Grameen Bank: Taking Capitalism to the Poor

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Executive Summary

In the early 1970s, Professor Muhammad Yunus envisioned a means of alleviating poverty by circumventing the major impediment to lending to the poorest in society—the need for collateral. He tested this instinct in an experiment in 1976, when he lent about $27 to 42 women in an ordinary Bangladeshi village. Just 30 years later, Grameen Bank has more than 3.2 million borrowers (95 percent of whom are women), 1,178 branches, services in 41,000 villages and assets of more than $3 billion.

This paper explores Grameen Bank's origins, structure, culture, performance and efforts to expand and broaden the microfinance agenda. The authors evaluate Grameen's success in implementing Yunus's vision in the light of various challenges and conclude that the short-run effects of microcredit have been positive and that microfinance will continue to make important contributions to poverty reduction. Admittedly, an assessment of Grameen solely in terms of financial viability—that is, without also taking into account the social benefits in terms of the empowerment of women and its positive impact on human capital—must question whether such an institution will ever generate sufficient returns to profit-driven shareholders to attract the sort of capital required to enable it to reach all segments of the poor. The legacy of Grameen Bank will ultimately be not what it has done for shareholders, but how it has impacted society.

1. Introduction: The Origins of Grameen Bank

The story behind the first concerted effort to make financing accessible to the world's poorest is the stuff of folklore. Befitting the goal of poverty alleviation, the setting for this early experiment was a time of great tragedy in Bangladesh, one of the poorest countries in the world. A small country in the Indian subcontinent with a population of 130 million, a gross national product (GNP) per capita of about $300 and a literacy rate of only 38 percent for those over 15 years of age,[1] Bangladesh experienced drought and famine in 1974 that killed 1.5 million people (Macfarlane 2002). Having recently completed studies as a Fulbright scholar in the United States, Professor Mohammad Yunus was lecturing on economic theory at Chittagong University (see exhibit 1) and growing increasingly frustrated at his inability to ease his neighbors' suffering.

Yunus attributes the origin of his vision to a chance encounter in Jobra with Sufia Begum, a 21-year-old woman who, desperate to support herself, had borrowed about 25 cents from moneylenders charging exorbitant interest rates approaching 10 percent per day. Ms. Begum used the money to make bamboo stools that, as a condition of the loan, she sold back to the moneylenders at a price well below market value for a profit of about

[1] CIA, *World factbook 2003,* s.v. "Bangladesh," http://www.cia.gov/cia/publications/factbook/.

of 2 cents (Yunus 2003). Ms. Begum's desperate position could best be described as bonded labor.

Yunus found 42 people in Jobra in the same poverty trap, and in 1976 he experimented by lending them small amounts of money at reasonable rates. Yunus lent a total of $27—about 62 cents per borrower. To his pleasant surprise, all the borrowers repaid the loans, in the process convincing him that this success could be replicated across Bangladesh.

From these humble efforts emerged a new industry: microcredit—the extension of small loans and other financial and business services to entrepreneurs too poor to qualify for traditional bank loans. Microcredit has since proven to be an effective tool for alleviating poverty and, in addition to creating wealth, generating positive externalities, such as better education and improved health.[2]

Yunus carried his success story to traditional banks and proposed that they could also make uncollateralized loans to society's poorest. In response, the banks asserted that borrowers would never sufficiently organize themselves to repay, that proceeds from such loans were too small to cover administrative costs and that female borrowers would simply hand over the funds to their husbands. Early critics argued that even if lenders avoided these pitfalls, the last thing the poor needed was the added burden of indebtedness (Yunus and Jolis 1998).

Yunus answered these challenges by founding an institution of his own, Grameen Bank, the name of which derives from *gram,* the Bengali word for "village." He did so in the belief that capital is a friend of the poor and that its accumulation by the poor represents their best means of escaping the abject poverty that the welfare state and wasteful, corrupt and incompetent international aid organizations have failed to combat.[3] Yunus's vision was of a bank that would address all aspects of rural life and support commercial activities ranging from manufacturing to retail, including even door-to-door sales. The bank would require no collateral and would prove once and for all what Righter later referred to as "the bankability of the unbankable."[4] In 1983, Grameen was incorporated as a bank after the government had passed legislation allowing Grameen Bank to accept deposits.

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[2] The Virtual Library of Microcredit, http://www.gdrc.org/icm/wind/wind.html; see also Mayoux (1997).

[3] R. Righter, "Bangladesh's famous financier uses microcredit to bring wealth to the underprivileged of many nations," *Times* (London), October 31, 1998.

[4] Ibid.

Exhibit 1. Relief Map of Bangladesh

Source: CIA, *World factbook 2003.*

2. Credit Delivery System

2.1. Targets the *Poorest of the Poor* and Is Owned by the Poor

Grameen Bank targets the poorest of the poor,[5] with a particular emphasis on women, who receive 95 percent of the bank's loans. Women represent a suitable clientele because, given that they have less access to alternatives, such as traditional credit lines and salaries, they are more likely to be credit constrained and they have an inequitable share of power in household decision making. Lending to women also generates considerable secondary effects, including empowerment of a marginalized segment of society (Yunus and Jolis 1998). In 1974—and, Yunus contends, still in 2004—women represented less than 1 percent of borrowers from commercial banks (Yunus 2004).

Each of Grameen's 1,178 branches (as of December 2003) is run by a branch manager and several center managers, who together cover an area of 15 to 22 villages. Together they learn their local area of operations intimately in order to identify and develop strong

[5] There is continued debate as to whether it is really possible to target and serve the poorest of the poor, and some contend that that many microcredit programs end up lending to people that are relatively well off compared to others in their societies. Some of these concerns derive from the lack of credible tools for measuring poverty. These concerns are discussed in section 7.3.

relationships with prospective clients. This effort to get close to the community is reflected in the program's operating costs.

Grameen Bank is a not-for-profit organization owned by its borrowers. Loan amounts, which start at $35 and average $200, depend on the needs of the borrower and her level of credit (determined by previous borrowing and repayment record). Interest rates are kept relatively low and as close as possible to prevailing commercial rates. While these low rates squeeze the bank's profit margins, they support its primary focus on alleviating poverty rather than generating high returns. Other for profit microfinance institutions (MFI) that have raised rates considerably in order to increase margins, provide capital for growth and attract for-profit investors continue to enjoy strong demand for their services. This suggests that rates high enough to cover the risks inherent in uncollateralized loans are not unreasonable or unbearable.[6]

2.2. Group Lending

Women enter the system through a self-selected lending group of between 5 and 10 members. Participants rank their fellow group members according to financial strength and use this ranking to determine the order in which members receive their loans, with the neediest members receiving loans first. The members of the group elect a chairperson, who receives her loan only after the neediest members of the group have met the terms of their loans, including the often weekly schedule for repayments.

2.3. Risk Management

Grameen Bank maintains its own regulation system outside the purview of the Central Bank of Bangladesh and relies heavily on social pressure among the group members to keep default rates low. The members of each lending group experience great peer pressure to meet the terms of their loans, as they know everyone in the group well enough to understand the importance they place on receiving their disbursement. Defaulting will cost a member her reputation in the village because her failure deprives others of needed loans. The combination of support and peer pressure from the group provides borrowers with sufficient motivation to meet the terms of their loans.

If the group system represents the first level of regulation, the second level is the assigned center manager, who visits borrowers regularly to monitor loan payments. Center managers are extremely active throughout the process and play a large role in selecting borrowers, approving lending groups and supervising income-generating projects. As an

[6] For example, BancoSol, a Bolivian microcredit organization, switched from a not-for-profit to a commercial enterprise by being more selective about borrowers (not the poorest of the poor) and delivering strong returns on equity and low default rates (Bommarito and Beim 1996).

added risk-management measure, branch managers must also approve lending groups during the approval process.

