GRAMEEN II: the first five years
2001-2005

A ‘grounded view’ of Grameen’s new initiative

Researched and written for ***MicroSave***

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Introduction

When *The Economist* published its survey of microfinance in November 2005, the cover photograph featured a woman in a sari anxiously grasping a passbook. The newspaper neglected to title the picture, but not surprisingly it shows a client of the world's best known microfinance pioneer, the Grameen Bank of Bangladesh. As the survey went on to say,

> Grameen Bank started in 1976 and soon became extraordinarily famous for offering "microcredit" to women in small groups

It still does, and in increasing numbers. But recent years have been dramatic ones for Grameen Bank, its thousands of employees and its millions of clients. After two decades of breathtaking expansion it ran into trouble in the late 1990s. Arrears on loan repayments began to grow, and more and more clients stopped attending the village-level weekly meetings where bank business is conducted. Then in 1998 Bangladesh suffered its worst floods in living memory, disrupting the bank's work in almost two thirds of the country and dealing its balance sheet another severe blow. At the same time, its public image began to look tarnished. Critics took it to task for what they saw as inadequate accounting practices, and challenged its claim to be profitable and sustainable. Internationally, Grameen fell out of fashion as industry observers, particularly in North America, shifted their attention to other forms of microfinance.

Throughout the crisis Grameen's management had been pilot-testing ways of dealing with the problems. A key moment came in early 2000, when the bank saw the need to consolidate its experiments and to empower them by expressing them as a single body of ideas. This became 'Grameen II', a title implying radical changes from earlier 'classic' Grameen. A year later there was enough substance to Grameen II to launch a bank-wide training programme for all 12,000 staff members. Between March 2001 and August 2002 the Grameen II 'methodology' replaced classic Grameen in all of the 1200 or so branches.

MicroSave, an industry body working to improve microfinance practice, was quick to see that such major changes in Grameen need to be properly understood, not least by the thousands of microfinance organisations in dozens of countries who have adopted, adapted or been influenced by Grameen's work. In 2002 ***MicroSave*** commissioned Stuart Rutherford to undertake a long-term field-based study of Grameen II. That study ended at the close of 2005 and what you are reading is its final Report.

Assisting Stuart Rutherford were senior researcher Dr Md Maniruzzaman, principal interviewer Mr S K Sinha, assistants to the principal interviewer Ms Shyra Akhter, Mrs Shamima Sultana and Mrs Rabeya Sultana (no relation), and rural assistants Ms Parul Akhtar, Mrs Purnima Barua, Ms Provati Akhter (no relation) Ms Jharna Rani Majumder, Mrs Nilufa Sultana (no relation) and Ms Shilpi Akhter (no relation). Ms Nazmun Nahar was employed as a translator. The Dhaka-based accountancy firm Acnabin and Co carried out the accounts research, overseen by partner Iftekhar Hossain and led by Md Mia. Dr David Hulme of Manchester University kindly consented to act as an adviser and made several field visits.

The report is arranged in three sections, whose contents are summed up in the 'Guide to this Report' which immediately follows the contents page.

The research that underlies this Report could not have been carried out without the encouragement and support of Grameen Bank, nor without the patience and good humour of its staff and clients. MicroSave, and Stuart Rutherford and his team, offer sincere thanks to all of them. Particular thanks are due to the founding managing director Mohammad Yunus, his deputy Dipal Chandra Barua, and the managers, staff and clients of the branches in our three intensive study areas.

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A Guide to the Report

The report has three sections, and appendices. This guide is designed to help you find what you need.

Section 1: Overview tells you what has happened to Grameen Bank since it launched its new initiative, 'Grameen II' soon after the turn of this century. It tells of the remarkable growth that the bank has enjoyed in the number of clients, in its savings and loan portfolios, and in its income and profitability. It reviews the basis on which its loan portfolio quality is now assessed (this was a contentious matter with some critics before Grameen II) and reports good news.

It then begins to look at the relationship between this quite remarkable turnaround and the launching of Grameen II. To make sense of this, the section briefly lays out the **main changes** made by Grameen II, which were in the field of product development. It offers an opinion, based on three years close research in the field as well as on evidence from Grameen's accounts, on how far Grameen II's changes have been fully implemented in the field, what their overall impact has been, and how significant they are in the bank's turnaround and are likely to be in the bank's future.

At any time you can turn to **Appendix I** which lays out the **Product Rules for Grameen II** in sufficient detail for practitioners and analysts to understand them.

Section 2: Close-ups is for those with a little more time on their hands. Sifting through an immense amount of detailed information taken from the villages over a period of three years, this section seeks to understand how Grameen II functions, by examining the behaviour, attitudes and preferences of the field-based staff of the bank and of its clients. It illustrated with summarised case studies.

It describes how Grameen II was rolled out in the field and notices that some parts were unveiled rapidly while others have still not made much of an impact. We try to explain that by describing what we learned from many close interviews with **field staff**.

The larger part of the section deals with the **clients** themselves, known in Grameen as 'members'. We show that Grameen does not work in a vacuum: its members have rich and complex financial portfolios besides their transactions with Grameen. We describe some of the many ways in which Grameen services mesh with other parts of its members' financial lives. Here are descriptions of the level of **indebtedness** of members, of **how they view Grameen's services**, and of how and why they **join and leave** Grameen and its competitors. It concludes that members find Grameen II products **more user-friendly** than under the previous 'classic' Grameen, and that the new products **address a wider range of financial needs**. Some members are beginning to use Grameen for almost all of their financial transactions.

A final part of this section looks at how well Grameen II is doing in terms of the bank's historic mission of working mainly with poor and very poor households. It notes that the bank is persevering with this mission despite some emerging difficulties. **Poor and very poor households are attracted to Grameen II** because of product improvements, but the same improvements are also bringing Grameen to the attention of more wealthy villagers.

Section 3: Perspectives, takes a step back and looks at some broader issues. Will Grameen be able to manage its **growing portfolio of much bigger microenterprise loans**, without adopting new loan appraisal techniques? How will Grameen maintain its **poverty focus**? Now that its deposits portfolio is much bigger and growing much faster than its loan portfolio, how will it manage **new challenges in fund management**? Grameen II changed only the bank's products, so is there a case for a much broader and deeper revolution in other aspects of its work, such as its famous '**centres'** (where members meet each week to transact with the bank), or its **information technology** tools? A final paragraph sums up Grameen Bank's current position in world microfinance: still a giant, still with some of the cheapest microloans in the world, still deeply committed to eradicating poverty, and still able to radically reform itself and achieve a new burst of growth. In some places its approach has fallen out of fashion, but it is still capable of bold new ventures, such as its 2006 partnership with Red Cross Red Crescent to bring Grameen style microfinance to every country in Africa.

Section 1: The Overview

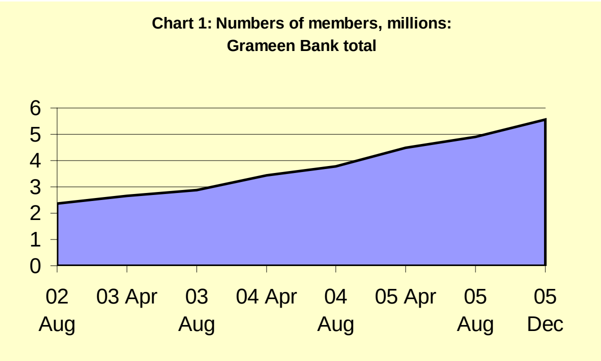
Grameen Bank under Grameen II, 2001-2005

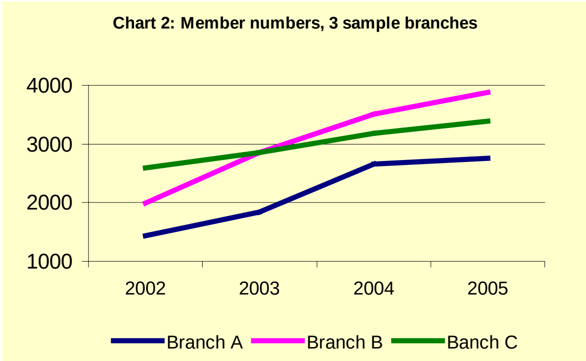
One word captures Grameen's performance since the introduction of Grameen II: growth.

Member numbers: doubled

The number of 'members' (Grameen clients from poor households eligible to borrow) has been growing at over 25% a year under Grameen II, accelerating in 2005: see chart 1. Grameen took 27 years to reach 2.5 million members – and then doubled that number in the three years following the full establishment of Grameen II.

This growth did not depend on creating new 'Grameen II branches', but is distributed across Grameen. We have been closely monitoring three branches, carefully selected to illustrate a range of conditions[1], and in each of them we find similarly high rates of membership growth. See chart 2.





In the latter part of 2005 about 180,000 new members were recruited each month, while account closures were running at about 40,000 monthly, giving an overall growth rate of approximately 140,000 per month for the bank as a whole. Grameen was opening new branches at a very rapid rate to accommodate this growth. By the end of 2005 there were more than 1700 branches, and Grameen had added almost 550 branches in three years.

Sources
This section draws on financial statements and other data published by Grameen Bank (see **www.grameen-info.org**), and on internal circulars that we have been privileged to see. It relies heavily on the analyses carried out for this research programme by Acnabin and Co, a Dhaka-based accountancy firm, whose staff made three consecutive annual visits (in late 2003, 2004 and 2005) to three carefully selected sample branches of Grameen Bank. It also depends on interviews by the research team with staff of Grameen Bank at all levels including the founding managing director Mohammad Yunus, the deputy managing director Dipal Chandra Barua, zonal managers, area managers, branch managers and centre managers (front-line bank workers), especially the branch managers and their teams at the three sample branches in Gazipur, Mirshorai and Sariatpur districts. The research team would like to reiterate its deep appreciation of the help given to us by Grameen staff.

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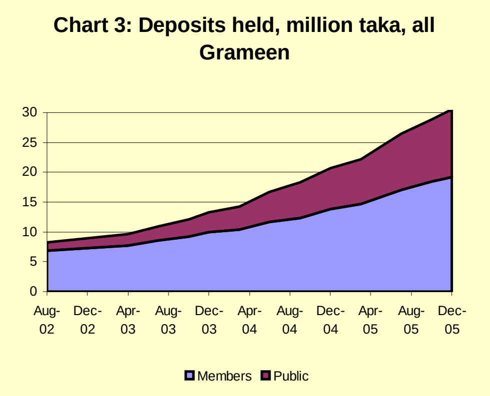
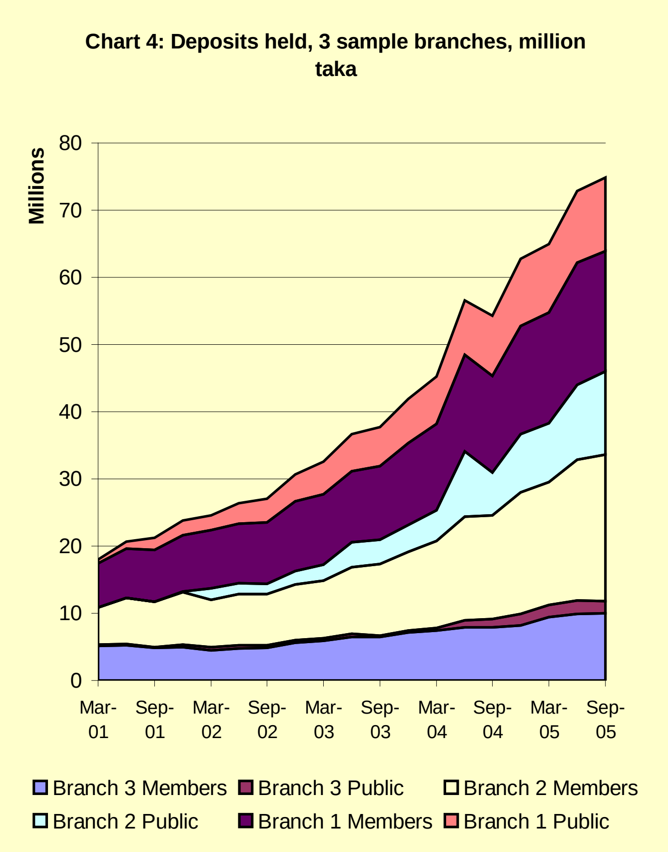
[1] These branches are regarded by Grameen headquarters as one good, one medium, and one very poor performer. The areas they cover include: an isolated area of deep poverty with very poor communications which was very badly affected in the 1998 flooding; an area within 90 minutes drive of Dhaka, with a high-growth economy including very large remittances from family members working abroad, but badly affected in the 1998 floods; and a deeply rural area that was unaffected by the 1998 floods, enjoys good agricultural production, has considerable remittance income, but few employment opportunities outside agriculture

Deposits: tripled in value

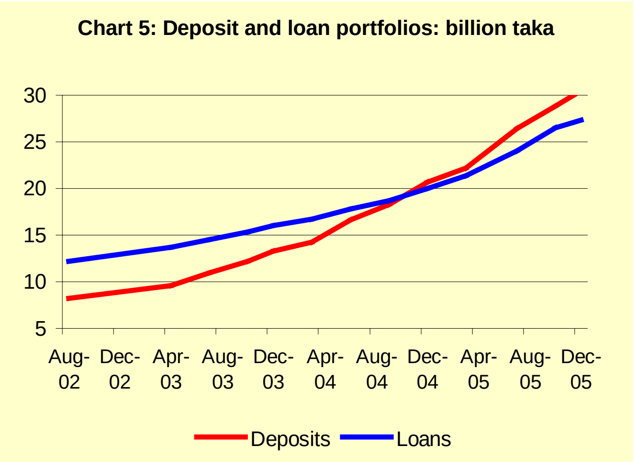
The rapid rise in the number of members was a major cause of the strong growth in deposits, mobilised both from the members themselves and from the ordinary public. Chart 3 shows quite clearly that while deposits from the public have steadily increased their share of total deposits held, deposits from Grameen's borrowing members have also been growing quickly and still account for two thirds of total deposits. In the three years since the full establishment of Grameen II, Grameen has tripled its deposit portfolio. The 31.6 billion taka now on deposit is worth US$478 million at the exchange rate prevailing at the end of 2005 ($1 = taka 66). The taka has continued to depreciate against the dollar, but inflation in Bangladesh has been rather mild this century, averaging around 4% per year (though rising suddenly in late 2005 to 7%), so savers have not experienced dramatic erosion of the value of their taka deposits.



