MicroSave Briefing Notes on Grameen II # 2

Member Savings

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Grameen and 'Grameen II'

The first Note in this series, 'What is Grameen II?' introduces the Grameen Bank and the changes it has made recently, known as the 'Grameen Generalised System' or 'Grameen II'.

Some of the most important changes are in the bank's new approach to **savings deposits**. Under 'classic' Grameen – the products and rules in force up to 2002 – Grameen took mostly obligatory savings from its members and stored them in accounts for individual members and in joint-owned 'group' accounts. The bank also offered some basic current and savings accounts to the general public, though not in great volume. Under Grameen II, it has introduced greatly expanded deposit opportunities to both members and the general public. And so, by end of 2004 total deposits (from members and from the public) exceeded the value of loans outstanding for the first time in the bank's history. This completes the bank's transition from a 'microcredit' bank to a true intermediary. Details about the public deposits can be found in another Note in this series, while this one describes the new member savings[1].

The four Grameen II savings accounts for members

Under Grameen II, each member opens a ***personal savings account***, into which she[2] may pay whatever she likes, subject to a weekly minimum that depends on the value of her loans from the bank, and withdraw whatever she likes whenever she likes, for any purpose, subject to being up-to-date in her loan repayments. Deposits are made at the weekly 'centre' meeting, but withdrawals are made at branch offices (normally within a half-hour's rickshaw trip or so). When she takes a loan, 2.5% of its value is deposited to this account (but may be withdrawn). Deposits earn interest at 8.5% pa: a higher rate than passbook savings in commercial banks.

She also opens a ***special savings account***. This account also receives 2.5% of the value of loans issued, and until it is three years old it is illiquid. After three years withdrawals may be made, subject to a minimum balance of 2,000 taka (about $30). The account pays the same interest as the personal account.

A third savings instrument is available as an option, but becomes obligatory if the member holds a loan of 8,000 taka or more ($130). This is the new ***Grameen Pension Savings (GPS)***, a commitment-savings account based on the commercial banks' 'Deposit Pension Scheme', long popular among middle and wealthy classes in Bangladesh. A fixed sum per month, minimum 50 taka (less than $1) is deposited for a five or a ten year term, after which principal and interest – at a generous rate of 12% pa for the ten-year version (10% for five years) – are released, either as a lump sum or as monthly income.

Finally, borrowers of Grameen loans deposit into a ***credit-life insurance savings fund***. These savings are held in the member's name and the principal returned without interest when she leaves the bank. Meanwhile the interest is used to repay loans held by members at their death, so that heirs inherit the full value of any savings held but do not inherit the debt. In 2004, this scheme was extended to cover spouses living at home.

This Note focuses on the two main schemes, and tackles some questions that the researchers are often asked.

The personal savings account

The conversion from classic Grameen: When Grameen II started in 2002, branch staff transferred the old group funds and personal savings into 2.25 million new personal savings and the same number of special savings accounts. This huge task was carried out quickly and efficiently, as a chart in Note 1 shows. When we began our research in 2002, we found branch records and member passbooks in good order. There were very few complaints about how the conversion had been done.

The marketing of the account: An important aspect of the Grameen approach is that product rules are seen as a set of guidelines for branch staff rather than as a set of undertakings to clients. This allows staff to time the introduction of new products according to what they see as local conditions. But another outcome is that members may receive only a partial explanation of the product, and are dependent for their understanding of the rules on what staffs choose to tell them. Printed sets of product rules are not available for members[3]. This policy helped shape the roll-out of the scheme.

Withdrawal symptoms: At first, many staff feared open withdrawals: they sincerely believed that members would quickly drain their accounts, leaving them with no reserves to fall back on, and Grameen with no implicit cash collateral for the loans. Then during 2003 some

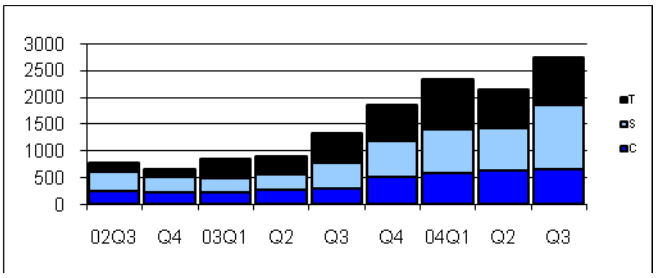
[1] Notes in this series are based on the research project 'Grameen II: A Grounded View' commissioned in 2002 by *MicroSave* from a team lead by Stuart Rutherford. As the title implies, the findings are based on close research in the field, using interviews with staff, clients and the public in the areas served by three sample branches, and a review of the accounts of those branches, and of data from the Grameen HQ. We are grateful to the bank for the support it is lending to the research team.