2.4. Compensation/Recognition

Once a year, Grameen Bank rates its branches according to a five-star system designed to promote core Grameen values, notably savings, prudence and education. Branches are awarded stars of different colors based on their achievements against the following five benchmarks:[7]

- *Green Star*—a 100 percent repayment rate (66 percent of the branches qualified in 2003).
- *Blue Star*—profitability (66 percent of the branches qualified in 2003).
- *Violet Star*—deposits exceed loans (33 percent of the branches qualified in 2003).
- *Brown Star*—all children of borrowers attend school (13 percent of the branches applied in 2003).
- *Red Star*—borrowers have crossed over the poverty line (4 percent of the branches, which represented more than 125,000 families, applied in 2003). Grameen Bank claims that 46.49 percent of borrowers have already crossed the poverty line. In order to qualify for this designation, each borrower needs to pass 10 tests that include having a roof over her head, sleeping in a bed, access to safe drinking water, access to warm clothing and having all children of school-going age in school (Yunus 2004). This definition of poverty is different from the income above $1 per day adjusted for purchasing power parity that is used by the Microcredit Summit.

These ratings carry no financial reward, but they offer bragging rights, which is sufficient motivation to foster friendly competition between branches.

2.5. Growth

In keeping with Yunus's dislike of handouts, since its founding Grameen Bank's objective has been to promote financial independence among the poor. Yunus encourages all borrowers to become savers so that their local capital can be converted into new loans; since 1995, Grameen has funded 90 percent of its loans with interest income and deposits, aligning the interests of its borrowers and depositor-shareholders. Grameen is proud of this record, as it represents a reversal of conventional financial institutions' traditional conversion of deposits from rural areas into loans for the urban, educated elite. Grameen distinguishes itself from such institutions by converting deposits made in villages into loans for women in villages (Yunus and Jolis 1998).

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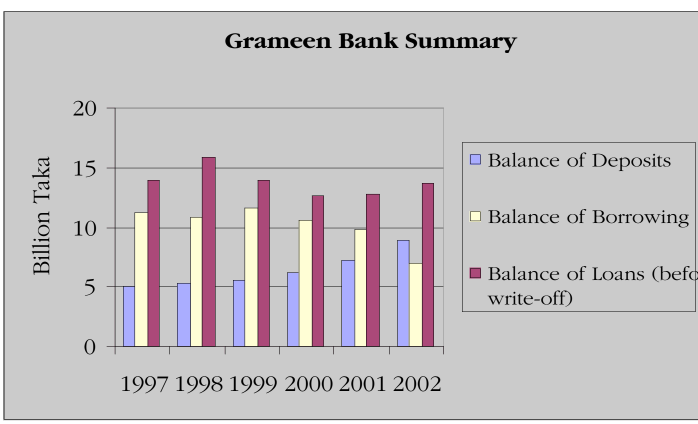
[7] M. Yunus, "Grameen Bank at a glance," Grameen Bank, http://www.grameen-info.org/bank/GBGlance.htm.

In addition, the bank used to fund new branches with central loans, which the branches repaid over time with interest as they accepted deposits. Grameen has recently experimented with a system in which new branches get no money. The new branches start off by going to the local villages, marketing their services and encouraging people to bring deposits. On opening day, the branches take deposits and can literally start making loans the following day. Through this process, Grameen is able to start and run branches without external capital—suggesting that if microfinance institutions were allowed to take deposits, they need not make the same "mistake" that Yunus made by accepting soft loans and foreign contributions when he first transformed his experiment into Grameen Bank (Yunus 2004).

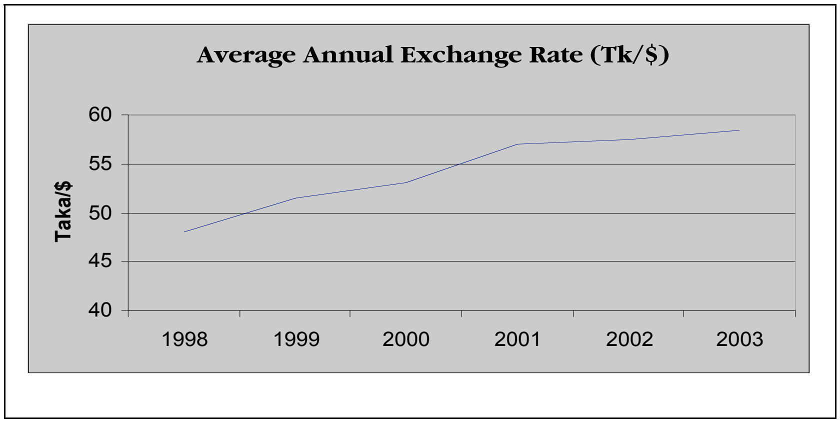
Exhibits 2a and 2b show the growth in Grameen Bank's assets, deposits and loans. While Grameen's loans declined slightly following the crisis caused by floods in 1998 (see section 4), total assets remained stable at about Tk 20 billion.[8] As Grameen's assets and liabilities are denominated in local currency, the bank is less exposed to exchange-rate risk than are other emerging-market financial institutions. Grameen's savings rate has risen steadily, a manifestation of a change in local attitudes toward savings that has enabled Grameen to rely mainly on internal sources of funds. While the bank does not require savings accounts as a condition for applying for loans under a certain level, deposits—largely owned by bank borrowers—currently make up 93 percent of the bank's $3 billion in total assets.

Exhibit 2a. Growth Statistics for Grameen Bank



[8] Over the same period, the dollar value of the assets depreciated by about 20 percent to approximately $3 billion due to currency devaluation.

Exhibit 2b. Change in Exchange Rate



Source: Grameen Bank, http://www.grameen-info.org.

When borrowers reach a certain level of savings, they are permitted to buy one share in Grameen Bank, similar to a monthly interest-bearing deposit account. Savers have access to standard deposit accounts and mutual-fund accounts, which allows borrowers to invest in various ventures within the Grameen portfolio. By converting borrowers into depositors and shareholders, the Grameen Bank system unites all interested parties with its managers behind the common goal of sustainable poverty alleviation.

3. Culture: The 16 Decisions

Borrowers need to abide by a set of paternalistic rules central to Grameen Bank's culture and its success—and that members reportedly recite with pride.[9] These guidelines range from an adherence to Grameen principles—discipline, unity, courage, hard work through the building of family prosperity—to encouragement to repair and improve houses, grow vegetables year-round, plant seedlings each year, build and repair pit-latrines, introduce physical exercise in centers and neither request nor offer dowries. The guidelines also insist on self-reliance, liberating borrowers from the victim mentality and stressing that the whole community (of 8–10 groups) must not allow anyone to fall behind.

These extensive rules might not work in more prosperous societies, but they are effective in a society in which the infant-mortality rate is high, disease spreads quickly due to poor sanitation and ravages communities, natural disasters are common and educational attainment is low.

[9] Grameen Bank, "The 16 decisions of Grameen bank," http://www.grameen-info.org/bank/the16.html.

4. Coping with Crises

4.1. 1995 Boycott Movement

In 1995, Grameen Bank experienced its first major operational crisis. Men in the communities joined local politicians who disapproved of the bank's mission of turning women into entrepreneurs and pressured borrowers to stop repaying loans.[10] This boycott movement explicitly challenged Grameen Bank to eliminate a charge imposed on borrowers who chose to leave a borrowing group.