In chart 4, which shows a slightly longer period, we see that this growth in savings was a feature of all three of our sample branches. Differences in performance between the branches are evident, but even the relatively poorly performing branch 3 doubled its total deposits during the course of Grameen II to date. This chart also indicates the dates on which different branches shifted from classic to Grameen II: branch 2 was about nine months later than the other two branches in getting public savings going, while branch 3 started early but had little success until early 2004.



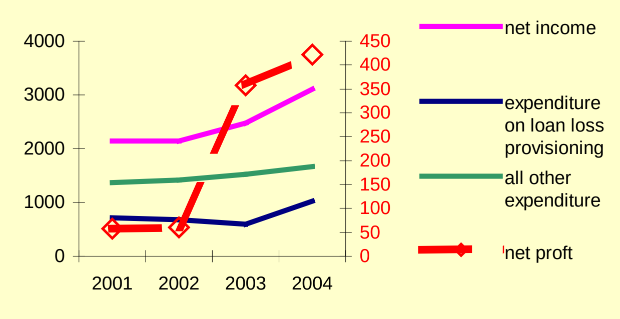
The loan portfolio: more than doubled since 2002



Grameen's loan portfolio has also seen dramatic growth under Grameen II, as rising member numbers have increased the demand for loans and rising deposits have supplied the funds to meet that demand. Chart 5 compares the deposit and loan portfolios. It shows the moment -- towards the end of 2004 -- when for the first time in its history Grameen’s deposit portfolio surpassed its loan portfolio in value. This event symbolises better than any other the bank's transition from a microcredit bank to a full financial intermediary, one of the most significant effects of the coming of Grameen II.

Expenditure under control, income growing, and profits soaring

Chart 6: Annual Iincome and expendture (left axis), profits (right axis) million taka

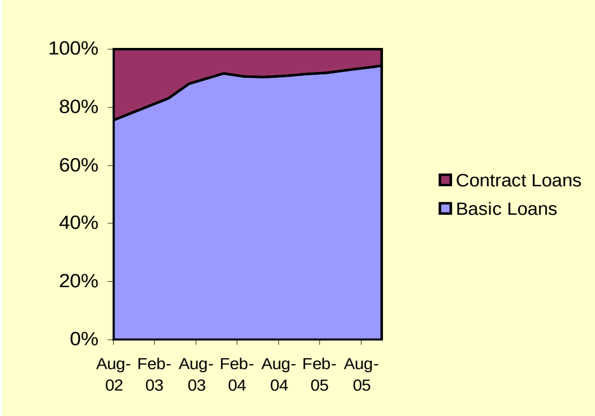


According to the bank's audited statements, non-financial expenditure grew from 1.36 billion taka in 2001 to 1.67 in 2004, in line with the general growth of business (see above). Loan loss provisioning was about 700 million taka in both 2001and 2002 as the bank strove to deal with likely losses in loan principal and interest on the many troubled loans inherited from classic Grameen. This kind of provisioning slowed in 2003, and in that year the bank made provision instead for likely losses on old housing loans (a small but troublesome part of the portfolio), provisioning a total of 596 million taka. In 2004 the bank continued to provision for housing loans and added a one-off general provision against all basic loans: thus in total the 2004 provision was the highest of the four years, at 1019 million taka. In the meantime, net interest income (interest received on loans less paid on deposits) grew from 2013 million taka in 2001 to 2563 in 2004, and other income grew to reach 550 million taka by 2004. As a result, despite much heavier loan loss provisioning, profits soared, from around 60 million taka in 2001 and 2002 to 422 million taka (about $7 m) in 2004. See chart 6.

Loan portfolio quality: better measured, and on the mend

Loan portfolio quality, and the way in which it was measured, were among the issues for which classic Grameen was most criticised[2]. The bank acknowledges that in the later years of classic Grameen its 'repayment rate' fell well below the 98% rate that had become an iconic and seemingly permanent feature of the bank's reported performance[3]. The calculation of this rate was based on an analysis which did not recognise loan balances as at risk until the loan had been in arrears for at least one year after the close of the loan term. Under Grameen II, by contrast, loans which are overdue six months into the term (or which miss ten consecutive weekly payments at any time) are recognised as at risk and 100% of their outstanding balances are provisioned, unless the repayment schedule is renegotiated and a new loan contract prepared, in which case 50% of the outstanding balance is provisioned (rising the following year if the new contract is in arrears, and so on). This produces two classes of loans: 'basic' loans (loans being repaid on schedule or loans less than six months old) and 'contract' loans (renegotiated loans recognised as at risk with at least 50% of the balance provisioned). Grameen has suggested[4] that comparing the number and value of 'basic' loans and 'contract' loans provides a quick overview of trends in portfolio quality. We have prepared chart 7 accordingly: it shows a sustained decline of the share in value of contract as opposed to basic loans through the Grameen II years. Similar patterns are to be found

Chart 7: shares (by value) of basic and contract loans, all Grameen



[2] The best-known document is an article by Daniel Pearl and Michael M. Phillips which appeared in *The Wall Street Journal* on November 27, 2001, headlined 'Grameen Bank, which Pioneered Loans for the Poor, has Hit a Repayment Snag'. Muhammad Yunus, on behalf of the bank, composed a response which appeared in the newspaper, in an edited form, on December 1, 2001, and was reprinted in full in a booklet published by the bank in October 2002, entitled 'Revisiting *The Wall Street Journal, The Financial Times*, and Grameen Bank'.

[3] Grameen's website had continued to claim a 'repayment rate' of 98% until 2001, a public relations error which the bank has acknowledged and apologised for.

[4] Grameen, October 2002, op cit, page 20.

in all three of our sample branches.

Because loan portfolio quality has been so contentious, we studied it with particular care in our three sample branches, taking the help of Acnabin & Co, one of Bangladesh's leading accountancy firms with much experience of microfinance[5], and we give it additional treatment here. Acnabin's general view is that loan portfolio quality has indeed improved considerably in all three sample branches. Moreover, they note that 'Grameen Bank has used increasing profits to make loan loss provisions that are higher than their declared policy' for example in the 2003 accounts by tightening provisioning for housing loans, many of which date from classic Grameen times, and in the 2004 accounts by making an additional provision of 1% of all basic loans, amounting to 171 million taka (about US$2.59 million).

A closer look at our three sample branches will better illustrate the reality of these numbers in the field. Table 1 shows income, provisioning, and profit figures for the three branches.

Table 1: Profits and provisioning at the three sample branches; taka

	2000	2001	2002	2003	2004
Branch 1					
Total income	2,022,127	2,442,047	2,484,759	2,897,355	3,971,666
Net profit before LLP	315,026	718,552	624,072	568,901	938,804
Provision for the period		46,362	(54,434)	(6,173)	(1,011)
Net profit after LLP		**672,190**	**678,506**	**575,074**	**939,815**
Required provision at y/e	***20,410***	66,772	12,338	6,165	5,154
Branch 2					
Total income	2,965,266	2,889,008	2,648,812	3,332,981	5,257,581
Net profit before LLP	460,556	753,569	681,186	936,076	2,040,986
Provision for the period		(667,228)	507,501	(1,708,003)	(19,247)
Net profit after LLP		**1,420,797**	**173,685**	**2,644,079**	**2,060,233**
Required provision at y/e	***2,918,757***	2,251,529	2,759,030	1,051,027	1,031,780
Branch 3					
Total income	2,191,819	2,365,544	2,086,882	2,138,861	2,414,535
Net profit/(loss) before LLP	(623,756)	(312,637)	(382,494)	(121,029)	86,992
Provision for the period		(1,852,659)	76,938	(1,855,299)	158,226
Net profit after LLP		**1 ,540,022**	**(459,432)**	**1,764,270**	**(71,234)**
Required provision at y/e	***4 ,507,215***	2,654,556	2,731,494	846,195	1,004,421

Branch 1, the well performing (but rather small) branch, inherited few troubled loans and soon got rid of them: provisioning has had little impact on its rising profits. Branches 2 and 3 began their Grameen II voyage in 2000 with heavy provisioning (italicised in the table), using the new rules to provision 100% of overdue loans. However, both branches quickly rescheduled most of these loans into 'contract' loans during 2001, reducing the provisioning requirement by half (and some loans were also repaid by adjusting them against savings held by borrowers). As a result, these branches enjoyed large provisioning write-backs, leading to handsome profits in 2001. We cannot accuse Grameen of an accounting sleight of hand here: industry best practice, as codified in the CGAP Handbook on External Audit of MFIs[6] recommends 100% provisioning for loans more than 180 days overdue (the 2000 position with many old classic Grameen loans in these two branches) but that rescheduled loans should start with a provision of 10% - well below the more prudent 50% that Grameen used. These branches again enjoyed provisioning write-backs and profits in 2003, this time largely because the staff were able to convert many rescheduled (contract) loans back to basic loans, following repayment success with a large part of their contract loan portfolio.

All this raises the question of the soundness of the field practices, as opposed to the accounting. We were well placed to examine the process of shifting loans between 'contract' and 'basic' status, and we also asked Acnabin to look in the accounts for tell-tale signs of bad practice, such as loan 'rollovers', where a borrower in trouble is given a fresh loan from which the value of the existing loan is deducted, with the effect of disguising the overdues at the cost of greater future risk. Acnabin found almost no cases of large loan disbursements made at the same time or following soon after lump-sum repayment of the previous loan, and our field researchers did not witness any such deals being made between staff and borrowers. We did pick up some cases of what seemed to us imprudent conversions of contract loans back to basic status: cases, for example, where almost all of a large new basic loan was absorbed in repaying the contract loan, with no obvious source for the ensuing heavy repayments, but we are inclined to believe that the incidence of such cases has only a marginal effect on portfolio quality statistics.

[5] Their final report is available from acnabin@bangla.net, attention Iftekhar, or can be downloaded in PDF format from the MicroSave website (microsave.net).

[6] Volume 2, page 26. CGAP is a club of microfinance donors housed at the World Bank. See www.cgap.org

With three years of accelerated growth in client numbers, savings, loan portfolio, income and profits, it is clear that Grameen has been enjoying new energy since it fully established Grameen II. But to what extent did the changes brought about by Grameen II lead directly to these achievements? To answer that question, we first need to be clear about exactly what Grameen II is, and what its impact has been in the field.

What is Grameen II?

Grameen II is essentially a set of **new or modified financial products**, along with new or modified criteria determining their availability to clients. Although Grameen introduced other important changes as part of the Grameen II package, including improvements to its provisioning policy, accelerated computerisation of its management information systems, and the way in which it recognises and rewards well-performing staff and clients, by far the most important changes are in the design of its products.

Grameen II is **not** a restructuring of the bank. Its ownership, legal identity and organisation are not affected by the changes. Most shares in the bank are still owned by its several million borrowing clients from poor households, referred to as 'members', with the remaining 6% owned by government. The bank continues to operate under a unique statute dating from 1983 setting it up as a specialist provider of credit to the rural poor. A head office in the capital, Dhaka, continues to supervise 'zonal' offices which in turn look after 'area' offices each of which oversees about 10 branches. Branch offices are organised as before: each is headed by a manager assisted by a second officer (effectively an accountant) and a number of fieldworkers known as 'centre managers'.

The arrangements through which these products are **delivered** also remain largely unchanged. As in classic Grameen, the bank serves two kinds of clients. The more important are the **members**, for only they are allowed to borrow from the bank. As before, their access to membership is governed by a means test designed to exclude all but poor households, and they must join a congregation of 40 or more similar members who meet each week at a 'centre' in their village where they make routine loan instalment and interest payments, and savings deposits, through their centre manager. Despite some changes in the advice given by head office as to how these weekly meetings should be run[7] the meetings are, in our observation, largely unchanged in character and atmosphere from the days of classic Grameen.

Non-members, rich or poor, comprise, as before, Grameen II's second type of client. They may not borrow but may open savings or transaction accounts, similar to those offered at commercial banks, at the Grameen branch. These clients are looked after much as they were under classic Grameen.

A centre meeting in progress, summer 2005. The centre manager (dark striped shirt) records transactions, watched by the members in the background, the branch manager on the extreme left, and members of the research team

[7] For example, head office now recommends that the 40 or so members should sit in a horseshoe pattern during the meeting, rather than in groups row-by-row, so that they can have face-to-face contact with each other

New and modified products

At the heart of Grameen II lie the new or modified products. Appendix I sets out product rules, in their 2006 version, in some detail. Here, we summarise under four main heads: public deposit services; member deposit services; member loan services; and other services and innovations. In each case, we explain the changes made since classic Grameen, and describe the extent to which the changes have been executed in the field. We also comment more broadly on the impact of these changes and their implications, and the debates which accompanied their introduction: in some cases we refer the reader to later sections where the issues are dealt with at greater length.

Public deposit services

The intended changes: Despite its sharp focus on lending to its 'members', classic Grameen offered some services to the general public. From 1985 on, it was possible for anyone to open a savings account or a current account, and to use it much as it would be used at a conventional bank. By 2000, the last year of classic Grameen, deposits from the public stood at 1.37 billion taka[8], about a quarter of what was on deposit from members. Take-up was never very large, partly because the bank did not go out of its way to advertise these services[9], and partly because, as our fieldwork shows, most of the more prosperous villagers, of the sort most likely to open such an account, regarded Grameen less as a proper bank and more as an NGO, and therefore less secure than a conventional bank.

Those attitudes began to shift when Grameen II was introduced. Under Grameen II:

- √ Any member of the general public may open a **current account**, a **demand deposit** (passbook) savings account, and/or a range of **term deposit** ('fixed deposit' or 'certificate of deposit') accounts. For details see appendix 1.
- √ **Interest rates** on public deposits have been set at attractive levels relative to similar instruments in conventional banks, currently ranging up to 10.4% but averaging around 9%APR
- √ The bank's **business practices** place much greater importance on attracting public deposits: it advertises them through public meetings and other means, and requires new branches to start lending to members only when they have attracted sufficient deposits from the general public.

The reality in the field: As we have already seen (chart 3 and 4, page 6) the figures show that this new emphasis on public deposits has been carried out vigorously at branch level, even at poorly performing branches in remote areas of deep poverty, such as our sample branch 3. Grameen reports that all new branches established since the beginning of 2004 have relied exclusively on local deposits to fund their lending to their members. In our three sample branch areas we have witnessed the holding of public meetings at which Grameen staff appeal to both the conscience and the self-interest of local elites to place their deposits in Grameen[10]. Our interviews show a high level of satisfaction with the deposit services, and a new realisation that Grameen represents an alternative to the commercial banks whose branches are found in every town and large market in Bangladesh.

