MicroSave Briefing Notes on Grameen II # 1

What Is Grameen II? Is It Up And Running In The Field Yet?

Stuart Rutherford

What is Grameen II?

Grameen Bank began as a project to deliver credit to poor rural Bangladeshis in 1976. Led by its founding Managing Director, Muhammad Yunus, it steadily developed what it now calls its '**classic**' microcredit system. Poor villagers (means-tested through land and asset ownership) joined weekly-meeting groups, took loans from the bank as individuals, and undertook to help each other should they fall into difficulty. Loans were repaid over a year in equal weekly instalments that could often be met comfortably from regular household cash flow. Members also deposited small amounts into personal and group-owned savings accounts. Growth was rapid, with more than 2 million group members – most of them women – enrolled by 2000. The system attracted huge international attention and was emulated in countless countries, rich and poor.

'Classic' Grameen's methods grew piecemeal, as lessons were learnt and new ideas emerged. But in 2000 work began on the design of Grameen II, or, more formally, the '**Grameen Generalised System**'. Grameen II consolidates many of the lessons from experience, but goes beyond that by making some fundamental changes. Among the more important are:

- *Public deposit services*: the bank has become a true intermediary by mobilising deposits from the general public (and not just from its members)
- *Extended member deposit services*: there is a wider range of savings opportunities for members, including a commitment-saving account known as 'Grameen Pension Savings' (GPS). Personal savings accounts have been made far more flexible, and group savings accounts have largely gone.
- *Improved loan contracts*: there is a wider range of loan contracts with variable terms and repayment schedules. Larger loans for business use are available. Loans may be 'topped up' mid-term, or paid off early. There is no obligation to borrow. Borrowers in repayment difficulties have their loans rescheduled (into 'flexi' loans). Joint financial liability is formally banned (though members still undertake to help each other in other ways).

Grameen II also offers special terms for the very poor, and makes education grants and loans. It has improved accounting practices and makes better use of computers. It has fostered a sharp growth in membership: ambitious targets for new branches, and for client numbers per branch and per worker helped membership grow from 2.36 million in mid 2002 to 4 million in December 2004.

The main changes are to the range of *products*. The **environment** in which the products are offered – the village-level meetings 'centre' attended by all members of the 5-person 'groups' that compose it, and served by a visiting fieldworker – is unchanged. The preponderance of women members remains a striking feature.

Why now?

Presenting Grameen II to the public for the first time, Yunus was frank about one of its immediate tasks. A severe flood in 1998 affected many Grameen members and also revealed '…the internal weaknesses in the system.' [Yunus 2002[1], p 2]. The main weakness was a rigidity in the loan scheme: members had no choice but to follow a strictly prescribed schedule of borrowing and repaying, and 'once a borrower fell off the track, she found it very difficult to move back on'. Floods and other factors exposed this vulnerability in classic Grameen. On-time loan repayment declined sharply, and many members failed to attend meetings. Grameen II was designed to tackle this situation: its key weapon was to be the greater **flexibility** of its products.

MicroSave's Grameen II research

After two years of discussion and of intensive staff training, Grameen declared that in April 2002 'Grameen Bank II has emerged' and that by August of that year every of the 1,175 branches had adopted the new system.

MicroSave then asked Stuart Rutherford to look at Grameen II at village level. The research project 'Grameen II: A Grounded View' began in late 2002 and will run until the end of 2005. Three Grameen branches (in different settings and with a range of performance indicators) were chosen for a close-up view of how staff, members and the general public are reacting to the changes. The team cross-check their findings by discussing them with senior staff at Grameen's Dhaka HQ, comparing them to bank-wide statistics, and by visits to further branches. The first public report[2] was issued in early 2004. *MicroSave* thanks Grameen Bank for welcoming the research and for the close co-operation and help that it is providing.

Is Grameen II really being implemented?

Some observers were initially sceptical about Grameen II, even suspecting that the changes were designed to camouflage a continuing decline in performance. We began, then, by determining to what extent Grameen II had become a reality at field level.

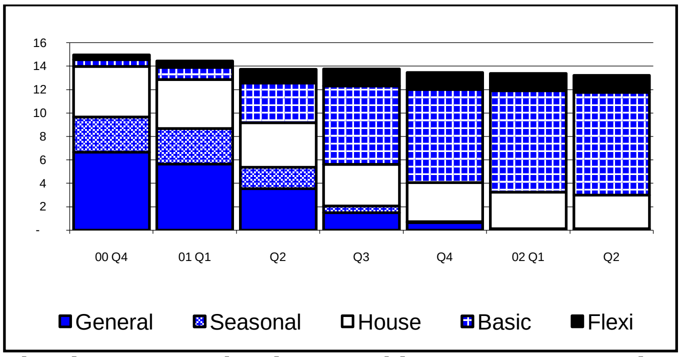
[1] Muhammad Yunus *Grameen Bank II: Designed to Open New Possibilities*, Grameen Bank, Dhaka, 2002