At the time of this movement, Grameen Bank had already become a politically charged and financially powerful institution. While Grameen had avoided many of the political and relationship pitfalls that other emerging-market banks encounter, its success had attracted the unwelcome attention of male chauvinists and religious fundamentalists who were unhappy with the power that was being put into the hands of women.[11] Some women were targeted, and other nongovernmental organizations providing health and educational services became the targets of sustained attacks from these fundamentalists (Lucas and Kapoor 1996).

The boycott proved quite successful at dropping repayment rates and punctured the aura surrounding the near–100 percent repayment record that had distinguished Grameen from other charitable and government programs. Even after Grameen agreed to remove the charge in order to settle the boycott, repayment rates were slow to recover, as many borrowers believed there were no significant consequences to defaulting.

4.2. 1998 Floods

The bank was still emerging from the challenge of the boycott movement when in 1998 floods ravaged the country, leaving much of the population without homes and businesses. The bank went into the bond markets and received a Tk 1 billion loan from the Central Bank of Bangladesh and a Tk 2 billion loan from commercial banks in Bangladesh to cover massive defaults and to disburse new loans to borrowers who had been made destitute.[12] Old loans were not forgiven, however, and the increasing burden of debt overwhelmed many borrowers,[13] resulting in lower repayment rates and some dropouts from the Grameen system (see exhibit 3).

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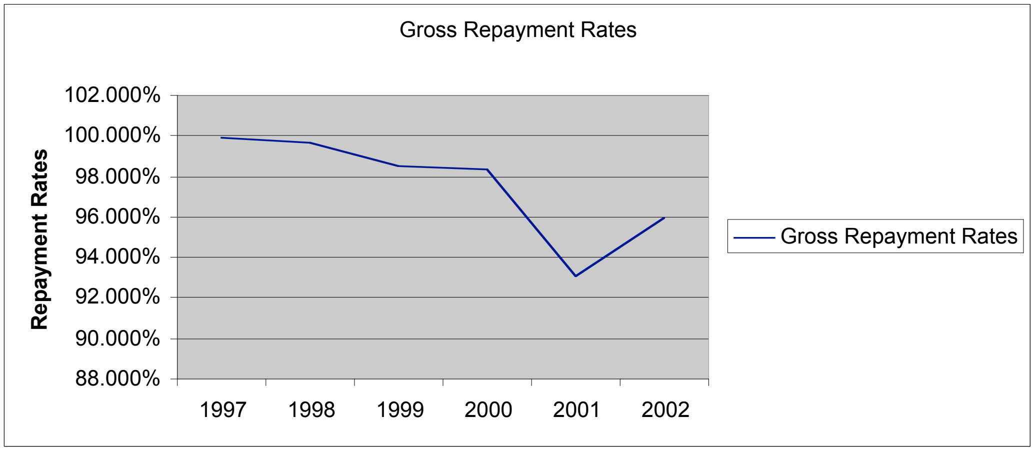
[10] A. Jolis, "Microcredit: A weapon in fighting extremism, *International Herald Tribune,* February 19, 1997.
[11] Ibid.
[12] Yunus, "Grameen Bank at a glance."
[13] D. Pearl and M. Phillips, "Small change: Bank that pioneered loans for the poor hits repayment snag," *Wall Street Journal,* November 27, 2001.

Exhibit 3. Repayment Rates Drop Following the Crises in 1995 and 1998



Source: Grameen Bank financial statements, 1997–2002.

Note: Repayment rates estimated by taking (1 – [Bad Loans/Total Loans]).

4.3. Issues of Transparency and Credibility

These incidents provided Grameen's management with important information about weaknesses due to rigidity in the loan process. Under the classic Grameen Bank model, borrowers who were late in their loan payments were banned from the loan process until they had repaid in full. This approach left individuals with loans in arrears with few options, as they lacked access to credit and savings to meet fixed interest and principal payments and reenter the loan process. Instead of acting as a deterrent against default, the process posed a moral hazard; women in danger of defaulting took unnecessary risks to remain in the Grameen system lest they lose all access to credit, as well as any chance of escaping abject poverty. Since the Grameen Bank's clients are predominantly the very poor,[14] these individuals had very little to lose and everything to gain by remaining in the Grameen system.

Critics accused Grameen Bank of an unwillingness to fully disclose the impact of these crises on its financial position. These critics argued that reluctance to disclose losses was characteristic of other microfinance institutions eager to see microfinance survive and thrive and did not systematically evaluate the industry's strengths and weaknesses. Poor management of these disclosures compounded the damage the problems did to Grameen Bank's image, and the media, which had uniformly lauded the global development movement for several years, now widely criticized Grameen and the microfinance industry for their lack of transparency and questionable results.[15]

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[14] See the discussion in section 2.1.

[15] Pearl and Phillips, "Small change." Some of these are discussed in Section 7.3.

5. Grameen Bank II

While very different in nature, both the opposition movement of 1995 and the floods of 1998 crystallized for Yunus certain underlying problems with the classic Grameen model. In response, Grameen Bank underwent a major restructuring by which it refocused on a central tenet of the bank's original philosophy: The poor always pay back. From this restructuring process emerged Grameen Bank II, which was conceived in 1999 and implemented from 2000 to 2003.[16] The main changes to the classic Grameen system included simplifying loan classifications and offering greater flexibility for loan repayments.

Previously, Grameen had offered more than a dozen kinds of loans, including seasonal, family and general loans. In order to avoid the confusion and needless redundancy resulting from this breadth of offerings, Grameen II starts all first-time borrowers with a *Basic Loan* in one of only three loan categories that correspond to three different annual interest rates: development or entrepreneurship (20 percent), housing (8 percent) or education (5 percent).[17] The Basic Loan matures in one year and carries a fixed interest rate, with payments due every week. Women who are unable to meet their repayment schedules for any reason immediately restructure their obligations into a *Flexible Loan* contract, which allows for greater variability in loan maturity and weekly payments. The Flexible Loan process also offers customized credit for borrowers who encounter unexpected difficulties in the course of their loans.

While the Flexible Loan option appears to encourage increased rates of default, Grameen Bank provides significant disincentives to restructuring the Basic Loan into a Flexible Loan. The Grameen Bank II loan program is described as a highway, on which women that remain within the system and meet all terms of their loans graduate to progressively larger loans. The moment a woman exits the highway by restructuring her Basic Loan into a Flexible Loan, however, her credit history is erased. When she again qualifies for the Basic Loan, her loan ceiling reverts to introductory levels, seriously impairing her ability to grow her business.

Previously, women who defaulted on their loans were cut off from taking further loans and unable to renegotiate payments. Flexible Loans ensure that borrowers will be more successful in repaying defaulted loans more quickly. The new system treats as late payments what in the old model would have been considered defaulted loans. Flexible Loans have a high percentage of overdue loans (see exhibit 4) compared to the old system (although still in single digits). However, Yunus (2002) contends that these loans (even those that have been written off) end up being paid because of the strong disincentive

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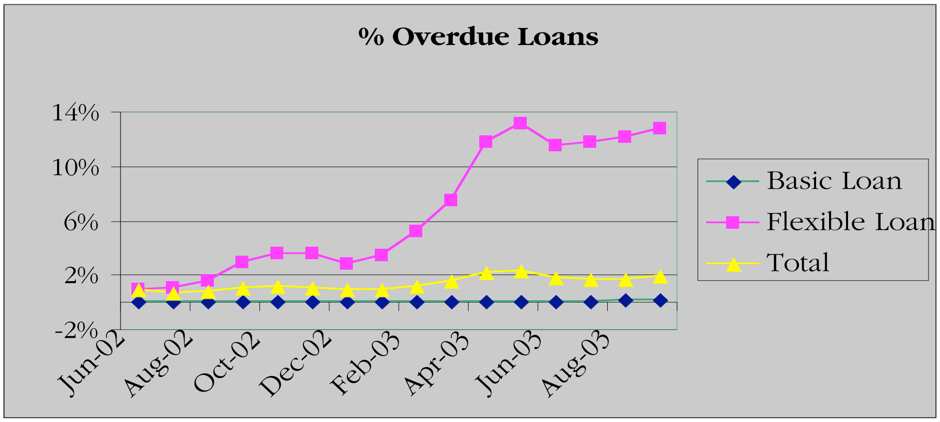
[16] http://www.gfusa.org/grameenbankII.htm

[17] Yunus, "Grameen Bank at a glance."

for staying out of the system. As a consequence, the effective repayment rate exceeds 98 percent.[18]

Exhibit 4. Percentage of Overdue Loans for the Different Loan Types in Grameen Bank II



Source: Grameen Bank Monthly Updates.