Anowar, 60 years of age, wealthy from running a successful electrical store, educated with a high school pass, and a former local councillor, knew little about Grameen when we first started interviewing him in December 2002. In November 2005 he was enthusiastically telling us "People are now beginning to consider Grameen as a regular bank, and they like it, because the interest rate is good and customer service is excellent compared to the commercial banks. For example, recently when I paid a 25,000 taka cheque into an account at an ordinary bank and wanted to withdraw the cash, I had to write an application letter. This is not the case at Grameen and that is why many people are transferring their accounts there." [Branch 2 area, respondent 22[11]].

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[8] Figures for the total transactions, which would give a better indication of the intensity of use of the services, are not available.

[9] The bank still does not place emphasis, in its publications, on its public deposits services. In the April 2005 edition of the booklet that acts as a general introduction to Grameen, *Grameen Bank at a Glance*, they are not mentioned by name at all, and the reader must infer their existence from the sentence 'Member deposit constituted 66% of the total deposits' (page 13).

[10] Naturally many of the deposits are simply transfers from existing accounts in other banks - no great sacrifice when Grameen's interest rates are the best in town.

[11] In all cases names are disguised. Questions about the raw data on which this and other quotations are based can addressed to me at stuart@safesave.org

The public transacts with Grameen at the branch office. The additional workload that this imposes has been absorbed by the current staff, and as such is one of the elements that contributes to the long working hours put in by most Grameen workers. Some branches have been fitted with fresh furniture and new layouts to deal with these public clients, though this is not the case in the vast majority of branches including our three sample ones.

Commentary: The new emphasis on public deposits is of huge symbolic and practical importance. It marks the emergence of Grameen as a true financial intermediary rather than simply a microcredit bank for the poor. It redefines its relationship with the rural population as a whole, raising it to the status of a 'normal' bank. It also helps to redefine its relationship with donors, whose funds it no longer needs. Combined with increased member deposits, it drives Grameen's recovery by providing it with a secure and growing source of funds. It further distinguishes the Grameen 'brand' from other microfinance organisations[12] who do not have formal licences to mobilise deposits. In later sections we discuss some of the wider implications of this new orientation of the bank, including some possible impacts on the bank's focus on the very poor.

Member deposit services

The intended changes: Grameen started with small compulsory weekly savings that each member deposited along with his or her weekly loan repayment instalment. Many members barely distinguished between the three elements that made up what many of them called their weekly 'bill' **-** repayments of loan principal, payments of loan interest, and savings deposits. Some members paid scarce attention to their savings, regarding them as part of the price of the loan. These savings could not be withdrawn until membership was cancelled. In addition to this, Grameen deducted 5% of each loan at disbursement and placed it in a 'group fund'. In principle this fund was owned jointly by the members of the centre, who decided on its uses, one of which was to make advances to members who fell into difficulty with their Grameen loans. In practice, because the fund was held by the bank, and because of the strength of the Grameen staffs' voice compared to that of the members, the deployment of the fund was often decided as much or more by staff as by members. In the mid 1990s, by which time member deposits had become very large (4.047 billion taka in 1995), members began to agitate for more control, and often for personal control, over this fund, and in due course Grameen reacted by agreeing that members who had been saving for 10 years could take ownership of, and withdraw part of, their share of the accumulated fund. A trend away from common towards individual ownership of savings deposits was therefore already in place under classic Grameen. Grameen II completed this process.

Member savings under Grameen II look like this: (details in appendix 1)

- √ The group fund was dissolved and placed in individual savings accounts known as '**personal savings'**. These personal savings accounts are interest-earning demand deposit instruments, and any member in good stead with her loan may at any time pay into this account in any sum she pleases, and withdraw in any sum for any reason. The obligation to save a certain minimum each week is retained. The principle of savings deduction from loan disbursements is also retained: 2.5% of the value of each loan is placed into this account (although of course it may be immediately withdrawn if the member so wishes).
- √ Each member is also required to hold a second mandatory interest-earning savings account, known as '**special savings'**. This account is built mainly from deductions of another 2.5% of the value of each loan. The account may be partially withdrawn after an initial illiquid period of three years.
- √ An entirely new product was also established. This is a commitment savings plan[13] known as **Grameen pension savings** (GPS). Under this plan, fixed monthly deposits (minimum 50 taka, or less than $1) are made, with a choice of term of 5 or 10 years. Deposits earn interest at a generous rate

[12] At the time of writing in early 2006 there are three microfinance market leaders in Bangladesh: Grameen, BRAC, and ASA, of which only Grameen has a licence to mobilise deposits, the other two being NGOs. A fourth microfinance giant, the NGO Proshika, is currently in decline. Some way behind come a bunch of energetic midsize NGO-MFIs. Some, such as BURO, SSS and TMSS, are growing aggressively and moving from being regional to national players.

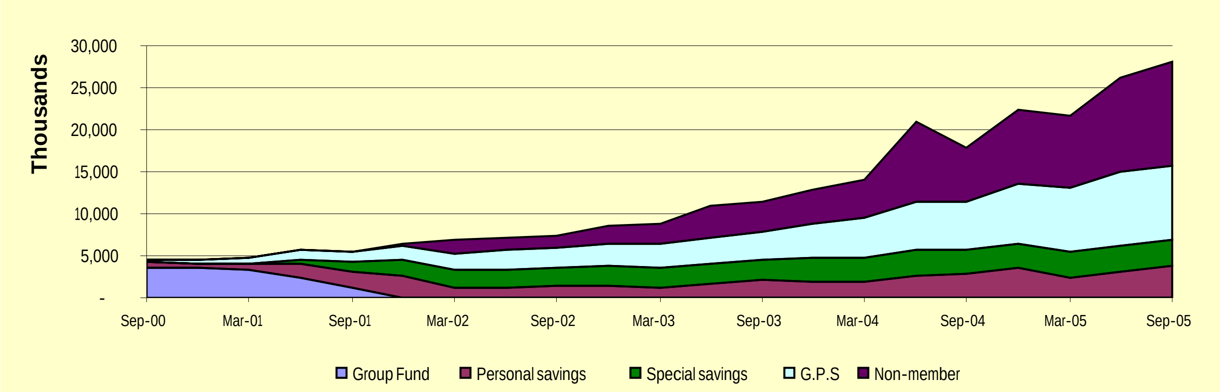
[13] Known in some countries as 'contractual' and in others as 'recurrent' or 'accumulating' savings plans.

(12% per year for the 10-year term). On maturity the deposited sum along with interest earned can be withdrawn in cash, transferred to other savings instruments, or kept in the bank to produce monthly income payments generated by the interest. Members who hold loans with disbursed values of 8000 taka (about $120) or more are obligated to hold a GPS of at least 50 taka per month.

√ Members may also hold the same range of **fixed deposit** instruments that are available to the general public (see above).

The reality in the field: The substance of these changes was rapidly put into effect by branch staff, who assiduously carried out the huge task of converting group funds into individual accounts and issuing new passbooks. Some GPS accounts were opened as early as mid 2000, so that there were some maturities of five-year term GPSs in mid-2005. Chart 8 shows the composition of deposits held by our sample branch 2 (the medium performer). It shows quite clearly that the group fund disappeared in the last quarter of 2001 having been replaced by personal savings (starting at the end of 2000) and special savings (starting at the beginning of 2001). There were already some GPS accounts by the end of 2000 and they then became the fastest growing of all types of member saving. Notice that the branch accounts did not begin to distinguish member from non-member deposits until the final quarter of 2001.

Chart 8: Composition of Deposit Portfolio, Branch 2, taka x 1,000



Note: for simplicity some low-value account categories have been omitted

Our close-up examination of how these savings accounts were presented to members shows that many field staff were at first reluctant to allow members to withdraw freely from personal savings, but this behaviour was gone by 2005 when it became clear to staff that open access would not result in the emptying of the accounts, and that it was better to view personal savings as a source for repaying loans than as collateral against loans. Grameen II does recognise some savings as loan collateral, for example in 'bridge loans' (see appendix 1), loans specifically backed by savings. But staff in some branches have been reluctant to allow members to withdraw from special savings: the idea that all savings are *de facto* collateral for loans is strong in the minds of many staff and members, as can also be seen in the pressure that staff have put on members to open GPS accounts even if they hold loans of less than the stipulated value of 8000 taka.

But despite some ambiguous presentation of these products by staff, our research shows that they have been overwhelmingly welcomed by members. For many, this is the first time in their life that they have had access to a safe demand deposit facility, and they have been discovering that using it makes day-to-day money management much simpler. Again, for nearly all members this is the first time that they have been able to buy a commitment savings product, as hostility to low income groups has always made commercial banks reluctant to offer these products to them. The discovery that cash that can be spared from the weekly household cash flow can be used not only to pay down debt but can also be used to build deposits has enthused many members. Although the obligation on high-value borrowers to open a GPS makes it difficult to determine how popular the GPS is for its own sake, the large number of members who hold an additional account, or hold a GPS with a monthly deposits value of more than 50 taka, indicates the value of the GPS to many savers.

Rahima likes her GPS

Extract from our research diary, May 2003, in the sample branch 1 area: We use a rickshaw to reach the centre. The driver (Sudhir Chandra Deb Nath) tells us that his wife (Shikha Rani Nath) has been in Grameen for many years and they took several loans. Now they have only a GPS and are resisting pressure from the centre manager to take a loan. Why so? He says 'because I'm now 41, have children in school, and need to arrange things for the future'. We ask him if he realised the importance of his GPS when first required to take it 3 years ago and he says 'no: only later did I appreciate it'.

There have been some practical problems. The snag with obliging borrowers to hold a commitment savings account alongside their loan is that some users will find it hard to service both the GPS and the loan at the same time[14]. Grameen has dealt with this problem in a series of accommodating steps. First, the bank made it possible (and in some branches obligatory) to pay the monthly deposit in weekly instalments. Then, for borrowers, it separated out the obligatory 50 taka per month GPS element into a separate account and called it a 'red GPS'. Later still, in 2005, it decided to collect the red GPS deposits by deducting 300 taka from personal savings accounts at six monthly intervals.

Commentary: The new arrangements for member savings are arguably the most important and far-reaching of all the Grameen II innovations, and the ones most likely to transform microfinance in Bangladesh in the future. They affect each and every member, whose money management choices have been vastly multiplied since the days of classic Grameen when a single financial product – the annual loan – had to be manipulated to achieve whatever financial goal was sought by the member. Day-to-day cash management is made easier through the passbook savings, and the GPS offers the most direct, secure and user-friendly way of building financial assets for future use. There is evidence from our detailed fieldwork that some villagers are reducing their use informal financial devices because they find that Grameen offers them a comprehensive service that meets most of their financial needs. At the same time, these products are having profound effects on the way Grameen does business, not only because they vastly increase the bank's liabilities, and thus its capacity to lend, but because they force the bank to rethink how it should best address consumer demand. The new products are highly attractive not only to Grameen's target clientele, poor households, but also to many wealthier people, and because the GPS is offered only to members[15] demand for membership by non-poor households is rising sharply, raising questions about Grameen's targeting policies. Grameen II savings are set to redefine microfinance in Bangladesh as millions of villagers come to know that a financial partner can offer more than just loans.

Member loan services

The intended changes: Grameen II came about largely as a response to problems in the bank's lending business, which had failed to keep up with evolving client demand. Under classic Grameen only one loan pattern was offered: a one-year term with equal and invariable weekly repayments that could not be prepaid. In the early days the novelty and reliability of such a service satisfied its users, who had never before encountered such a dependable lender. When external factors such as floods and droughts put borrowers in trouble, and as increasing competition gave borrowers the choice of other financial partners, Grameen's response, which consisted mainly of additional and bigger loans in the same pattern, was not, until the development of Grameen II, sufficiently flexible. Grameen's founder Muhammad Yunus recognised this when he wrote, in the essay that introduced Grameen II, that

> "… external factors reinforced the internal weaknesses in the system. The system consisted of a set of well-defined standardised rules. No departure from these rules was allowed. Once a borrower fell off the track, she found it very difficult to move back on, since the rules which allowed her to return, were not easy for her to fulfil. More and more borrowers fell off the

[14] Some in the bank, including managing director Muhammad Yunus, had argued that the GPS should not be made mandatory for borrowers, or that the loan size that triggered the obligation should be higher than 8,000. When it was first discussed, the proposal was to make a GPS mandatory for any size of loan, so the more liberal-minded made some progress, at least. Interview with Muhammad Yunus, December 15, 2002, Grameen HQ Dhaka.

[15] The bank does not have finance ministry permission to offer the GPS to the general public, nor is it seeking it at present for fear of attracting too many deposits. Interview with deputy managing director Dipal Chandra Barua, December 21, 2004, Grameen HQ Dhaka. Grameen did seek and win permission from the ministry to offer the GPS to its own staff, who had - like most salaried workers in Bangladesh - been clamouring for access to this kind of product.

track. Then there was the multiplier effect. If one borrower stopped payments, it encouraged others to follow."[16]

The changes that Grameen II brought in were a mix of simplification (reducing the loan products down to one basic one) and elaboration (opening up the range of terms and repayment schedules on offer). Importantly, they also offered a standardised system for rescheduling loans in trouble – perhaps the most controversial and most noticed aspect of Grameen II. As we have seen in an earlier paragraph, these changes to products were accompanied by improvements in accounting practices, especially in the matter of provisioning for loans at risk. As our discussion will show, changes to the savings products have also been of great help in improving the quality of the lending.

The main changes are (more details can be found in appendix 1):

√ Except for housing loans (which remain as a category) the loan types found in classic Grameen (some just different ways of naming similar one-year term loans) are replaced by the '**basic'** or 'easy' loan, with the intention that each borrower should at any one time maintain one basic loan.