[2] Rutherford et al: *Grameen II At the end of 2003*, *MicroSave* 2004

Implementing the change-over

When Grameen II started, branch staff faced the huge task of converting old-style loans (other than housing loans) into the new '*basic loan*' format, and of converting loans in serious arrears into '*flexi loans*' – the new rescheduling system. The key period was from late 2000 to mid 2002. In sample branch T, a branch that had many 'classic' loans in arrears, the composition of the branch loan portfolio looked as follows for the quarters from Q4 2000 to Q2 2002:

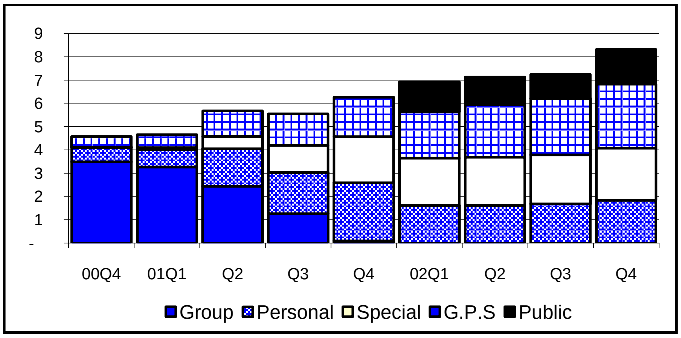
Branch T: loan portfolio 2000 Q4 to 2002 Q2 (million taka)



The classic *general* and *seasonal* loans were converted into Grameen II *basic* and *flexi* (rescheduled) loans by the close of 2001. This was typical of all branches. (Housing loans were unaffected).

A similar story holds for deposits. Here is branch T again, this time showing the composition of the deposit portfolio from Q4 2000 to Q4 2002:

Branch T: savings portfolio 2000 Q4 to 2002 Q4 (million taka)



The old members' *group* savings comprised the bulk of the portfolio under classic Grameen, but was quickly transferred to new-style open-access *personal* savings accounts, and the new (restricted withdrawal) *special* savings. *GPS* Pension Savings started in 2000 and non-member *public* deposits in 2002. The gross value of the savings portfolio in this branch almost doubled during this period. This was typical of branches countrywide, and of the bank overall, where total deposits grew from $146m in mid 2002 to $345m at end 2004.

Implementing the new rules

The Grameen II changes are many. It is no surprise that some of the new services have been taken up swiftly and completely, while others are moving more slowly or have barely begun. We note a few examples.

As we saw, staff quickly set up the new-style personal savings accounts. But it took time for their novel elements to get established: at first many staff ran the savings accounts as they had under 'classic' rules – as 'forced savings' requiring fixed equal weekly deposits into more or less illiquid balances. Gradually, however, members pressed to be allowed to withdraw at will (a key rule of Grameen II), and staff have conceded their right to do so. Members have also grown more used to varying their deposit values to suit their cash flows.

Accounts and balances in the **Grameen Pension Savings** have grown quickly, pushed by both supply- and demand-side factors. Grameen requires that anyone with a loan of 8,000 taka or more (about $130) must hold a GPS and pay in 50 taka a month. This guarantees a massive take up. But many members welcome the GPS as a better vehicle than loan repayments for their spare cash, so demand has in any case been high: many members hold more than one GPS, or hold high-value versions. The GPS has also attracted many people – not all of them poor – to seek membership in Grameen.

At the end of 2004, for the first time ever, total deposits in the bank exceeded loans outstanding.

Loans

Both staff and members like rising loan values. Under Grameen II, members may hold one 'basic loan' but if they qualify (through repayment, savings and attendance behaviour) and have a viable business, they may also take a '**business expansion**' or '**special production**' loan. These bigger loans have been growing in popularity, number and value, especially in 2004. For them, terms of other than one year are common, though for the ordinary modest-value basic loan the norm remains one year, as it had been under 'classic' rules (though many members now 'top up' after six months).

Grameen II's **variable repayment schedules**, which offer flexibility to make loans more useable, remain very rare. Most staff still do not like the idea, believing that repayment performance is associated with fixed regular equal weekly payments. They simply don't encourage use of the facility. This is perhaps the most important new rule that still remains little used as 2005 begins.

The aspect of Grameen II that worried many observers is the **loan rescheduling** (via 'flexi loans'). Has this multiplied out of hand, creating a loan portfolio as weak or weaker than after the 1998 floods? The answer is a clear 'no'. When Grameen II started, loans in arrears were converted to flexi status and are being either paid off or written off, a process nearly complete by the end of 2004, strengthening the portfolio.

But staff have been reluctant to convert troubled Grameen II loans to flexi status. They prefer to use the flexibility designed into Grameen II – such as variable loan terms, or the mid-term 'top-up', or withdrawals from savings – to help lift borrowers out of trouble. By and large they are succeeding.

Savings

Other Notes in this series will deal more fully with savings; loans; public deposits; membership and poverty outreach; performance and profitability; and competition and the 'financial landscape'.