In addition to increasing flexibility, Grameen Bank also implemented a new system for recognizing nonperforming loans in response to earlier criticism from the media. Loans are now declared overdue upon the borrower's failure to pay either the installment for 10 consecutive weeks or to clear the outstanding balance within a six-month period without moving into a Flexible Loan. In the latter case, the bank declares the loan to be in default and makes a loss provision for 50 percent of the unpaid principal and interest. If the arrears extends to a full year, the bank writes off 100 percent of the loan.

Other features of Grameen Bank II include the Grameen Pension fund and Grameen Loan Insurance. All borrowers with loans greater than Tk 8,000 (U.S.$138) must contribute at least Tk 50 (U.S.$0.86) each month for 10 years toward a pension deposit account, with Grameen Bank matching this contribution. After 10 years, the borrower's savings are transferred into another account that pays an annuity—pension payments—that Grameen guarantees to match the contributions over the 10-year savings period. While this appears well intended, Grameen's plans for enforcing contributions into the pension fund and achieving the returns required to meet the guaranteed return of capital remain in question, although the current inflation rate in the neighborhood of 3 percent is a great help. The initiative has proved very popular, with $70 million contributed to date, and Yunus expects this to rise to $100 million by the second half of 2004.[19]

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[18] Ibid.

[19] Ibid.

Grameen also started a loan-insurance business, which in the long run may offer a means of both managing risk and diversifying earnings, but was started in response to borrowers' concerns about leaving relatives with a loan after the borrowers' death. This allows all the loans to be forgiven upon the borrower's death. The cost is straightforward: 3 Tk per 100 Tk of the outstanding loan. The contribution is paid into an insurance account, and the interest from all such accounts is pulled into a larger interest-bearing account, which then is used to buy pooled insurance. Upon death, the borrowers not only have their loans forgiven, but relatives also receive the principal that they had saved toward insurance (since only the interest is used to buy the insurance), which makes it appear to borrowers as if they are getting free insurance. The offering has proved very popular.

The transition to Grameen Bank II along with the repercussions of past crises led to a reduction in total assets and in total loans in dollar terms (see exhibit 2a). Total deposits, however, continued to increase, possibly due to greater confidence in the bank's ability to manage assets.

6. Diversifying Grameen

Grameen Bank has also helped establish a number of related organizations to support its mission, although it has chosen to support them with debt financing rather than assume equity stakes. These organizations are separate legal entities that began as projects and were later spun off. Grameen Bank made loans into a trust fund (the Grameen Fund) from which disbursements were made to the companies. The companies were then expected to pay back the loans at a later stage

One of the organizations that expanded and diversified the bank's activities was the Grameen Krishi Foundation (GKF), which focuses on agriculture and provides loans to groups of farmers owning between 0.5 and 3 acres of land. Since Grameen Bank itself does not loan money for agricultural production, through GKF it is able to do so.

Grameen Bank also has helped found 17 Grameen Network companies, which provide basic services that many Grameen Bank borrowers require. They are independent companies that have not received any loans from Grameen Bank and pay regular taxes and duties. By ensuring access to basic services in villages, Grameen Bank has enabled more people to start businesses, and the bank has, in turn, expanded its customer base. In a February 1997 interview (Patel 1997), Yunus discussed the reasons for and benefits of the Grameen Network.

> Once you lay down the basis of . . . a network like Grameen, you can think of other things. Telecommunications is a profitable business, so we want to bring cell phones to the villages and make Grameen borrowers telephone ladies who can sell the service in the villages. The poor will become owners of the telephone

> company—shares will be sold to Grameen borrowers—so that profits go to the poor. The phones, used for long-distance social communications, will be rented out in an income-generating project . . . . Internet-service provider is another project. Solar energy will be provided in villages. The Grameen retirement fund has been started. Grameen is diversifying to make our clients branch out and feel secure. All these companies are owned by Grameen borrowers to get them out of poverty

Another way Grameen has expanded and should continue to diversify is through leasing. According to Assif Ud Dowla, "[access to] new products such as leasing can be used to reward a good member within a group. The Bank could gradually increase the pool of leasable items. However, before allowing a new item for leasing, the Bank worker should do a quick market analysis of the activity to be funded. This analysis should entail gathering information about the price of the item, price of the substitute items, the nature of the current and future demand for the product" (Dowla 1998). For example, since less than 25 percent of the villages have electric connections through the Rural Electrification Board, Grameen Bank could buy solar-pack units from Grameen Shakti and lease them to members.[20] This would help to increase the electric supply in the villages, provide an important service for small businesses and generate business for one of the companies in the Grameen Network. In addition to increasing the pool of leasable items, Grameen Bank could increase the size of the lease amount, which may foster rural industrialization. Experience in China, shows that rural industrialization can be an effective engine of growth, creating a stable source of employment and stemming rural exodus (Dowla 1998).

Recently, the bank started Grameen Telecom, which lends money to women who buy cell phones on lease and then use the phones to provide connectivity between the villages and relatives in far-off places for a fee. The "telephone ladies" business has proved popular and could be a way of helping bridge the digital and information divide—yet another social return on investment.

Lastly, Grameen Bank could consider investing in the international capital market, although this would expose it to foreign-exchange risk. The bank originally planned to securitize parts of the loan portfolio with money from the international capital market in the late 1990s, but the plans were derailed by the global market crash of 1997. Grameen Bank has no current plans to invest in international markets, and it is not clear whether capital controls in Bangladesh will allow overseas investment. If possible, Grameen Bank could invest some money in U.S. Treasury bills, which could return in excess of 10 percent should further depreciation of the taka compound underlying Treasury rates. Investing internationally may garner higher returns but also brings with it higher risk and exposes Grameen Bank to exchange-rate risk, which the bank has hitherto avoided by matching

[20] Grameen Shakti is a Grameen Network organization.

substantially all assets and liabilities in taka (Kabir Hassan 2002). Exhibit 5 is a summary of key features.

Exhibit 5. Summary of Grameen Bank's Strategy, Risk Management, Growth and Compensation

Strategy	▪ Target a unique client base—largely rural women ▪ Integrate social and financial goals and create lasting partnerships with the microfinance community to grow the global base of microfinance ▪ Lobby governmental organizations to increase visibility of microfinance initiatives
Growth	▪ No donor funds since 1995 ▪ 90% of loans funded through income and deposits ▪ Started Grameen-branded businesses but limited its risk to small loan commitments; organizations are left to run as independent entities.
Risk Management	▪ First line of risk management is the loan group of women from the same village ▪ Women put pressure on one another because default affects the ability of each member in the group to take loans ▪ This is the most important factor in keeping defaults low ▪ Next line of defense is surprise internal audits ▪ Quarterly monitoring and evaluation ▪ Surprise center visits by branch managers
Compensation	▪ Managed and operated by savers and borrowers ▪ 5-star rating system that motivates branches to compete with one another for profitability, excess of savings over loans, educational attainment of borrowers, poverty alleviation of the borrower community and repayment rates. The ratings only carry bragging rights but appear to motivate the branches to compete.