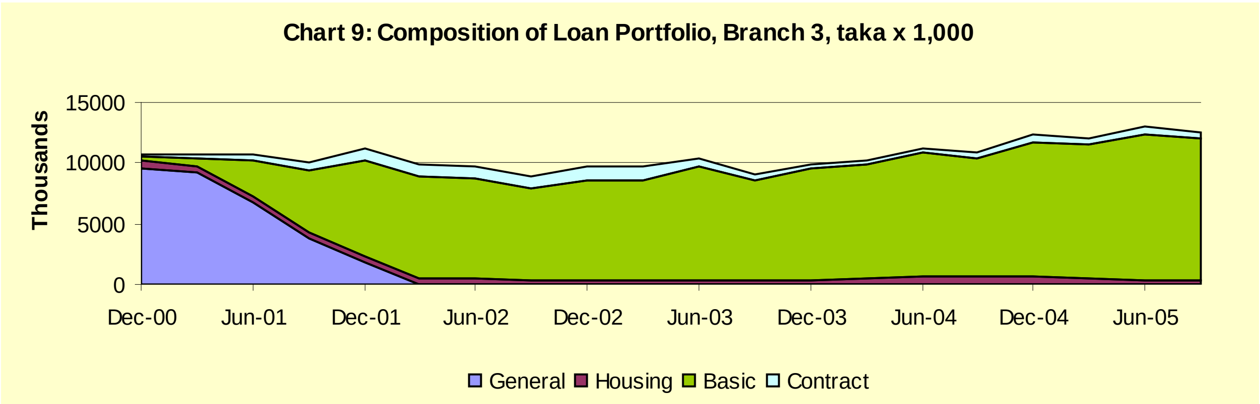
√ The basic loan can have a **term** ranging from three months to three years or more; the principle of weekly repayments is retained but repayment **schedules** can be negotiated so instalments may vary in value; the loan can be 'topped up' to its original value after 26 weeks or more.

√ Loan schedules are **renegotiated** in cases where repayments are seriously overdue (where the loan is in arrears after 26 weeks, or at any time if 10 successive weekly repayments are not made) by converting the loan to a '**contract'** or 'flexible' loan: the revised term and repayment schedule is individually negotiated, and the bank immediately provisions 50% of the outstanding value. Borrowers may return from contract to basic status after a period of successful payment of the newly initiated schedule: conversely borrowers who continue in arrears may again renegotiate terms for a new contract loan.

√ The calculations for determining the **credit limit** of each member are revised, and take into account the transaction record of the borrower, and/or her savings balance. The attendance record of the borrower and her group at the weekly centre meeting, and the transaction record of her group, may also be taken into account, as is the opinion of the centre chief and other members, but the effect of the new rules is to make the determination of loan values more an individual than a collective matter.

√ **Joint liability** (collective responsibility for loan repayment) is formally abandoned.

The reality in the field: These changes were quickly put into effect. Chart 9 traces the changing composition of the loan portfolio at our third sample branch (the relatively poorly performing one). Branch staff had started turning classic Grameen loans into basic and contract loans in 2000 and completed the task early in 2002.



Note: 'general' (the main loan under classic Grameen) includes sanitary, seasonal, and other minor loan types: 'basic' includes cattle loans, business expansion loans, and special project loans

[16] *Grameen Bank II: Designed to Open New Possibilities*, Dhaka, Grameen bank, October 2002, page 2

After some initial hesitation, members have accommodated themselves to these changes and they are generally well liked. The option to ‘top up’ after 26 weeks has been especially popular, since it provides additional capital for households in an economy which is chronically capital constrained.

However, things didn't always work out quite as simply as our checklist of intended changes might suggest. The idea of one basic loan per borrower, which seemed so attractive when staff were still dealing with the plethora of loan types under classic Grameen, soon fell by the wayside. First, borrowers continued to ask for their favourite old loan types, especially the ‘livestock loan’, a loan with a six-month term and a balloon repayment that had been introduced to help households who wanted to fatten a cow ahead of the Eid festival. So Grameen II, too, has issued livestock loans, allowing members to hold them in parallel with their basic loan. More significantly, by 2002 in some branches, a little later in others, borrowers wanted, and Grameen was minded to give, bigger loans for those who could show that they had a substantial business that could absorb it. These loans, known variously as ‘**micro-enterprise loans’**, ‘business expansion loans’, or ‘special investment loans’ are worth at least 10,000 taka, usually more, and the biggest value issued so far is of several hundred thousand, and growing. Clients may hold these loans in addition to a basic loan, and with overlapping terms, and they are thought of as an extension of a good borrower’s basic loan entitlement. Even in a poorly performing branch like branch 3, these bigger loans made up a quarter of the basic loan total shown in chart 9 for September 2005.

Two of these changes raised more eyebrows than any other innovations in Grameen II: the end of joint liability, and the introduction of rapid rescheduling of loans.

In the context of group-based microcredit **joint liability** generally refers to an undertaking and a sanction. The undertaking is that if one borrower is unable for any reason to repay a loan (and the interest due on it) the remaining members, as individuals or as a group, will make up the shortfall. The sanction is that individual members of the joint liability group are denied new credit if the loan of any other member is overdue. Grameen's HQ maintains that the bank never imposed this ‘hard’ version of joint liability, but simply required members to promise to help each other should any of them get into difficulties. Be that as it may (and it is possible to find versions of Grameen bank lending procedures[17] that suggest that the bank did at some stages recommend a ‘harder’ version) it is certainly true that as early as the 1990s onwards hard forms of joint liability were less and less in use in Bangladesh microfinance. There are many good reasons for this, not least that it makes little sense to deny a loan to a good client just because another client is overdue on her loan. Thus, during the later years of classic Grameen the version of joint liability that could be observed week by week in almost every centre meeting was an attempt by the centre manager to persuade the members to pay all of *that week’s* loan instalments. He would do this by exerting moral pressure (reminding them of their promises to pay regularly, or appealing to their good nature by telling them that if they didn't pay he might have to pay out of his own pocket), by delaying the processing of requests for new loans, by hinting that he would reduce loan values, or simply by using his authority to keep the members sitting there for hours on end until full repayment collection had been made. Under Grameen II, our observation is that the situation is little changed, except that the new energy that Grameen II has brought means that centre managers probably strive even harder than before to get every repayment made on time. Other forms of joint liability are now rare: although during our three years of research we did come across examples of staff making up losses on unpaid loans by unofficially ‘taxing’ disbursements of new loans, or by obliging each member to contribute five taka a week, they were exceptional. Now, if a loan goes bad the centre manager has the choice of dealing with it formally by negotiating a ‘contract’ loan or informally by arranging the member’s removal from the centre: he is unlikely to try to recover the arrears from other members.

“BRAC, ASA, Grameen – they’re all the same. You just have to pay. They *make* you pay. Sometimes they keep us sitting there all day. It makes my husband furious. That's why he's told me to leave. Everybody knows. Even if you have a dead body in the house that week you still have to pay.” *Sakhina, in northern Bangladesh, telling us why she is leaving her microcredit NGO, May 2004.*

Rapid **loan rescheduling**, using the ‘contract’ loan system, needs to be understood in its two phases. When Grameen shifted from classic to Grameen II , the large number of overdue loans dating from the crisis period of the late 1990s had to be redesignated under the new Grameen II rules. This gave centre

[17] For example, the version of the rules as given in *The Grameen Reader*, 2nd edition, ed David Gibbons, Grameen Bank Dhaka 1994; annexure 1

managers only two choices: persuade the borrower to make up the arrears and show it in the books as a basic loan, or negotiate a contract loan[18]. The instincts of the centre managers were strongly against loan rescheduling, fearing what Yunus himself had called 'the multiplier effect' – that other borrowers would see it as an attractive option. So it took a good deal of persuasion from the headquarters to get them to see that rescheduling was a sensible and viable course in the circumstances. That was accepted, but once the first phase of rescheduling was done, many staff went back to being guided by their instincts. In the current phase of the history of the contract loan, issuing them is seen as somewhat shameful: one branch manager told me that he 'would do anything rather than give a contract loan', an attitude perhaps reinforced by the fact that branches need to eliminate them to gain recognition as a 'star' rated branch. Now, in 2006, it is clear that the picture of contract loans as painted in the 2002 booklet[19] has not materialised. There, they are described as a commonplace, everyday method of dealing with the repayment difficulties that are inevitable for poor people:

> "… life does not proceed smoothly for any human being, let alone the poor women. It is likely that some borrowers will run into serious problems, and face difficulties, somewhere along the cycles of loans, in repaying the basic loan according to its repayment schedule. For them [Grameen II] has a very convenient arrangement. [The]… basic loan comes with an exit option. It offers an alternative route to any borrower who needs it, without making her feel guilty…"
> *Grameen Bank II: Designed to Open New Possibilities, 2002* page 6

The existence of the contract loan, it was hoped, would lead to 'tension free microcredit': no borrower, and no worker, need any longer feel oppressed by the repayment schedule, since at any time the contract loan's 'alternative route' is available. This has not happened. There is continuing, if reduced, tension at the weekly meeting of centres where there are repayment problems. Workers do not use the contract loan as an easy option when facing repayment difficulties: less than 6% of Grameen's portfolio was held in rescheduled 'contract' loans at end 2005, a share that has been falling steadily (chart 7, page 7). Contract loans are not being issued wholesale, and they are *not* undermining the repayment discipline of the bank.

A centre manager's life is not without tension. *From our 'centre observation' diary, for November 2004, sample branch 2 area*: The meeting began an hour late at 9 a.m. Out of 50 registered members 23 were present. The meeting was not at all disciplined and the centre manager (CM) quickly became irritated, telling the members that theirs was the worst centre in the branch. The members repeatedly asked him to accept their loan repayments but because of the poor attendance he refused. Then some members made GPS deposits, after which the CM began to take loan repayments. But some of the absent members had not sent their money so again the CM stopped taking repayments. During the pause, member Salma asked to withdraw 500 from her personal savings balance but the CM, irritated, told her that he would not allow more than 200: Salma said that in that case there was no point in making the withdrawal, to which the CM made no reply. Salma abruptly left the meeting. Quarrelling then broke out between the members and between the members and the CM, and the meeting broke up in disarray at about 10:20 a.m. The CM managed the rest of the loan instalments by going house to house.

Note that this quotation from our centre observation diary has been selected to illustrate the ongoing tension that remains in centres[20]. It does not pretend to represent a 'typical' Grameen centre. There are of course many well-performing centres with few if any repayment problems. For example, in our overview of our observations of a centre under sample branch 1, we noted that:

'… generally the meetings were held on time and members respected the attendance and repayment rules. The atmosphere at almost all of the weekly meetings was calm and well-tempered, and repayment problems were rare. Part of the way through the three years of our observation the centre manager was changed, and we were impressed by the way that both of these young men ran the centre'

[18] Some borrowers, of course, couldn't be traced, or refused to co-operate. Their loans were designated as 'bad debts' and the outstanding amounts provisioned in progressively greater amounts and written off after a maximum of four years, a process now complete. Nevertheless, Grameen staff are still obliged to seek out these borrowers, collect the outstanding amounts, and try to bring them back into active membership. In the second half of 2005, for example, the bank organised a special campaign to do this, involving teams of workers from various branches working together in selected areas.

[19] op cit: *Grameen Bank II: Designed to Open New Possibilities*

[20] 'Ongoing', because it was recognised as common under classic Grameen: Dr Yunus wrote of Grameen II '…gone is the high-level tension among the staff and the borrowers trying to steer away from the dreadful event of a borrower turning into a 'defaulter' op cit: *Grameen Bank II: Designed to Open New Possibilities* pages 4-5

But this centre had also been running well under classic Grameen: the point being made here is simply that Grameen II has not eliminated tension in centres where members have repayment problems.

Variable terms and **variable repayment** schedules have not been much used. Many, probably most, of the bigger microenterprise loans are given on two or three year terms, but the vast majority of smaller basic loans continue the classic Grameen practice and have a term of one year. Variable repayment instalments remain very rare – there are none in our three sample branches and although we have been told that they are found elsewhere, we have not come across them in our many crosschecking visits to other branches. A discussion of the reasons for this is found in section 2 of this Report. We noted that some staff occasionally combine the facility to 'top up' loans after 26 weeks with an extra-long term extension, to produce a reduction in the weekly instalment amount which is helpful to some borrowers who fall into trouble. The habit is not widespread.

Commentary: The new loan arrangements are significant, but perhaps not exactly in the way that was envisaged in the early days of Grameen II. Many critics were disturbed by the idea of easily rescheduled loans, and surprised by the ending of joint liability but, as we have just seen, neither of these changes has much affected the day-to-day running of the centres. Borrowers certainly do find the new range of loans generally easier to manage than under classic Grameen, but not, as yet, because they can vary their repayment schedules, nor choose from a range of loan terms. Loans are easier to repay partly because of the 26 week 'top-up' option, which provides fresh capital halfway through the loan term that can be invested or simply used to help repay the loan, and partly because full individual ownership of savings and open access to them makes day-to-day money management – including dealing with the weekly loan repayment – much easier.

Not fully advertised when Grameen II was first introduced to the public, and not much in the minds of staff when we first started interviewing them in 2002, is something that is likely to prove extremely significant – the shift to members holding multiple loans, among them the much larger '**microenterprise loans**'. These are examined in a little more detail in later sections, but we can note here that they are likely to have a number of effects on both members and their bank. Access to these larger loans will help not only those members who are genuine microentrepreneurs, but also those who need cash for large-scale household projects such as sending somebody abroad to work, or financing a marriage contract. They will make membership of the bank much more attractive to upper poor and non-poor households than it was before, and they will result in bigger differentials in the credit limits of members in the same centre: both of these may strain the bank's membership targeting systems and its delivery environment. They will of course contribute strongly to the accelerating growth in the bank's loan portfolio, but at the same time they will bring increased risk. The bank is taking the gamble of shifting to much bigger loan values without much change to its loan appraisal practices (there are few new procedures for the risk assessment of most of these loans[21], and staff are not receiving special training) and without changing its basic repayment schedule (continuous weekly payments starting immediately after the loan is disbursed). The last time that the bank's portfolio grew this rapidly, in the mid-1990s, it preceded a sharp downturn when borrowers fell into difficulties with the increased weekly repayment instalments, and the bank's systems proved inadequate to deal with the problem.

Other innovations

In the final part of this section we briefly describe the loan insurance facilities, the special arrangements for destitute or struggling members, education scholarships and loans, increased productivity (including increased computerisation and higher ratios of members to staff). Other measures that round off Grameen II are mentioned for completeness, though not described.

Loan-life insurance could have been treated along with member deposit services as it more closely resembles a savings than a true insurance device because the degree of 'pooling' of resources is limited. Indeed, it is formally named 'loan insurance savings'. However, in our observation, staff and members see it as a separate matter not directly connected with the other deposit services. From the beginning of

[21] For loans over 1 lakh taka ($1,500) 'business related information' must be documented with the loan application, and loans are granted against two guarantors and a mortgage contract based on a title deed

Grameen II, each borrower has been obliged to make a small savings deposit related to the size of her loan (see appendix 1 for details). The saving is returned to the member when the account is closed, but without interest. The interest on these accounts is pooled to form an insurance fund, so that should the member die while she is still holding a loan, she gets the savings back and her outstanding debt is waived. In introducing this scheme, Grameen came into line with other major microcredit providers, most of whom provide debt relief on death insurance on loans, though not in the same way that Grameen does. Our interviews show that the scheme is generally welcomed by members.