[2] Most, though not all, members are women

[3] Sometimes fieldworkers have no copy of their own: there may be one copy in a branch, used by the manager to train his staff).

managers began to allow withdrawals for 'approved' uses, such as health emergences and marriage ceremonies, while denying them for making loan repayment instalments. Finally in 2004 the product began to be administered as designed: HQ issued passbooks with the message that 'you may withdraw cash from your personal savings at any time' printed on every page. Staff learned that open withdrawal wasn't the disaster they had feared. Members, finding withdrawals easier, began to use their accounts for the (often short-term) storage of larger sums, in addition to their small regular weekly deposits. The chart shows the growing number of withdrawals in our sample branches (referred to as T, S and C) from Q3 2002 to Q3 2004.

3 sample branches: # of withdrawals each quarter



Balances: Average balances per member in personal savings accounts did not change much during this period: in two of our branches it grew but fell in the third, and ranged between 500 and 800 taka ($8-13). Membership grew rapidly, pushing down average balances as new accounts opened, so it is clear that members did not choose to exhaust their accounts as withdrawals became freely available.

Uses: Mrs NB, a member in sample branch S, is one of the Grameen clients whose financial behaviour we are tracking. In 2004 her personal savings account transactions amounted to $64 in 48 (mainly weekly) deposits and $60 in 5 withdrawals, leaving her with a year-end balance of just $9. She used the withdrawals for household consumption and health care, to lend to others, and to make repayment instalments to Grameen and other MFIs. The personal savings account, for her, is becoming a convenient current account. Large flows of cash in and out of such accounts, resulting in small balances, is both common and rational among the poor, whose small and fragile incomes require them to resort to saving and borrowing to finance even small items of expenditure such as a visit to the doctor or the purchase of a new sari. This useful service did not exist in Grameen before Grameen II: but is now one of the bank's most popular products.

The GPS

Savings as a growing financial asset: The GPS offers another entirely new, but quite different, form of saving service to Grameen members. It allows members to save up steadily over the long haul for large expenditures: marriage for daughters, careers for sons, and future business investments were the three uses most often quoted by our respondents. It features growing balances, and it already dominates the savings portfolios of our three sample branches, with shares of 35%, 38% and 43%, rising rapidly, and typically twice the share held by personal savings and by special savings.

Valued for its own sake? Do members open a GPS because they value it or only because Grameen insists on a GPS as a condition of loan taking? Our research shows that behaviour varies. Numbers reflect this. The weakest performer among our three sample branches, branch C, in a remote, poor and flood-prone area, has fewer GPS accounts per member (less than one account for each two members), a lower average GPS balance (at under $35), and fewer large-denomination GPSs. Members mention the GPS less often when asked about what they value in Grameen. Branch S, on the other hand, free of floods and an economic growth area, has 3 GPS accounts for every 5 members, and many high-value versions, pushing the average balance above $65. There, we find members who have joined Grameen expressly to access a GPS, members who hold several accounts, and members who try to avoid taking loans, arguing that a GPS is far better home for spare cash than using it to pay off short-term loans. The common response to the question 'what do you think of the GPS?' is 'Grameen should have done it years ago'.

Even where GPS is not yet so highly valued, there is no doubt about the trend: the virtues of the GPS are becoming more obvious to members and staff alike[4].

Difficulties: As other MFIs have found, combining a GPS product with loans that are also paid down in regular instalments can make it hard for members to meet both obligations regularly. GPS accounts in arrears began to grow in 2003, as members and staff prioritised loan obligations over those of the GPS. To deal with this, Grameen in 2004 distinguished the 50-taka a month GPS that is required for borrowers (now known as 'red GPS') from the voluntarily-held GPS. Account numbers have risen as many members have split one large value GPS into a 'red' and a voluntary account. This may be awkward administratively but it will make it easier to assess how members truly value the GPS.

As 2005 opens, we find that Grameen's savings portfolio has expanded enormously under Grameen II, from $146 million in mid 2002 to $344m at end 2004. Though deposits from the general public have grown faster, member savings nevertheless comprise $229m, or two-thirds of the end-2004 total. Poor people's need to save has finally been met by Grameen's new willingness to offer them suitable vehicles – one of the most important outcomes of Grameen II.

[4] And to non-members. The GPS is not offered to non-members, but the better-off actively seek ways to get access, since the GPS pays interest rates well above those paid for a similar product in the commercial banks. These rates may need to fall if Grameen becomes too liquid with GPS deposits, and diversified fund management may become a more urgent task for the bank.