7. Exporting the Model and Building Lasting Financial Institutions

7.1. Grameen Bank Replication Program

The success of Grameen Bank has spawned a rash of not-for-profit and for-profit organizations attempting to mimic the model. In 1999, the Grameen Foundation, an offshoot of Grameen Bank established as a not-for-profit entity to spread the Grameen Bank mission, established the Grameen Bank Replication Program (GBRP) to provide financial and technical resources to help launch new microfinance programs. To date, GBRP has spent $6 million and has launched 43 programs all over the world. In addition to efforts from within Grameen Bank, many global development organizations—USAID, the World Bank and the Inter-American Development Bank, among others—have devoted tremendous resources to launching a significant number of not-for-profit programs. The Consultative Group to Assist the Poorest (CGAP), a consortium of 28 development organizations dedicated to expanding access to financial services for the poor, has been instrumental in establishing guidelines, best practices, regulation and measurement techniques for assessing the effectiveness of organizations in the field of microfinance.

7.2. For-Profit Microcredit Models

Outside of the not-for-profit model, several for-profit corporations have embraced microfinance either as a stand-alone business model or as an operating unit of the corporation. The largest of these corporations, in terms of total assets, is Bank Rakyat of Indonesia (BRI). BRI has more than $3 billion in total assets devoted to microfinance,[21] which accounts for one-third of its total lending.[22] BRI went public at the end of 2003 in the largest IPO in Indonesia since the Asian financial crisis. It was also rated B3 by Moody's on $150 million subordinated notes that the bank issued at the end of 2003, which demonstrates the access that BRI has to capital markets despite targeting relatively poor borrowers and doing so on a for-profit basis.[23]

Microlending had gotten off to a slow start for BRI due to government intervention in limiting interest rates and a public perception that the loans were charitable giving. The unit was plagued with low repayment rates and connected lending, as local elites dominated access to subsidized loans. The unit was restructured with help from the Harvard Institute for International Development, which recommended raising interest rates and making each branch a separate profit center. The microlending business proved to be an important source of liquidity and diversification during the Asian financial crisis. At the height of the crisis in 1998, BRI posted business profits of $89 million in its microlending unit, while BRI's corporate and retail units had cumulative losses of $3.4 billion (*Far Eastern Economic Review* 2003).

BRI is atypical, however, as most microfinance organizations have not attracted outside private investors, although as can be see from exhibit 6, some of the largest and most successful microfinance organizations deliver high ROEs. For many investors the question is not so much whether the model can deliver one-shot returns as whether a business with a bias toward social returns can deliver consistently strong financial results.

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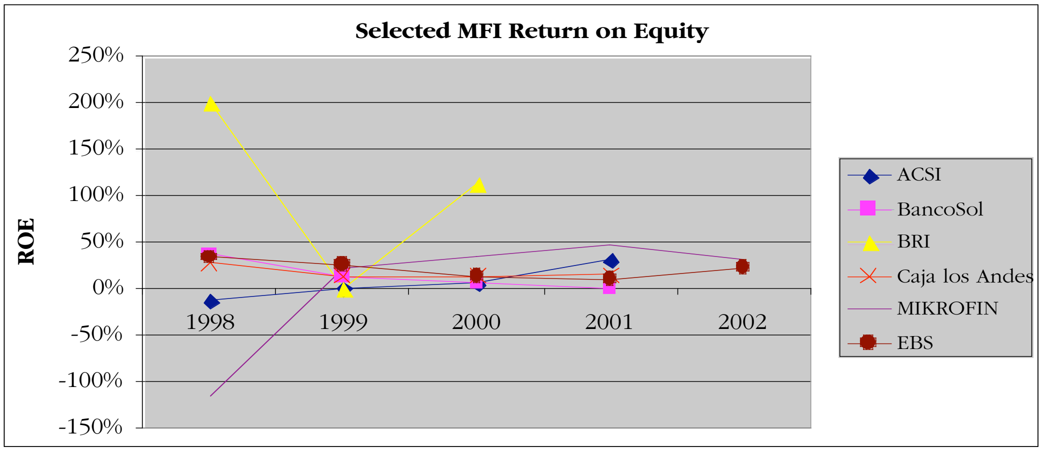
[21] The MIX (Microfinance Information eXchange) Market, http://www.mixmarket.org. See also Harvard University (2001).

[22] "Bank Rakyat Indonesia," *Financial Times,* November 8, 2003.

[23] More information on Bank Rakyat can be found on its Web site, http://www.bri.co.id/english/index.html.

Exhibit 6. ROE of Selected MFIs



Source: The MIX Market, "Trend analysis," http://www.mixmarket.org/en/demand/demand.trend.analysis.asp.

7.3. Microcredit Summit Campaign and Sustainability of Microcredit

Grameen Bank's influence extends well beyond its own organization. For example, the bank was instrumental in setting up the Microcredit Summit Campaign (MSC) in 1997. At the inaugural meeting, 2,900 people from 1,500 microcredit organizations and 137 countries united to launch a campaign to provide financing to 100 million of the world's poorest by 2005. It became obvious that the MSC needed a robust definition of the world's *poorest,* and it settled upon the bottom half of those living below a given nation's poverty line, or any of the 1.2 billion people who live on less than $1 a day adjusted for purchasing power parity (Daley-Harris 2003).

Beyond defining its target clientele, the MSC established four main goals:

- Reaching the poorest.
- Reaching and empowering women.
- Building financially self-sufficient institutions.
- Ensuring a positive, measurable impact on the lives of clients and their families.

In 2003, the MSC reported that its members had reached 41.6 million people in the poorest category, well short of the 100 million target but still a 450 percent improvement over 1997 levels. The MSC is optimistic that it will reach its original goal of 100 million of the poorest by 2005, as the current 40 percent compounded annual growth rate (CAGR) of the community of borrowers exceeds the 38 percent CAGR required to meet the goal in this time frame.

The MSC astutely aligned its goals with the UN Millennium Development Goals (MDG), an initiative aimed at reducing absolute poverty in the world by half (600 million people) by 2015. Since microcredit targets precisely those whom the UN seeks to raise from poverty, the MSC has been able to align its position with that of the UN and has called for public agencies to spend more than the 1 percent that the World Bank and United Nations Development Program (UNDP) currently spend on microfinance projects. As many within the UNDP and World Bank consider their mission to be poverty reduction, the MSC has been critical of these institutions and has been successful in winning allies at the UN (Daley-Harris 2003). On July 23, 2003, UN Secretary-General Kofi Annan delivered a report to the General Assembly outlining proposed microfinance initiatives for 2005 (Annan 2003), which the UN has declared the official United Nations International Year of Microcredit.[24]

Politically, the MSC has been gathering momentum. The Bush administration recently passed the U.S. Law on Microenterprise,[25] which calls for USAID funds to target the very poor. Also, a group of 600 parliamentarians from the major industrialized countries recently wrote to the leadership of the World Bank, regional development banks and the UNDP calling for

- Increased funding for microenterprise.
- At least 50 percent of funds reaching the poorest.
- Use of cost-effective poverty-measurement tools to ensure meeting the target.
- An annual reporting of results.[26]

In an effort to reduce informational and measurement barriers, the MSC has developed a number of tools that rely on an assessment of people's status in villages, the materials used for building their houses and other assets, all of which are believed to give a good measure of poverty.[27] This particular initiative is designed to answer the intractable question "Who really are the poorest of the poor?"