In 2002 and 2003 a number of our interviewees had mentioned to us that since in many cases it is their **husbands** who invest the loans, it would be of even greater benefit if their lives could be covered. When we reported this to the bank we found that they were already designing a system, and in 2004 it came into operation in all branches. It is still dealing with its teething troubles. At first, it looked as if the main difficulties would relate to the circumstances under which this cover could be purchased: for example, the bank early realised that non-resident husbands would be too great a risk. Polygamous households also had to be taken into account. Another question was whether cover should be made mandatory, since it was felt that misunderstanding and resentment could occur if some members in a centre were covered and others not. The bank went for mandatory cover. But by the end of 2004 it was clear that the rate charged for the husbands insurance was too low, and that the bank would suffer losses. Staff opinion was canvassed and in mid-2005 it was decided to substantially increase the premium. As of now, we are getting mixed reports about how the members are reacting.

One of the great strengths of microcredit in Bangladesh has always been its exceptionally strong commitment to **working with the very poorest**. More will be said about this in later sections. In this century there have been a number of significant efforts to push market penetration of microfinancial services of all kinds down to the poorest villagers and slum dwellers[22]. In the context of Grameen II this has taken two forms, with contrasting strategies. On the one hand, in late 2003 Grameen rewrote the ‘checklist’ of assets and circumstances that underlies the means testing that applies to all prospective members of Grameen centres, generally clarifying it and strengthening it to eliminate some of the ambiguities that gave rise to loopholes in it. It was applied from early 2004.

But as well as trying to ensure that new entrants to the general membership are poor, Grameen II created a special window for a particularly common type of very poor person, the beggar. This is now known as the ‘**struggling member programme’**. It is a subsidised scheme in which beggars are identified and offered very small interest-free loans which they repay according to a schedule that they devise. Most are also given some essential items, including a blanket and a mosquito net. Some save, others don't. The hope is that beggars will use their loans to buy low-cost articles that they can sell as they go about their begging. They are encouraged to attend the local weekly centre meeting, with the ultimate hope of their joining Grameen as regular members. The scheme was developed by a staff team which included deputy managing director Dipal Chandra Barua, and under his enthusiastic promotion it has spread to all branches so that by the end of 2005 there were some 56,000 borrowers enrolled[23]. At one time it was hoped that the scheme would be a demonstration of solidarity among the poor, with regular centre members spontaneously identifying candidates and taking them “under their wing”[24]. However, most of the struggling members that we have interviewed were recruited by staff or had independently gone to the branch to seek out the service.

Grameen has always been interested in education. The field staff have often been portrayed in Grameen literature as teachers, and Yunus himself has said that he is more comfortable thinking of himself as a teacher than as a banker[25]. We shall return to this idea in a later section. In the early days of Grameen many centre shelters were used as informal schools. The bank's current focus on education takes two forms, **education grants** and **education loans**. The grants go to selected schoolchildren, mostly girls.

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[22] BRAC’s ‘TUP’ (targeting the ultra poor); special borrowing terms for very poor people offered by BURO and ASA; highly flexible individual services to very poor slum dwellers by *Safe*Save, to mention just a few.

[23] Holding about 21 million taka in loans (an average of around $6 each) and 3.3 million in savings.

[24] Yunus,op cit 2002

[25] Quoted by David S Gibbons in *The Grameen Reader*, Grameen Bank, Dhaka, 1992, page 106

The program is still relatively small, with about 19,000 grant recipients in 2005. The loans go to tertiary level students, men and women, and cover tuition and maintenance at a recognised college or university. Although the numbers receiving loans are still small (about 6000 at the end of 2005) centre managers are well aware of how attractive this facility can appear to members. They quite frequently mention it during centre meetings as one of the services that well-performing members can aspire to. It is among the several innovations that make centre membership attractive to better-off households.

Increased **computerisation** in the management information and accounting systems is not tied directly to Grameen II but has been developing alongside it. At present, computers are housed at area offices, which serve about ten branches. The data entry staff are not employed directly by the bank but by one of its sister organisations involved in information technology. They provide weekly centre-wise printouts of anticipated savings deposits and loan repayments that can be used as collection sheets during the centre meeting. In the early days of our research it was strongly anticipated that this would produce dramatic time savings for centre staff, and by 2003 some staff were reporting these benefits to us. However, quality problems have plagued the system. In late 2005 in all three sample branches staff complained of the high error rate and of the enormous amount of time that it takes them to make corrections. We did our own review of data accuracy, and although branch staff periodically clean up data, we found very high levels of error in the passbooks (which are held by the members) in two of our three sample branches. Moreover, having the computers at the area office instead of at the branch leaves branch managers without information that they may need on a day-to-day basis. For example, branches served by computers no longer maintain ledgers member-wise, so the transaction record of an individual member is not easily available to the manager. Thus while it is clear that computerisation should be pursued and will eventually bring benefits, they have not yet materialised and perhaps will not do so until enough investment and training is made to have computers at the branch offices directly under the control of bank staff.

If computerisation is not yet dramatically effecting **productivity**, the recent emphasis on higher member-staff ratios certainly is. When Grameen II started, a long-term goal was set of achieving 450 members per centre manager. That has been surpassed in most branches who are now heading for, or have already achieved, a ratio of 600 members per centre manager[26]. This is beginning to alter the landscape of the collection system, with bigger centres. At present we have an intriguing mix of rapidly rising ratios of members to staff, a fast growing portfolio including the new larger loans, and poorly performing computerisation. Managing this well is going to be a huge challenge in 2006.

In 2002 managing director Yunus kindly provided me with a checklist of the ‘constituting features of Grameen Bank II’. I have discussed or at least referred to most of them in the foregoing. Management features that I have not mentioned are the new reward systems for well or exceptionally well performing members and staff (through ‘Gold Membership’ and through ‘Star Awards’). Nor have I covered in any detail the new strategies for branch opening.

This section of our Report has been mostly factual. Its task was to provide information on Grameen Bank's fortunes since it shifted to Grameen II, and to report on the extent to which Grameen II’s innovations had taken root in the field. In the next section we take a closer view. Section 2 should be of interest to those who seek a deeper understanding of the attitudes and behaviour of microfinance staff and clients, and a more intimate view of the successes and difficulties of reaching the very poor with good-quality financial services

[26] In the Chittagong area in late 2005 I came across one centre with more than 120 members, that sits in two ‘shifts’. This comes after many years when the preferred size of a centre was 40.

Section 2: Close-ups

Understanding Grameen in the field

Our research programme is subtitled ‘a grounded view’. We used our comparative advantage – we are researchers who have spent many years consulting, studying and practising microfinance in Bangladesh – to shed light on the way that financial products are offered to and used by poor people, matters of interest to microfinance practitioners and their backers. We did not attempt an ‘impact’ study: our study reveals less about what microfinance does to poor people (we take it as given that financial services help the poor, just as they do the non-poor) as it does about *what poor people do with microfinance when it is offered them in a particular way*.

The section is divided into three parts.

The **first** is called ‘The Field Staff: unveiling Grameen II’, a review of how Grameen II was presented to its client members. This explains what we learnt about the attitudes and behaviour of Grameen’s vast field-staff, and how they shaped the way that Grameen II arrived in the villages.

The **second** part, ‘The Members: unpacking Grameen II’ looks at Grameen II from the point of view its clients, asking about their preferences among the products, how they use them, what benefits they believe they get from them, and how they relate to the rest of their financial portfolios.

The **third** part takes a specific issue: outreach to the poor and very poor.

Sources
During the three years of our fieldwork (2002-2005) we got close to our subject using both systematic and informal methods. Our systematic methods were:
Respondent interviews: we selected seventeen or eighteen respondents in each of our three sample branch areas, giving us a total of 52. They were carefully selected to include Grameen members (established and new), former members of Grameen, members of other microfinance organisations, and members of no microfinance organisation. They come mostly from poor households, but some from very poor households and a few from the non-poor. They were interviewed at least twice a month for three years by our resident local researchers. The researchers recorded details of the respondents’ financial behaviour, and asked questions about their attitudes, opinions and preferences.
Key informant interviews: we selected another four or five respondents in each of our sample branch areas, this time people who could give us a professional view of microfinance. Our informants included the branch manager and at least two centre managers of the sample branch, a manager of another microfinance institution, and educated local people. They were interviewed at least once a quarter and often more frequently than that, by our local researchers and also by senior research staff including the main author. From them we sought information about how Grameen II was running, how it compared to other organisations, and about the local economic and financial landscape.
Centre observation diaries: we selected two to four ‘centres’ belonging to each of our three sample Grameen branches, and asked our local researchers to attend as many meetings as possible. Sometimes they attended every meeting for several weeks at a stretch. The centres were selected to include ones that were thought by local Grameen staff to be well, medium and poorly performing (this was done by participatory ranking methods). After each visit the researcher wrote a short report on the main business of that meeting and of its atmosphere. An example was used in the previous section to illustrate continuing tension at some meetings.
Our more informal methods were:
Event observation: if there was a special event in the areas of our three sample branches, such as a public meeting to attract savings, or a drive to collect bad debt, we would attend or seek permission to participate.
Cross-checking visits elsewhere: senior research staff, including the main author, made many trips to other parts of Bangladesh. We called at Grameen branches, and sometimes at the area or zone office, to discuss progress with staff, we made similar calls on the local offices of other microfinance organisations, and we dropped in at random in villages to seek out microfinance clients (and non-clients) and elicit their views. Sometimes we visited a specific area if it was well known for a particular aspect of Grameen (such as a trip to the North-West to see a manager exceptionally interested in the struggling member programme).
Area surveys: senior researcher Dr Maniruzzaman made area surveys, both at the beginning and then again at the end of our research, of the three districts where our sample branches are located. He focused on the demography and economy and on the ‘financial landscape’, and carried out research into the poverty outreach of microfinance lists. His reports were instrumental in helping us select the sample branches.

The Field Staff: unveiling Grameen II

The attitudes and beliefs of staff shaped the emergence of Grameen II largely by acting as a 'filter' – by varying the rate at which the elements of the new initiative were presented to clients. To see this, we first look briefly at how Grameen II was conceived and rolled out to its staff. We then describe some important attitudes that most field staff share, and which coloured the way they presented the changes to clients. We show how the way that Grameen deals with product rules and staff guidance shapes the field staff's control over what is offered to clients. We end with a tabulated review of which elements of Grameen II are now fully operational in the field and which are still working their way through the filter.

Rolling out Grameen II

Grameen II emerged when a kaleidoscope of experiments being carried out in the field, many of them driven by a desire to improve falling repayment and attendance rates, were harmonised into a body of ideas through a long process of debate. Much of that debate took place at head office, but the most senior of the field-based staff, the zonal managers, were regularly drawn into the discussions, and more junior staff on a more occasional basis[27]. It is formal policy of the bank to find ways of consulting with staff at all levels before making major changes. We asked branch-level staff if they felt that they had contributed directly to the formulation of Grameen II, and the most common response was that they hadn't, but that they knew someone who had, and that they had, of course, undergone training.

Understandably, around the time that Grameen II started, there was considerable nervousness among the field-based staff. One area manager told me that he was so shocked when he received the circular from head office instructing him to proceed with the changes that he left the document on his desk for three days, unable to face it. Other staff report that their main reaction was confusion, mixed with a sense of having been let down: so many things seemed to contradict years of experience and training. In this situation, one might have worried about the risk of resistance, even of sabotage. That didn't happen.

Instead, branch level staff were given a set of practical jobs to get on with: divide up the group savings fund into personal savings accounts and issue passbooks; add up the loans outstanding for each borrower and issue a basic loan for that amount and calculate the repayment instalment; open GPS accounts for all borrowers of 8,000 taka or more; find each borrower in arrears and explain the contract loan system to them; and so on. To a great extent this absorbed the nervous energy, and drew each staff member into the new system through weeks and months of reiterated practice.

Breaking down the introduction of Grameen II into a series of discrete tasks was sensible, and it worked well, as can be seen from the charts in the first section which show steady and rapid progress in carrying them out. But it meant that Grameen II was never presented to members holistically, as a coherent set of changes likely to transform their money management options. They became aware of the innovations one by one over a period of many months, as the workers got round to implementing them in their centres. Perhaps an opportunity was missed. Perhaps Grameen II could have been marketed as a comprehensive service capable of satisfying all the financial needs of the members. As it is, members have been left to find this out for themselves.

The Grameen way

Why didn't Grameen 'market' Grameen II to its members? Why, for example, were there no catchy leaflets presenting the essence of the products, highlighting their most attractive features and showing how they relate to each other? [28] Why were there no summaries of the product rules in easy *bangla*? Why was there no formal 'opening date' that could have been celebrated publicly in each locality? Why are centre meeting houses, at best, decorated with a calendar instead of colourful posters urging the reasons

[27] A fascinating account of this process will be found in a new book by Asif Dowla and Dipal Barua, forthcoming, Kumarian Press. I thank the authors for allowing me to see their drafts.

[28] Some staff answered that question very simply, saying that many if not most of their members are illiterate. But many have children in school and almost everyone has a literate neighbour or relative nearby. And the centre manager visits every week.

to open a GPS?[29]

The blandest of answers, ‘because that is not the Grameen way’ doesn't sound very helpful, but it is worth exploring, because there is indeed a discernible ‘Grameen way’. Take **corruption** for example. Whereas corruption is common in day-to-day transactions in Bangladesh, including in financial services, and especially in government-owned or part-owned institutions, our three years of close field study left us certain that it remains extremely rare within Grameen[30]. This is not because Grameen’s personnel are in some way exceptional. They are not, for they are drawn from the same pool of educated young people who also take jobs in sectors that have become corrupted. And it begs too many anthropological and psychological questions to claim that there is some kind of special ‘Grameen culture’. But the fact remains that there is an observable set of shared practices and attitudes prevailing throughout Grameen, of which an absence of corruption is just one especially clear example.

So it is worth examining more of these practices and attitudes, to help us make sense of how Grameen II is executed by its staff in the field. Of course, these are composite images - not every staff member conforms to the picture we paint here. They are human beings. Look, for example, at the way they handle our questions. If we put an undeniable fact to them, such as ‘since the rules forbid you to recruit members who are already in another NGO, what do you do when such people apply?’, many will toe the official line and declare that under no circumstances is it possible for such a person ever to join Grameen. Others will be diplomatic, and say that ‘well, of course, we don't always have time to check properly…’ while a few are charmingly frank: ‘oh yes, if we think they'll make good members we take them in anyway’. Working closely with many staff over three years, we came to recognise and interpret these differing styles.

