introduce multilevel housing in rural areas which should help to save the agricultural land of the country to some extent.

## **6. CONCLUSION**

Given the fact that Bangladesh is one of the most economically vulnerable nations, only 10 years ago housing was viewed as a luxury for the poor; today housing is a vital investment for them, especially when the house also serves as a work place. The GBHP with lower interest rates of 8 percent is, no doubt, making the housing issue simpler and providing an improved identity and social dignity to the poorest of the poor, especially to the women who are homeless, landless, abandoned, or divorced. The collateral free housing loan by GBHP is very popular to its borrowers in Bangladesh, and it is expected that like Grameen Bank's microlending program, its

housing program will be also embraced by many developing nations to provide affordable housing for the poorest of the poor.

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