The MSC has also been an important medium for countering some of the criticisms that have been levied against microcredit. Three of the most persistent criticisms are as follows:

1. *It is not possible to reach the very poorest because they are too costly to identify*. The MSC has countered this perception by developing such tools as the Participatory Wealth

[24] United Nations Resolution 53/197, December 15, 1998.

[25] *Microenterprise* is the U.S. term for microfinance and microcredit. Details on Microenterprise can be found at http://www.microfinancegateway.org.

[26] Parliamentarians from the United Kingdom, Japan, the United States, Canada, Australia and Mexico wrote in October 2003; for details, see MSC (2003).

[27] See DeWit (2002). One tool is Participatory Wealth Ranking (PWR). Villagers map out their entire village with the help of a facilitator, and three separate groups of villagers rank each household in different categories according to its level of poverty. Then the women from the bottom groups are designated poorest.

Ranking (PWR) to facilitate the process of identifying potential borrowers and by training microfinance organizations worldwide to use these tools effectively. Interestingly, the parliamentarians who wrote in support of microcredit have themselves asked for measurement tools, which suggests that if the MSC can prove that it has a way of identifying its constituents and of doing so in a cost-effective manner, it is likely to win more converts to the fold (MSC 2003).

Yunus has devised a typically unorthodox solution to the issue of poorest of the poor. It is true that many of his borrowers are now effectively middle-class, if one considers that many of them now have children at or graduating from a university. He decided to prove that Grameen is indeed a banker to the poor by requiring that the bank make every effort to lend to those whom he considers the poorest: beggars. At the beginning of 2004, he instructed the 12,000 employees to try and "have at least one customer who is a beggar" (Yunus 2004). As of March 2004, Grameen Bank had 4,000 beggar clients—all on interest-free loans. At the end of the year, the bank expects to learn how many of these beggar clients have changed their status completely and become socially acceptable entrepreneurs. Through the loan-issuing process, Grameen Bank also gathers information about circumstances and reasons for borrowers' conditions. These data should provide the basis for a useful study on the inherent causes of destitution.

2. *Institutions that reach the very poorest cannot become financially self-sufficient.* Elizabeth Littlefield, CEO of CGAP, strongly opposes this opinion. She cites as counterevidence a recent study published in the *MicroBanking Bulletin* (*MBB*), which reports 62 financially sustainable microcredit organizations in 2002 (*MBB* 2002). The study also found that the poorest borrowers were serviced more cheaply, with up to 200 borrowers per staff member, as opposed to from 70 to 140 for other categories of borrowers. This information agrees with a more recent study reported in the *MBB* (Thys 2003). In the authors' view, these higher program costs, which lead to low profitability (in the case of 70 to 140 borrowers per staff member) and force many institutions to rely on public funds and private donors, are nonetheless justified if one considers the total benefits from microcredit.

3. *An institution that somehow reaches the very poorest and becomes financially self-sufficient will only add debt to the other burdens of the poor.* Shahidur Khandker of the World Bank offers one of the more convincing refutations of this claim in phase 1 and phase 2 of his detailed study of the Bangladesh Rural Advancement Committee (BRAC), Grameen Bank and Rural Development Project 12 (RD-12),[28] three leading microfinance institutions in Bangladesh, for the period 1990–2003 (Khandker 1998, 2003). Khandker's findings (2003) are unequivocal:

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[28] BRAC is an NGO established in 1972, while RD-12 is a public program formed in 1988.

> The results are resounding: micro-finance matters a lot for the very poor borrowers and also for the local economy. In particular, micro-finance programs matter a lot to the poor in raising per capita consumption, mainly on non-food, as well as household non-land asset. This increases the probability that the program participants may be able to lift themselves out of poverty. The welfare impact of micro-finance is also positive for all households, including non-participants, indicating that micro-finance programs are helping the poor beyond income redistribution with contribution to local income growth. Programs have spillover effects in local economies, thereby increasing local village welfare. In particular, we find that micro-finance helps reduce extreme poverty more than moderate poverty at the village level. Yet the aggregate poverty reduction effects are not quite substantial to have a large dent on national level aggregate poverty. This concern brings to the fore the effectiveness of micro-finance as an instrument to solve the problem of poverty in Bangladesh.

7.4. Characteristics of Successful Microfinance Institutions

Successful microfinance institutions share characteristics that make them able to sustain operations and limit problems. A large number of microfinance programs—particularly those modeled on Grameen Bank—use group lending as an instrument that helps reduce administration and monitoring costs in addition to serving, but they effectively provide collateral in the form of social capital. Businesses in densely populated areas have lower costs associated with running the program and therefore tend to be more sustainable. All good microfinance programs have high annual borrowing rates, a limited number of standard product lines and required savings programs, and they often require collateral for loans above a certain amount, thus maintaining the principle that collateral should not be a bar to unleashing entrepreneurship among the poor (Malhotra 1992).

7.5. Microfinance and Commercial Banking

The BRI model represents a growing trend in the microfinance movement toward integration of microlending into larger for-profit banking systems. Microfinance reaches a massive market of people that provides both liquidity through savings as well as profitable lending opportunities. Banks looking to access a wider retail market can learn from microlending institutions' expertise in reaching and monitoring rural and poor populations. At the same time, microfinance institutions need banks to fund their significant capital needs, so the relationship between for-profit and microfinance institutions is potentially symbiotic. More and more banks are contracting nonbank financial institutions that specialize in microlending to manage these target segments for them.

8. Evaluating Grameen Bank

Grameen Bank's success must be measured in terms of both social and financial standards. Furthermore, one must first ask whether the bank is a successful social program before turning to its performance as a financial institution.

This paper has cited evidence that Grameen Bank is a successful social program that combats poverty by addressing the specific needs of the neediest in society, with a particular emphasis on women. There are, of course, questions as to the degree of the bank's success. Presumably, if microfinance is truly successful, then microfinance should vanish as the poorest of the poor graduate into the mainstream capital markets.

Several studies have sought to specifically determine whether microcredit empowers women. One of the most important studies, conducted by Pitt, Khandker and Cartwright, investigates the situation in Bangladesh and concludes that empowerment effects, more than standard income-substitution effects, drove the results of their earlier study, which demonstrated that communities benefit more when loans are disbursed to women rather than to men (Pitt, Khandker and Cartwright 2003, 1998).

This study contradicts earlier findings by Goetz and Sengupta (1996), who, though lacking robust empirical data, asserted that most women have minimal control over the loans, while their husbands who press them to take the loans often waste the proceeds and leave the women highly indebted. Pitt, Khandker and Cartwright determined that women were more likely to vote, have fewer children and influence household decisions after entering the loan program. Women's increased empowerment may explain the fundamentalist Islamic Party's loss of 14 of its 17 parliamentary seats in the June 1996 Bangladeshi elections after it expressed opposition to microcredit and women's rights. In those elections, for the first time in Bangladeshi history more women than men voted. The ranks of the women were bolstered by Grameen's 3.5 million women borrowers, who, given the average size of the families they represent, can have an impact on a remarkable 20 percent of Bangladesh's entire population.[29] The empowerment criterion is therefore being adequately met.

One big, often underestimated impact that Grameen's women borrowers have is on property rights. Grameen Bank has given loans that have built 600,000 homes to date, 95 percent of which women own. As a condition of the loan, the bank also insists that the house can be built only on land owned by the borrower (for which, read woman). Although many husbands complain, they usually come around to the fact that a house owned by their wife is better than no house at all.