We have already seen that staff tend to be **task oriented -** Grameen relied on this to roll out the practical aspects of Grameen II so smoothly in the field. We notice that staff tend not to skimp: they rarely try to save time or trouble for themselves by cutting corners. Some of this has to do with the circumstances under which they work, and we have tried to give a picture of this in the box alongside.

They see themselves as **teachers** rather than salespeople. Consequently, their centre meetings are more like classrooms than off-premises banking centres. In a well organised meeting house, the centre manager sits at the front, behind a desk, and the member-students sit below, on low

Striving against the current

Rajendra, a young man who is a Grameen centre manager, is one of our ‘key informants’. In the 2004 floods he had to use a small boat to reach his centres. Coming back one afternoon a strong current washed over the boat, tipping him into the water. He was carried several hundred metres downstream. Given the choice of hanging on to his trousers or to his bag with that day’s repayment collection in it, he chose the bag. Some hours later his branch manager found him shivering in the home of one of his members, who had given him a dry loincloth and some hot rice. Just one example – a rather extreme one – of his commitment to Grameen. In more ordinary circumstances his commitment is shown in the daily grind of his job, not least by the working hours he puts in. Quarter by quarter we checked his average effective working day: 7 a.m. to 11 p.m. (with two hours for a very late lunch) for the quarter ending in April 2004; the same for the next two quarters, then 7.30 a.m. to 10 p.m. for the quarter ending in January 2005, the dry season.

Why does he do it? Of course, Bangladesh suffers sorely from underemployment, so it is common for workers to accept hard conditions and long hours as normal. And Rajendra is posted to a remote and isolated area far from home. His social life revolves around his work. He lives in an upper room of the branch office, sharing it with his co-workers. On weekly holidays there isn’t much else to do, so he finds it congenial to sit in the office with others and bring his paperwork up-to-date. He can make a small cup of tea last for an hour.

Life is hard, and so, thinks Rajendra, is Grameen’s self-imposed task – getting back loans given to poor people. Many impressions characterise a Grameen branch. The concrete surfaces drained of colour by the tube lighting (when there's no power cut), the heavy hardwood furniture, the rumble of overhead fans bathing everyone in moist warm air, the thump of heavy ledgers being turned over, the self-conscious whispers of a few members waiting to withdraw savings, the bicycles leaning against each other in the yard. But none are quite so evocative as the sense of striving against a tide, of staving off repayment arrears, of *holding the bank together*, that so many centre managers share.

[29] Even branch offices don’t display such posters

[30] Of course, some staff do cheat, and some of those are found out, punished and expelled: this is unavoidable in such a large organisation. But rubbing shoulders with dozens of staff over the years, we discerned no trace of entrenched corrupt practices.

benches or on mats. They stand up when he comes in and they call him 'sir' if he's a man (a majority are) – after all, he is an educated person. The centre chief asks the manager's permission to start and close the meeting.

They see the loans more as **privileges** to be granted than as products to be sold, and the privilege is earned by good behaviour: timely and regular attendance at the meeting, polite demeanour and, above all, regular and full payment of loan instalments. This last is, of course, as it should be, since the repayment and attendance behaviour necessary to increase one's credit limit is clearly spelled out in the rules. But *members do not have copies of the rules*[31]. If the centre is like a schoolroom, then it is of a curious kind – it has no text books.

The field staff filter

Grameen has copious and frequently updated '*nitimala*' (rules). But they do not distinguish very clearly between, on the one hand, *instruction and guidance* to staff, on the other, *terms and conditions* – the rules that govern the execution of a savings, loan or insurance contract once entered into[32]. Borrowers of course sign a loan contract, but there is no standard set of terms and conditions available to the prospective users of each product. The members' understanding of these derives only from what centre managers choose to tell them, orally, at meetings.

As a result, loan appraisal and the explanation of terms and conditions tend to get fused, and in the setting of the centre meeting can become part of a contest between members and manager. Contrast the following two reports of meetings in which bigger loans were a topic of discussion:

> **September 8, 2004:** The meeting was conducted by centre manager DD and started on time at 8 a.m. Although out of the 64 enrolled members only 28 attended this week, everybody paid their loan repayments, those who were absent having sent their cash through fellow members. The CM discussed weekly loan repayment and savings withdrawals. He then described the rules for project loans and phone loans. Members were encouraged when they heard about the increased availability of bigger loans. As a result it was a very good meeting and closed at 9:30 a.m.

and then the same centre six months later, under a different centre manager:

> **March 9, 2005:** The meeting was conducted by centre manager SI, and started 30 minutes late at 8:30 a.m. Of the 67 members 27 attended. Three new members joined. Three members made GPS deposits. Then 50 out of 55 borrowers made weekly repayments (the absent members sent cash through others as usual). The remaining five did not pay and did not attend. The Centre chief asked for information about business expansion loans and the CM explained them, but made no promises that they would be available in this centre. The Centre chief declared that if she did not get a business expansion loan for her shop the whole centre would stop paying. The CM then said that he would visit her shop sometime. The meeting was rather ill-tempered and closed at 9:30 a.m.

The centre managers that we got to know jealously defend their right to be the sole source of information about products as far as members are concerned, and do not favour the idea that members should be given printed terms and conditions. Indeed, the only time that our relationship with a centre manager broke down was when he accused us of having damaged one of his centres after our local assistant had answered – truthfully – some members' questions about savings terms. Later, that centre did close, and in the mind of the centre manager and some of his colleagues this proved their point.

Founding managing director Muhammad Yunus's writings, too, present the *nitimala* as an instrument in the hands of workers rather than as the basis of a contract with clients. An important passage in his introduction to Grameen II[33] stresses that the new initiative provides a 'custom-made' service for the members, but then makes it clear that he expects the process to be one in which bank managers and

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[31] Although this is changing. The rules of the GPS are printed in the front of the special GPS passbook (though the language is rather formal and not designed to make it easy for rural folk to understand: we have been asked by members to explain it a few times). The personal savings passbook now has a box on each page confirming that members may make withdrawals. But members do not have copies of product rules governing loans, loan insurance savings, or personal and special savings.

[32] As a result, the '*nitimala*' are very long, prompting deputy managing director Dipal Barua to remark to me 'our rules are complex and if we put them in the passbook we may not get them 100% right…' interview in his office at Grameen HQ, 27 April 2003

[33] op cit, Grameen Bank II: Designed to Open New Possibilities, pages 11-12

centre managers take the lead, gradually learning to use Grameen II to the full, rather than a process in which members learn how best to pick and choose from a menu of possibilities. For example, an important innovation is the shift from a single twelvemonth loan term to a variety of terms from three months to three years. One might expect this to be written into the 'terms and conditions' (were they to exist as a stand-alone document) but Yunus makes the contrary clear: the selection of the term is a matter for staff, with cautious staff perhaps sticking to the twelvemonth term for several years and more ambitious ones quickly experimenting with alternative terms.

Be that as it may, exactly why are the centre managers so jealous of their monopoly over explaining the rules to members? Is this petty egomania, a simple desire to hold and wield power? No, it isn't. Centre managers do sometimes get involved in power struggles with members, as the box above shows, but this is not usually out of a desire for personal aggrandisement. It is just one part of the dominant drive in their professional life – the struggle to hold the bank together.

Our evidence for this derives from our investigations into the many cases where we found staff not following the rules set out in the *nitimala*. One of our first field exercises, in late 2002 and 2003, was to find out how much members knew about Grameen II. At that time most didn't yet know that personal savings could be withdrawn, or thought that they could be withdrawn only under very stringent conditions. So we asked branch and centre managers. Here is an extract from an early such session, dated late December 2002, when a centre manager explained what he saw as the differences between 'official' and 'unofficial' rules

Us: what is your understanding of the rules about withdrawals from personal savings?
CM: they are allowed at any time in any amount, except you must keep 100 taka minimum balance to keep the account open. They can be taken for any purpose.
Us: even for making loan or GPS payments?
CM: yes.
Us: is that what you do?
CM: well, CMs don't like withdrawals so we tell members not to make them. Some members don't know they have the right to withdraw. If a member knows, and insists, then the withdrawal is granted.

An extract from our centre observation diary for late April 2003 reads:

Another member wants to withdraw 200 from savings to make her loan repayment: the CM doesn't allow it and tells us it was his way of putting pressure on her to seek a local loan from others – and that's what she did.

Two weeks later at another branch the branch manager tells us that he knows the rules back-to-front but

> '…using savings to make repayments is a bad habit that should be discouraged – *it would destroy GB'*. His policy is 'get them to make the repayment in the field by whatever means you can – then later let them withdraw the savings if it's really needed.'

In late December 2003 we discussed this over dinner with deputy general manager Dipal Barua who conceded that conservative attitudes to withdrawals persisted, but said that HQ was aware and was planning a new circular on savings. Through 2004 the tone of our field notes begin to change. In late March of that year our centre observation diary records:

We watched the centre manager listen to requests for savings withdrawals: there are quite a few at the moment because this is a month of low economic activity. He approves them without comment and doesn't ask how the money is to be used.

By 2005 it is rare for us to record members being refused personal savings withdrawals.

This story shows that senior management were right, in this case and in several others, to suppose that time would be needed for staff to 'elect' to follow the rules as set out in the circulars. But our main point in telling the story is to examine the motives for this behaviour, and in that context we should look carefully at what the branch manager told us in May 2003 – that allowing savings withdrawals for loan repayments would 'destroy Grameen Bank'. The language is somewhat hyperbolic, perhaps, but it typifies many such replies we got from staff. Their concern is to protect the bank from damage which their close-up view of their members convinces them would result from what they see us unwise policies. The branch manager believed that allowing open access to savings would drain the savings accounts, undermine repayment discipline, and erode *de facto* loan collateral. Often such fears were expressed with the phrase 'it will tempt others to do the same'. Field staff were simply not prepared to carry out policies they genuinely believed would damage the bank. On this and other matters – allowing withdrawals from special savings, permitting loans without a GPS, allowing variable repayment instalments or variable terms, or quick resort to contract loans – we found fieldworkers dragging their feet on the new rules until they were convinced in their collective minds of their safety. As one branch manager put it to me:

> Well, Stuart, what do you think my duty is? I'll tell you – I have two. Yes, I must obey the rules. But more important than that, I must keep Grameen safe in my area.

and in the last weeks of our research, at the very end of 2005, a branch second officer reminded us

> There's no way we could run this branch if we had to stick to the rules

How should one look at this? Did HQ fail to impose discipline on its huge staff? Or was it happy to allow them to act as a collective filter for new ideas, letting sound ones pass through quickly, but holding back others for much longer field testing? If the latter, it constitutes a coherent, if unusual, approach to the thorny problems of how microfinance institutions, especially large established ones, should best develop, test and implement new and modified products. We will return to this in the final section of this Report. Meanwhile, let us update the progress of the Grameen II products as they work their way through the 'filter'.

The position in early 2006

Table 2 lists some principal Grameen II components, showing the degree to which they have become fully established in the field, and annotated to shed light on the outcome.

Table 2: status of some major Grameen II innovations in the field, early 2006

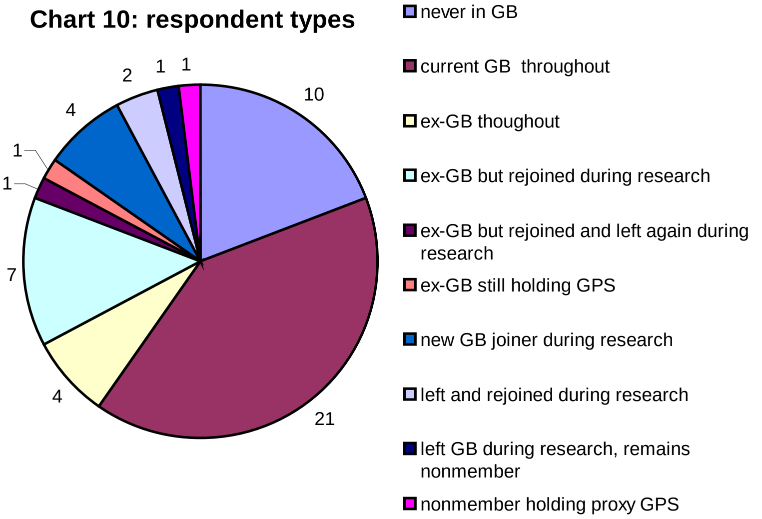
Component	Status	Commentary
Public deposits	100% complete	Field staff saw no threat from this development, other than increased workload, and duly established the procedures as directed by area and zone offices.
Conversion of classic Grameen savings to personal savings and special savings accounts held by each member Conversion of classic Grameen loans to basic loans or contract loans held by each member	100% complete by 2002	These were laborious but straightforward tasks quickly executed by field staff (despite some grumbling) and easily monitored for full compliance.
Twenty-six week basic loan 'top-ups'	100% complete	In most places this was established early on, but some field staff feared it would undermine repayment discipline, and introduced it gradually, for example by not allowing it for first-time borrowers. However, staff quickly came to see that the additional liquidity helped members repay on time. Staff now back this innovation enthusiastically, to the extent that there is even some talk of making 26 week top-ups mandatory for all borrowers.
Rescheduling post Grameen II basic loans through conversion to contract loans	Established everywhere, but used in moderation	As described in section 1 (page 16) staff use this with reluctance, believing it will undermine repayment discipline and tempt other borrowers to follow suit
Variable loan terms	In partial use	The new larger loans are commonly given with two or three-year terms. However, the vast majority of ordinary basic loans still carry a one-year term just as under classic Grameen. Staff report that 'members are not interested' but our interviews continue to show that many members are not aware that the option exists, and evidence from other providers shows that shorter term loans are becoming popular.

		Staff tell us that Grameen 'runs on rhythm' and that for most borrowers it is safer for them and for the bank to maintain the 12 month term
Variable instalment values	Very rare	We have found no examples, although we have been told that there are some. Staff questioned on the issue consistently tell us that they would disrupt the rhythm of repayment and lead to overdues. Some also claim that members do not like the idea, although as with variable loan terms our research shows that most members are still unaware of the option. Some staff warn that variable repayments are too complex for members to understand, and that they would make husbands (who provide most of the repayments) suspicious that their wives were cheating them.
GPS	100% complete	Despite discouragement from head office, field staff see GPS deposits as *de facto* collateral against loans, and therefore of considerable help in ensuring good loan repayment. Staff also appreciate the benefits of the GPS product for members.
Personal savings withdrawals	Largely implemented after a slow start	See the discussion earlier in this section.
Special savings withdrawals	Partially implemented	Under the rules, special savings remain illiquid for three years, so members did not have access to the savings until 2003 at the earliest. In some branches withdrawals were permitted as soon as this three-year period expired, but elsewhere it was strongly resisted, largely because staff conceived of special savings effectively as loan collateral.