In Bangladesh, according to Sharia tradition all a man needs to do to be divorced is to say so three times. But in marriages in which the wife is a Grameen Bank borrower, the

[29] Jolis, "Microcredit."

incentive to divorce has changed somewhat, because it is likely that the man would have to pack up and leave the family home.

Grameen Bank's success as a social institution is echoed in its respectable—if not stellar—financial performance shown in exhibits 7–9.

- These exhibits present Grameen's respectable 0.7 percent return on deposits, as compared with Citigroup's return on deposits of 1.9 percent.
- Return on assets has ranged from under 0.1 percent to 0.5 percent in 1998 (currently 0.3 percent), compared with 1.84 percent for Citigroup Global Retail Banking (Citigroup 2002), which has to be adjudged a solid performance (exhibit 8).
- Grameen's current 2 percent return on equity trails Citigroup's 19 percent (ROE for the whole of the group) more sharply, but it is not a surprise.
- Grameen's productivity peaked at about 200 members per employee (exhibit 7), consistent with the experience at BancoSol (Bommarito and Beim 1996).
- Deposit-to-loan and deposit-to-borrowing ratios have both increased by about 50 percent over six years, and Grameen ultimately has recovered up to 20 percent of bad debts (while bad debts are themselves small, at less than 5 percent of outstanding loans).

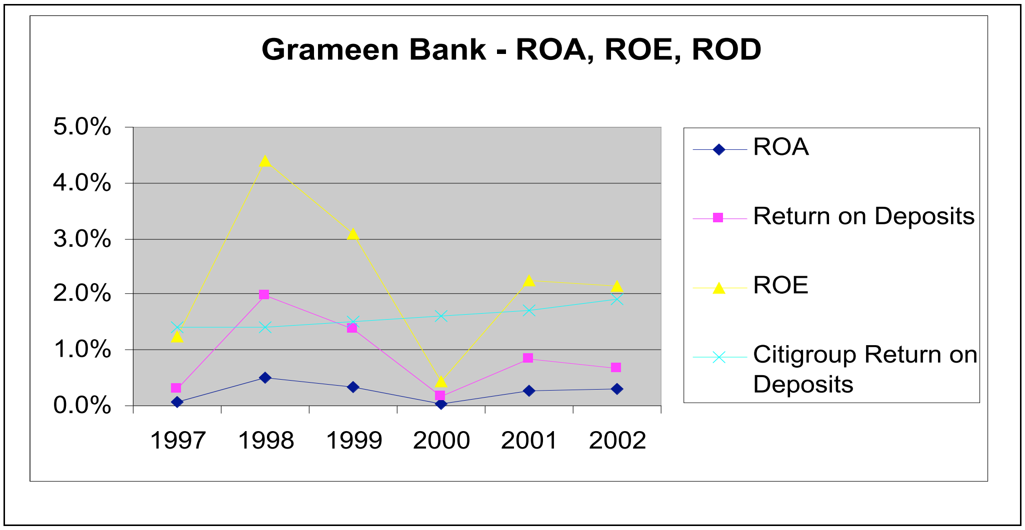
Exhibit 7. Summary of Grameen Bank Financial and Operating Data

Sl. No.	Particulars	1997	1998	1999	2000	2001	2002
	(Million Taka)						(Provisional)
1	Authorised Capital	500	500	500	500	500	500
2	Own Fund :						
	2.1 Paid-up Capital	246	258	265	270	272	276
	2.2 Capital and Other Reserve	92	1908	1764	1764	1764	1764
	2.3 Miscellaneous	859	182	463	497	587	760
	2.4 Total :	1197	2348	2491	2530	2623	2800
3	Deposits	4978	5222	5551	6115	7169	8952
4	Other Sources of Fund	1297	658	792	399	208	162
5	Borrowings	11293	10836	11640	10629	9781	6977
6	Assets :						
	6.1 Loan and Advances (Before Provision)	14182	16210	14382	13180	13061	13400
	6.2 Investment	4600	1807	4787	5229	5143	4021
	6.3 Cash and Bank Balance	375	470	404	242	416	441
	6.4 Fixed Assets	752	879	986	963	945	921
	6.5 Other Assets	1460	1706	2088	2338	2299	2121
	6.6 Total Assets	21369	21072	22647	21952	21864	20904
7	Own Fund as Percentage of Loan & Advances	8%	14%	17%	19%	20%	21%
8	Own Fund and Deposits as Percentage of Loan & Advances	44%	47%	56%	66%	75%	88%
9	Total Income (Before Provision)	2821	3021	3156	3008	3167	3040
10	Expenses :						
	10.1 Salaries & Other Related Expenses	932	1072	1222	1176	1117	1156
	10.2 Interest Expenses	875	880	1020	979	1026	893
	10.3 Other Expenses	254	219	209	218	248	258
	10.4 Provision Expenses	746	746	629	624	717	673
	10.5 Total Expenses	2807	2917	3080	2997	3108	298
11	Net Profit	15	103	77	11	59	60
12	Provision Balance	2304	2987	3389	3789	3601	3729
13	Bad Debt	19	64	227	224	906	545
14	Bad Debt Recovery	6	7	6	11	47	105
	Bad Debt/Total Loans and Advances	0.134%	0.395%	1.578%	1.700%	6.937%	4.067%
	Bad Debt Recovery/Bed Debt	31.579%	10.938%	2.643%	4.911%	5.188%	19.266%
	Gross Repayment Rates	99.866%	99.605%	98.422%	98.300%	93.063%	95.933%
15	Accumulated Disbursement	88021	108114	124035	138069	154105	169974
16	Number of Employees	12628	12850	12427	11028	11841	11709
17	Number of Members	2272503	2368347	2357083	2378356	2378601	2483006
18	Number of Centres	64701	66712	67691	68467	68591	70928
19	Number of Villages	37937	39045	39706	40225	40447	41636
20	Number of Branches	1105	1137	1149	1160	1173	1178
	Number of Members/Employee	180	184	190	216	201	212
	ROA	0.1%	0.5%	0.3%	0.1%	0.3%	0.3%

Particulars	Years					
	1997	1998	1999	2000	2001	2002
Balance of Deposits	5	5.23	5.56	6.13	7.17	8.95
Balance of Loan (Before Write off)	13.89	15.81	13.91	12.66	12.78	13.65
Balance of Borrowings	11.29	10.84	11.64	10.63	9.78	6.98
Deposit to Loan Ratio	36%	33%	40%	48%	56%	66%
Deposit to Brrowings Ratio	44%	48%	48%	58%	73%	78%

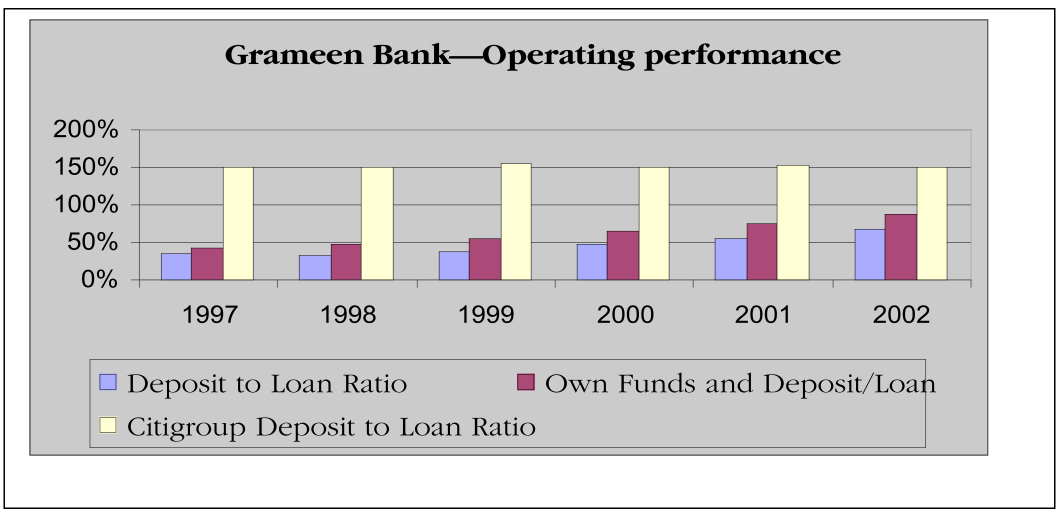
Source: Grameen Bank, "Grameen Bank historical data series," http://www.grameen-info.org/bank/hist2001.html.

Exhibit 8. Grameen Bank Return on Assets



Source: Grameen Bank and Citigroup 10K 2002.

Exhibit 9. Grameen Bank: Productivity and Loan-to-Deposit



Source: Grameen Bank and Citigroup 10K 2002.

Schreiner (2003) suggests that the high likelihood of borrowers applying for follow-on loans is evidence enough, from an economist's perspective, that clients view the lending structure and terms as favorable. Considering that Grameen Bank currently distributes $30 million in loans per month, there appears to be considerable demand for this type of service. The bank's contribution to Bangladeshi GDP is about 1.3 percent, approximately equal to GE's or Wal-Mart's impact on the U.S. economy.[30]

[30] Yunus, "Grameen Bank at a glance."

Another sign of Grameen's sound financial position is its record since 1995 of forgoing outside funds out of preference for internal funding from deposits and retained earnings for 90 percent of its loans.[31] Unfortunately, the bank's return on assets of 0.3 percent has not attracted outside investors to date and is unlikely to attract major investments anytime soon.[32]

Grameen Bank is a sustainable solution to a social problem, but it is not a highly lucrative business venture. It is like the local laundry business—everyone can see a need for it, but the industry is such that competition will always drive margins down to the point where it is not a good investment for those with a higher risk/return profile.

9. Conclusions

Beginning with a simple experiment in 1976, Grameen Bank has become one of the largest enterprises in Bangladesh and has lifted millions of people—mostly women and their families—out of poverty. Given Khandker's findings (1998) that "as much as 5 per cent of program-participating households should be able to lift their families out of poverty every year," the 4.2 million women already reached through BRAC and Grameen Bank in Bangladesh translate into 21 million family members. If 5 percent of these are able to lift themselves out of poverty every year, then in Bangladesh alone one million people are lifting themselves out of poverty every year (87,000 per month) as a result of microcredit (Khandker 1998). This is a remarkable social achievement by any standard.

Financially, the jury is still out on Grameen Bank and microcredit as a whole, despite the respectable performance of both. Grameen Bank has adjusted in response to many of the criticisms surrounding reporting, openness and sustainability and has reduced its reliance on public funds and private donors. Still, returns on equity and assets remain too low to attract serious investment, and the authors believe this reality is unlikely to change unless Grameen adopts a different, less socially oriented model.

Issues of metrics and how to value and compare MFIs against one another abound. Even the issue of the definition of poverty itself—at the heart of microfinance—is difficult, and some of the critics of microcredit's social agenda argue that many of those who benefit are not the poorest of the poor. The argument has weakened, however, as the new metrics discussed in section 7.3 (e.g., PWR) have added clarity to the field. Some new organizations aim to produce means by which MFIs can be better evaluated, monitored and benchmarked. One such organization is the Microfinance Information eXchange (MIX), which in 2002 received substantial support in the form of a grant from Citigroup (Citigroup 2002).

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[31] Ibid.

[32] Grameen Bank, "Grameen Bank historical data series," http://www.grameen-info.org/bank/hist2001.htm.

Much of the criticism of Grameen Bank has centered on reporting—particularly the way it reports its default rates. Pearl and Phillips made this point forcefully in a 2001 *Wall Street Journal* article,[33] and the same issues surface every so often. They argued that Grameen Bank effectively gives defaulters another chance by extending the terms of the loan to a point where it is not necessary to declare them in default. If the Grameen borrowers were treated in the same way that commercial banks treat those that fail to meet scheduled payments, the default rates would be much higher than Grameen Bank reports. Hurt revived those accusations in the *New York Times* recently,[34] which prompted the following riposte from Yunus:

> I wish to add some corrections to the statements made about Grameen Bank. According to the article: "critics contend that the actual repayment rate on its loans is much lower than the 95 percent it claims". The factually correct statement is that Grameen Bank's repayment rate is 99 per cent. That is what we claim and what we ensure on the ground; our claim is not 95 per cent. The article also says: Grameen Bank " . . . routinely reschedules its overdue loans". This does not give the full picture of what we do, and, as a result, creates the wrong impression. The complete statement is that Grameen Bank routinely reschedules its loans and at the time of rescheduling, makes 50 per cent provision against the rescheduled amount, makes 100 per cent provision against the unrepaid amount at the end of second year and writes off the entire balance of rescheduled loans at the end of third year, even if the repayment rate is 100 percent. The repayment rate of rescheduled loans, known as "flexible loan", is currently over 98 per cent.[35]

Despite the model's remaining shortcomings, Yunus has created an industry with total assets that have grown to $7 billion and that attracts the attention and support of for-profit financial institutions, regional banks, the UN, the World Bank and many other international institutions. At the same time, Yunus has created a mechanism by which the world's poorest can work themselves out of poverty, a potent statement about personal entrepreneurship's great potential when properly channeled.

Remarkably, Grameen Bank has achieved this by doing exactly what successful commercial banks do not do. Commercial banks lend on collateral, while Grameen does not. Commercial banks lend mostly to the well-off, while Grameen does not. Commercial banks lend mostly to men, while Grameen's borrowers are 95 percent women. Commercial banks have branches and lend mostly in towns, while Grameen targets the poor in villages. Commercial banks lend to those who can prove they can repay, while Grameen lends to those who can prove they have nothing with which to pay back. Commercial banks lend on clear evidence of ability to repay, while Grameen lends on the

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[33] Pearl and Phillips, "Small change."

[34] H. Hurt III, "A path to helping the poor, and his investors," *New York Times,* August 10, 2003.

[35] M. Yunus, letter to the editor, *New York Times,* August 11, 2003. Also available at http://www.grameen-info.org/bank/nyt.html.

entrepreneurial potential of the poor. Commercial banks cut off credit when borrowers cannot pay, while Grameen lends borrowers more money to help them get out of the liquidity trap. Commercial banks seek to maximize profits; while Grameen seeks to bring financial services to the poor. In sum, Grameen Bank represents a paradigm shift in the allocation of financial resources, and it is by these criteria that the bank should be judged.

Spain's Queen Sofia commented recently about the stark difference in terms of polish and educational attainment between Grameen Bank borrowers and their children.[36] The queen's comments highlight the intergenerational mobility that Grameen Bank has engineered in large segments of the Bangladeshi community, but what they fail to capture is that even for these university-educated new entrants into the workforce, there will be a generational difference between the life they led as children and the life they lead as adults. The impact that Grameen Bank will have on intragenerational mobility cannot be overstated.

The recent effort to bring 100 million people out of acute poverty by 2005, championed by the Microcredit Summit Campaign, is already a success given that 41.6 million people have escaped poverty through microfinance programs. This achievement alone provides sufficient grounds for the authors to declare that Grameen Bank and the industry it has created have been a success.

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[36] Yunus recounted the queen's comments during a speech at the School of International and Public Affairs, Columbia University, on April 1, 2004.

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