The Members: unpacking Grameen II

It is time to talk about our 'respondents' whom we got to know well by interviewing them regularly and frequently for three years[34] (see page 20, box). They were, of course, a carefully selected group, chosen to include a range of relationships with Grameen but ensuring that the most common kinds were well represented. Out of the total of 53, 42 were in some way connected with Grameen. The remaining 11 have never been Grameen members, and they include those who have never considered joining (a few of them are quite rich), those who are quite happy with an alternative provider, and those who had thought of joining Grameen but feel they are too poor or are in some other way disqualified from joining.

Half of the 42 Grameen-related respondents were Grameen members when we first met them and remained Grameen members throughout the three years of research. Seven others were former members of Grameen when we met them (that's why we picked them) but they rejoined Grameen some time during the three years. Four more were former members of Grameen when we met them and remained so, while another four had never been in Grameen when we met them but joined for the first time during the research. Another three were members of Grameen when we met them and then left during the research, but of these, two then again rejoined Grameen before the research finished. That leaves three unaccounted for: one of these was a former member when we met her who rejoined Grameen and then left again during the research; another is a former Grameen member who left before our research started but is still today holding and paying into a GPS account; the very last is a non-member who owns a GPS account that is nominally in the name of a relative who is a member. The pie chart may help clarify all this.



We shall of course be looking at why members made the choice to join, remain, rejoin, leave and so on. But first we need to get an overall view of their financial lives. We shall focus on the 42 respondents with some kind of relationship with Grameen, beginning with their financial portfolios[35].

Not much debt

Table 3 shows average per-respondent financial balances (converted to US$ at end-2005 rates) at the opening and closing of our research for the 42 respondents associated with Grameen. Note that portfolios grew, though from a low base: they now owe (on average) two-thirds more financial debt, but their savings have increased at an even faster rate and the debt they retain is modest in absolute terms. One conclusion we might draw is that, contrary to fears often expressed by sceptical observers, association with a microfinancial provider does not, on average, lead to deep and possibly dangerous debt[36]. It has been noted that

Table 3: Average balance sheets, 42 respondents US$ at $=66

	opening	closing
financial assets	111	198
financial liabilities	-158	-262
balance	**-47**	**-64**

[34] In the case of our sample branch 3 area, for two years only

[35] Records for 13 of the 42 respondents are for 24 months while the remainder are for 36 months: where this materially affects the significance of the results, such as in averaging flows over time, this is adjusted for mathematically in the tables and charts: otherwise, such as in calculating opening and closing balances, it is ignored.

[36] Dangerously deep household debt is often defined as debt that absorbs more than 20% of income to service it. Few of these 42 respondents have easily quantifiable incomes, but a debt of $64 at current microcredit rates would require just 80 cents a month to service.

microcredit clients often resort to moneylenders. But our qualitative research work suggests that the relationship between private and microcredit debt is complex and often complementary. It *is* the case that much microcredit borrowing is done in order to pay down private debt, and vice-versa, so we asked our respondents to comment on this, using a leading question: 'these microcredit loans can't be of any use to you can they? After all, all you do with them is pay off the moneylender (the '*mahajan*', or 'big man'). And then in no time at all you have to go running to the *mahajan* to get cash to pay back the microcredit loans'. Here is what Lucky told us in mid-2005:

> Oh no, sir. You don't understand. *Mahajans* like to take back the money at a time, so you often end up borrowing from one to pay the other, without clearing any of the debt. But with microcredit loans you can and nearly always do repay them, because you can do it little by little. They're a different kind of loan. Although we grumble about them, they actually make it easier for us to take *more* loans from all sources – the microbanks, relations and *mahajans*.

This also sheds light on another standard critique of microcredit loans – that they are often too small to serve their intended purpose, forcing borrowers to go to other sources to supplement them. Our observations during this research stand this on its head. We have found that a more common situation is one in which a borrower is able to take large loans from a range of private lenders precisely because he can undertake to pay them back from microcredit loans as they become available.

Nessa lives in a small house at the river's edge and is trying to raise three teenage schoolchildren. It's a struggle because her husband is an unskilled autorickshaw driver and his second-hand machine is on its last legs. Indeed, not long after we met them they left Grameen membership because they could no longer afford the weekly repayments. But then they managed some private loans, sold the autorickshaw and bought a better one. Nessa immediately rejoined Grameen, and at the same time joined ASA, another major microcredit provider. Both were willing to lend to her when she told them she was investing in an autorickshaw. The two loans went to pay off the private lender, and she is now servicing them from the improved income of the new machine.

In areas like our second sample branch, where labour migration to Singapore and to the Middle East is extremely common, quite modest households may be able to borrow large private loans because they are able to give the double assurance of repaying both from future microcredit loans and, eventually, from remittances.

Nasima and her husband, who runs a small business installing drinking-water wells, decided in 2004 that the best future for their 17-year-old son was to send him abroad. To raise cash to pay for the air fare and agency fees, they mortgaged out their modest amount of land for $225, and then took a series of 'paddy loans' - loans taken at the beginning of the growing season to be repaid at harvest - worth $1200, and they still needed loans from relatives and neighbours of another $600. The private lenders are content to wait, and their patience is rewarded when in mid-2005 Grameen grants Nasima a $750 'special investment loan' which she tells Grameen is for the tubewell business though in fact it is used to repay a big chunk of the private debt. In the meantime, she continues to borrow smaller amounts from another microcredit provider, on which they subsist and which also helps them make repayments on the Grameen loan. Then when remittances start arriving from the son, she is able to pay down the rest of the debt and to quit the other microcredit membership, which she regarded as a temporary expedient.

But we are running ahead of ourselves. Let us look a little more deeply into the portfolios of these 42 respondents. We will look at transaction flow volumes, and at the shares enjoyed by formal providers (like banks and insurance companies), the microfinance providers including Grameen, and the entirely informal sector. By financial transaction flows we mean the total of all loans given and repaid, loans taken and recovered, and cash saved and withdrawn in some form or other. So these figures *exclude* income and expenditure – they represent the ways in which these households manipulate their cash between its coming in as income and its flowing out again as expenditure. The total transaction flows for all 42 households for a period averaging 32 months (three years for most of them, two years for a few) was a little over $136,000, or more than $3240 per household, an annual rate of $1215 per household. We immediately note, as other studies of this kind have[37], that among poor populations annual financial flows greatly exceed stocks – what you borrow and repay and lend and recover and save and withdraw in any one year tends to be a much larger amount than your outstanding debt or your absolute savings balance at any one time. Chart 11 shows the composition of these flows by type of provider or partner.

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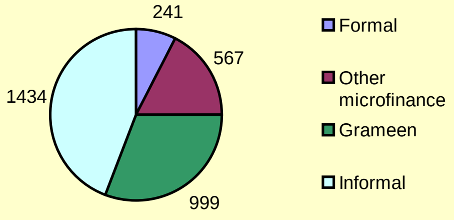
[37] Stuart Rutherford, *Money Talks: Conversations with Poor People in Bangladesh about Managing Money*

Poor people, rich portfolios

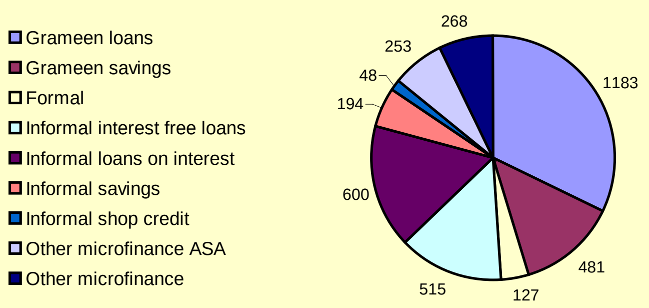
Chart 11: Total transaction flows over 32 months, 42 Grameen-associated respondents : US$ at $=66: values are per respondent



Figures such as those in chart 11, alongside, can come as a surprise. They provide ample evidence of the multiple membership of microfinance organisations[38]. They also show evidence of the continuing strength of the informal sector. Even in this carefully selected group of households all of whom have an association with at least one microfinance organisation, easily the biggest financial flows are through informal services and devices. But beyond that is the clear demonstration that poor people have complex and intensive financial portfolios. It is important to be aware of this if we wish to understand the real significance of our respondents' dealings with Grameen.

In chart 12, we deal only with those 21 respondents who were Grameen members throughout our research period, and we disaggregate the categories a little more. Their average transactions were $3369 for the 32 months, a little larger than the 42-respondent sample. Of this, $1664, somewhat less than half, went through Grameen ($1183 through taking and repaying Grameen loans, $481 through saving and withdrawing Grameen savings, including insurance savings). A tiny fraction went through formal banks and insurance companies. But a large amount went through other microfinance providers - $253 through just one provider, ASA, alone (and remember that not every respondent lives in an area served by ASA), and the total that went through all other microfinance providers, $521, is almost a third of what went through Grameen. But the informal sector also enjoyed a generous share of all transactions made by these 21 households who were in Grameen for the whole of the period: $515 went in and out of interest-free loans both given to and taken from neighbours and family, $600 went through private loans on interest (both given and taken), and $194 went through informal savings devices such as savings clubs or storing money with neighbours.

Chart 12: Total transaction flows over 32 months, 21 respondents who were Grameen members throughout, US$ at $ = 66: values are per respondent



It is time to look at individual cases, to get an even closer view of Grameen's part in domestic finances. Before we do that, let us sum up the main lessons that this brief statistical review has provided:

√ Poor and moderate poor rural Bangladeshis of the sort who join Grameen have many other financial partners besides Grameen, and tend to hold intensive and complex financial portfolios

√ Many of their transactions continue to go through informal devices and services, and there may be complementarity between Grameen and informal services, as Lucky told us (above)

√ Many long-term Grameen members also use services provided by other microfinance organisations (of the 21 respondents who were Grameen members throughout our research, 15 also used other microfinance providers[39]: several used more than one and one respondent used four).

√ Any analysis of Grameen's work should therefore recognise that members have a degree of choice and are not wholly dependent on Grameen.

[38] Indeed, we can claim that our data set is among the best evidence so far of this rather contested issue. Readers wanting closer access to this data (which breaks down the gross categories used here into individual providers and into a wide variety of informal services and devices) may write to the author at stuart@safesave.org

[39] We did *not* know this at the time we selected them: no-one was selected because of holding multiple membership

Using Grameen's services

The literature of microfinance, especially microcredit, is full of case stories of people who have transformed their lives through loans. They are heart-warming, if somewhat simplified. But they nearly always have glaring gaps. For example, they rarely tell you about the rest of the financial activities of the hardworking woman who holds the household together (it's almost always a woman). Here, we tell the story of Mukul, his wife Joshna, and their three children.

Mukul is about 45 and a ferry-boatman, earning between two and three dollars a day ferrying folk to market across the river near their home. His wife Joshna is a rather sharp-tongued but very capable housewife and mother of about 40. Neither of them have any education, and because of poverty they haven't had much success educating their children. Their oldest is a daughter, 20, already safely married and living away. The next is a boy of 18 who lives at home with his wife whom he married towards the end of our research period. He learned the ways of boats from his father but then apprenticed himself as a mason, but pay is poor and his own health is not good. Then there is a younger daughter who has been deaf all her life and needs long-term medical attention. They live in a pair of tin-roofed mud houses in a small homestead but have no farmland. Managing meals from the two small irregular incomes is a challenge for Joshna, one that has led her to be quite active as a money manager.

The local informal money market is important to her, frustratingly unreliable though it is. She can borrow small sums from neighbours: we get good solid data on eight of these deals, ranging up to about $20. These are useful when food is a bit short if one of the men is in poor health, and sometimes they are taken to pay for microcredit loan instalments. These informal loans are part of a reciprocal system, so sometimes we record them giving them, too. If they need more money they must pay interest for it: we watched them struggle to repay one of $125 which they had taken for the daughter's treatment and which cost them $40 in interest. Joshna tries to save at home, and uses a 'clay bank', a piggybank: in the first year of our research she breaks one open in front of us and finds just over $50, a little disappointing as she was hoping for more. Mukul himself is a member of the savings club run by fellow boatmen at the quayside.

For some time the area they live in has been full of microcredit providers, and although Mukul was not keen, fearing the unknown, Joshna was one of the first women in her neighbourhood to see that they could be useful. She joined Grameen at the end of the 1980s, and ASA a little later in 1994. She ran these two in tandem for a decade, sometimes using a loan from one to pay off the other, or using a microcredit loan to pay off accumulated small private debts. The couple never used loans for a 'microenterprise', strictly speaking, but their use of loans was always judicious and largely productive, with many of them being used to repair Mukul's boat, to improve their home, to pay for the older daughter's marriage and to deal with the younger daughter's illness, and, as we have seen, to pay down more expensive private debt. Microcredit providers, says Joshna, 'help you make progress'.

When we first met her and asked her to express a preference between Grameen and ASA she was quick to say that she preferred ASA because you can withdraw your savings: later, when she found that under Grameen II she could also withdraw her Grameen savings, she was delighted. Saving into and withdrawing from her Grameen and ASA savings accounts improved her management of household cash flow, helping her care for her disabled daughter and manage microcredit loan repayments. We track a total of over $200 flowing into her liquid accounts at these two providers, with most being withdrawn to leave a small balance. Her longer-term deposits into Grameen's 'special' and GPS accounts amounted to more than $130.

Soon after we met them, they hit a rough patch from which they have not yet recovered. There seems no end of expense for the daughter's illness, and the son was sick, too. Then the son married and brought home another mouth to feed. Mukul is ageing and weakening, and can't compete with other boatmen when the business declines after the bridge is built. In this situation, their use of microcredit is interesting. In mid-2003 Joshna joins a third one, BURO, because she is desperately in need of money and they promise her a quick loan of $80, used to patch a hole in the boat but mainly to buy food. She is happy to open the BURO version of the GPS, in order to squirrel away another dollar a month. For a while they manage the three microcredit organisations quite skilfully, but in mid-2005 when the boat income declined sharply, she reluctantly decided to leave ASA. It was her son who suggested this. Within the family he has rapidly overtaken his father as the main decision maker, and this is symbolised when in July 2005 the two couples swap rooms, with Mukul and Joshna moving into the smaller one. In my last interview with them I sat with the son who told me he now feels full responsibility for the complete family. The boat business is finished, he says, and he's getting nowhere with his masonry. The time has come to strike out into some new venture. I ask him if he thinks that microcredit organisations will be important for him (his young wife has not yet joined one). He shrugs. 'It depends on what I decide to do doesn't it?', he says. He would like to work abroad.

We have constructed a combined cash flow statement and balance sheet to show what we learned of this household's financial dealings for the 12 quarters that we monitored. Of course, it is not completely accurate, but like many of our other respondents Mukul, and especially Joshna, were happy to help us record their dealings largely, perhaps, because they found them interesting themselves. We have a good measure of confidence that they tell a generally accurate story.

Table 4: Mukul and Joshna's balances and cash flows, 2003-2005; taka

category	# deals	opening balance	cash flow incoming	cash flow outgoing	closing balance	interest paid	interest earned	notes
Assets								
Grameen savings	6	(6095)	10,328	(8195)	(5266)	-	1304	1
ASA savings	1	(1358)	5287	(3800)	0	-	129	2
BURO savings	2	0	1933	(2088)	(166)	-	11	3
ASCA savings	1	0	0	(2700)	(2700)	-	-	4
Moneyguard savings	1	0	600	(600)	0	-	-	5
Clay bank savings	2	(3000)	3650	(650)	0	-	-	
Loans given (int free)	2	0	1090	(1090)	0	-	-	
		(10,453)			**(8132)**		**1444**	
Liabilities								
Grameen loans	2	19,202	48,500	(46,887)	20,815	(8826)	-	
ASA loans	3	1750	21,000	(2275)	0	(3443)	-	
BURO loans	3	0	20,000	(16,248)	3752	(3462)	-	6
Private loan (interest)	2	8000	8000	(4248)	11,752	(927)	-	
Private loan (int free)	8	0	3550	(3550)	0	-	-	
		28,952			**36,319**	**(16,658)**		
Net liability		**18,499**			**28,187**			
Cash flow totals			123,938	92,331				

Notes:
1 Joshna had personal savings, special savings, loan insurance savings, husband's loan insurance savings, and two GPS
2 Joshna closed her ASA account in mid-2005
3 Joshna had personal savings and a deposit pension savings account (similar to a GPS)
4 Mukul was saving in a boatmen's savings club
5 A moneyguard is someone who safeguards your savings for you: in this case Joshna's brother
6 BURO's loans were the most expensive among the microcredit providers: the rate has since declined

We calculate the household's gross income at approximately 5,200 taka a month, or 190,000 taka (say $2,800) for the three years of our research. With cash outflows into financial instruments at 92,331 for the period (see the table), this means the household pushed a sum equivalent to almost half their total cash income through financial instruments. Why would households do that? The simplest reason, and the one most often corroborated by our respondents when we asked them, is that poor people need financial intermediation more often than the non-poor. To understand that – it does at first hearing sound counterintuitive – consider their cash flows. With incomes that are not only small but unreliable and irregular, a large part of any income gets spent immediately on basics such as food and the fuel to cook it with. The result of that is that there is rarely enough current income left to buy anything else. Poor people then, unable to buy shirts and saris or to take their son to the doctor out of current income, must continually find ways of drawing on past income or future income. And that is what financial services do: savings are a way of making previously earned income available for spending now, and loans are a way of spending, now, income anticipated in the future (loans are merely advances against future income). Whoever has the least current income has the greatest need for this kind of financial intermediation – and that means the poor. Hence the general importance of microfinancial services to poor people, and hence the complexity and diversity of financial portfolios like that of Mukul and Joshna.

Joshna, on the right in front of the fishing net, chats with a neighbour in front of the old hut that she and Mukul have just moved into. Autumn rainy season 2005.

A comprehensive service?

The largest part of Mukul and Joshna's savings are held at Grameen, and the largest fraction of their loans are from Grameen. With the arrival of Grameen II, Grameen Bank can offer couples like them a comprehensive service. It is no longer just a microcredit bank offering loans for microenterprises. These days, loans can be used for almost anything, and for all except the bigger project loans field staff ask only token questions about the intended use of the loans they offer. Loans can be paid off early, or topped up, and up to three loan contracts can be held at once (by a mature and well performing borrower) so fresh capital can be had frequently: gone are the days of only one loan per year. Moreover, borrowing risks are now contained by loan insurance savings, removing some of the anxiety that comes with taking a loan. Finally, both liquid short-term and long-term illiquid deposit services are on offer. Grameen brings two other characteristics that should help it compete strongly. First, its loans are relatively cheap and it pays good rewards on deposits (most loans in the informal sector are expensive and deposits go unrewarded). But, second and most important, Grameen is relatively reliable. Reliability – the characteristic of respecting undertakings freely made – is perhaps the single most important added value that formal and semiformal organisations like Grameen can bring to the financial landscape of the poor. Informal finance has many virtues: it is close at hand, often friendly, rather forgiving and easy to understand. But it is not reliable. Your friendly neighbour may not have any money when you want to borrow from him; your savings club may work well or it might break up in quarrelling over the accounts; the aunt you placed your savings with may not be able to return them when you desperately need them.

There is some evidence that members are learning that Grameen can offer a comprehensive service. It remains handicapped in ways already mentioned: the bank does not market its services comprehensively, it does not advertise clear written statements of its product terms and conditions, and it can still appear ineffable and arbitrary to its members. Your centre manager may or may not allow you to withdraw your special savings – who knows?

But consider the case of Rokon and Rabeya. Table 5 shows the quarterly transaction records for 11 contracts made with Grameen and 13 informal contracts made by their household during our research[40]. The couple make their living by trading fish, which Rokon buys at the quayside and then hawks around the market. His teenage son helps him, and there are two other children at home. This is a modest, hard-working, not-quite-landless family. Rabeya had already been a Grameen member for 15 years when we met them and had taken many loans which, she says, have greatly helped them in various ways: improving the house, educating the children, and so on. On our first round of interviews in late 2002 she was one of the few members who already had a good idea of what was new in Grameen II, already able to say that she very much liked the ability to top-up loans, and extremely pleased that Grameen was now offering a long-term savings instrument. The only negative comment she had about Grameen was that she thoroughly disliked the long quarrelsome boring meetings.

The lower half of table 5 shows the progress in their non-Grameen dealings. About two years before we met them they had made an abortive attempt to send their son abroad. To raise the money they used Grameen loans, mortgaged their small parcel of land at the formal Farmers Bank (BKB) and took many informal loans from friends and relatives. Only two of these loans were still outstanding when we started tracking them, and they are the two main items in the lower non-Grameen part of table 5. They were very keen to clear these loans and as we see in Q2 (the second quarter of our three-year research period) they repaid 15,000 taka, sourced from a Grameen basic loan that Rabeya had topped up in the first quarter and from the return of a private loan she had made to her brother. Then in the fifth quarter they managed to pay off the bank, this time sourced partly out of income from the fish trading but also from the large Grameen investment loan they received that quarter. Note that these were the only non-Grameen transactions for the first 18 months of our research. In the following 18 months they themselves became informal lenders, or were able to place cash with a moneyguard. Apart from some small amounts of shop credit they avoided any kind of borrowing on the informal market

The upper half of table 5shows how they concentrated nearly all of their financial activity at Grameen. The first line shows her Grameen II basic loan which she topped up at six monthly intervals until

[40] Six of the contracts (four savings contracts and two loan contracts) had already started, giving them an opening balance of 21,000 taka in liabilities (loans taken) and 2173 taka in assets (cash in deposit accounts).

Table 5: quarterly transactions by Rokon and Rabeya, 2003-2005, taka

Instrument	Q1 in	Q1 out	Q2 in	Q2 out	Q3 in	Q3 out	Q4 in	Q4 out	Q5 in	Q5 out	Q6 in	Q6 out	Q7 in	Q7 out	Q8 in	Q8 out	Q9 in	Q9 out	Q10 in	Q10 out	Q11 in	Q11 out	Q12 in	Q12 out
Grameen																								
GB basic loan	11000	-442	0	-2772	0	-3003	0	-2772	0	-2011	0	0	0	0	0	0	0	0	0	0	0	0	0	0
GB investment loan	0	0	0	0	0	0	0	0	17000	-1765	0	-4641	9400	-4641	0	-4284	0	-4284	14200	-5271	0	-5880	0	-5040
GB cattle loan	0	0	0	0	0	0	0	0	0	0	0	0	0	0	8000	0	0	-8000	0	0	0	0	0	0
GB cattle loan	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	8000	0	0	0
GB cattle loan	0	0	0	0	8000	0	0	-8000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
GB personal savings	102	-435	500	-120	50	-460	650	-740	1650	-965	350	-240	150	-495	450	-240	150	-87	5100	-5615	800	-280	300	-240
GB special savings	0	-275	0	0	0	-200	0	0	0	-425	0	0	0	-235	0	0	0	0	0	-355	0	-160	0	0
GB GPS	0	-300	0	-300	0	-300	0	-300	0	-300	0	-300	0	-330	0	-302	0	-300	0	-300	0	-300	0	-300
GB GPS	0	0	0	0	0	-50	0	-150	0	-150	0	-150	0	-150	0	-150	0	-150	0	-100	0	-100	0	0
GB fixed deposit	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-5000	0	0	0	0
GB loan insurance	0	0	0	0	0	0	0	0	0	-102	0	0	0	-240	0	0	0	0	0	0	0	-240	0	0
Formal																								
Bank loan taken	0	0	0	0	0	0	0	0	0	-6000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Informal																								
Interest-free loan given	0	-5000	5000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest-free loan given	0	0	0	0	0	0	0	0	0	0	0	0	0	-1000	1000	0	0	0	0	0	0	0	0	0
Interest-free loan given	0	0	0	0	0	0	0	0	0	0	0	0	0	0	500	-500	0	0	0	0	0	0	0	0
Interest-free loan given	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-1000	1000	0	0	0	0	0	0	0
Interest-free loan given	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2000	-2000	0	0	0	0	0	0
Interest-free loan given	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-5000	5000	0	0	0
Interest-free loan given	0	0	0	0	0	0	0	0	0	0	0	0	400	0	0	-400	0	0	0	0	0	0	0	0
Interest-free loan given	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	500	-500	0	0
Interest-free loan taken	0	0	0	-15000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Saved with moneyguard	0	0	0	0	0	0	0	0	0	0	0	0	0	-1500	0	0	1500	0	0	0	0	0	0	0
Saved with moneyguard	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-8000	8000	0	0	0	0	0	0	0
Shop credit taken	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	100	0	100	-200	250	-250	100	0

Grameen allowed her the large 17,000 taka loan in the fifth quarter, which she again topped up in the seventh and tenth quarters. Each year when Grameen offered its special cattle loan, she took one, even though she only once used it to buy a cow. We have already seen that some of this inflow went to pay off private and bank debt. The rest was used largely in the fish trading business, which expanded steadily, and in domestic improvements and education costs, and in the tenth quarter 5000 taka went into a fixed deposit account at Grameen, the first such that she had ever held. She is delighted, saying that it is the first step in realising a dream that she has always had – to have either land or money in the bank to secure herself in old age. For the same reason she has opened not one but two GPSs, depositing in total 150 taka each month. But note also the intensive use of her personal savings account. She is a good saver, rarely putting in less than 20 taka a week, and often managing to save a good deal more than that as we see in quarters 1, 3, 4, 5, 7, and 10. But not a quarter goes by without her also making one or more withdrawal. In quarter five she takes out 1500 taka because the fish business needed more capital, but our interview records show that most of her withdrawals are for everyday purposes – domestic consumption, health care for the children, education, short-term lack of cash to make her weekly loan repayments, and so on[41]. In other words, she is using her passbook savings account as a 'transaction account' as many better off owners of current (or checking) accounts do.

Rokon and Rabeya's daughter, Nasma, at home: they have a one-room mud-walled mud-floored hut but their growing prosperity is announced by the fine glass-fronted cabinet

Let us try and sum up what the accounts of these families, Mukul and Joshna, and Rokon and Rabeya, tell us:

- √ Grameen services are not just for women entrepreneurs or would-be entrepreneurs: loans are used for a wide variety of purposes in addition to businesses, including consumption, social investments (marriages, for example), personal investments (education and health), fixed asset investments (land, home repairs), financial investments (bank deposits) and, as we shall see later, on-lending to others
- √ Grameen services are not offered in a vacuum: more often than not they interact with other borrowing and saving activity going on in the household
- √ Grameen users have 'agency', as the sociologists say: Grameen services do not 'impact' members by causing them to act in a certain way, but provide them with options to diversify their lives and livelihoods: *no two of our respondents' stories are the same*
- √ Grameen II shows that as the breadth of products on offer increases, the utility to the users rises dramatically. In a fully developed case such as that shown by Rokon and Rabeya, the Grameen II set of products serves all the household's basic financial needs: they have a transaction account (the personal savings) and two ways of improving their capital position – the GPS to help them build the capital and the fixed deposit account to store and grow it for future use such as Rabeya's likely widowhood. In addition to that, they have access to loans for a wide range of uses.
- √ In short, Grameen II is close to offering to the poor a set of basic services similar to those offered to the non-poor by conventional banks.

[41] The flows shown in quarter 10 are there because the money that went into the fixed deposit account from her loan passed for a few days through her personal savings account.

Coming and going

No two of our respondents' stories are the same, but alas we have no space here to tell them all. But we did promise to say something about why people joined, and left, and rejoined, and in one case left, joined, and left once again. Are there any clues here that can shed more light on the utility of Grameen II services?

We begin with the former members who **rejoined** during the research. There are seven cases. Four of them dropped out during the 'crisis' years of the 1998 floods and its aftermath, leaving debts to Grameen behind them. Either they themselves fell into repayment difficulties at the time, or they belonged to centres which disintegrated. The only common thread to their stories is that Grameen II staff did diligently try to get them involved in Grameen again. But this didn't always prove easy. Three of these four households have meanwhile managed to export labour overseas, and are now enjoying remittances big enough to place them in the middle to upper income bracket. This has dampened their need to rejoin Grameen. In one case for example, the Grameen worker prepared a contract loan document which the member reluctantly signed when the worker told her (truthfully) that if she paid the contract loan regularly and opened a GPS, he would soon be able to offer her a regular basic loan. This duly happened, but the member thought that the size of loan she was offered was so derisorily small that she soon stopped bothering to repay it, and is now inactive again. In another case, Grameen staff made repeated efforts to get the former member to pay according to a succession of contract loans that they signed, but in each case after a few weeks the member stopped paying, partly because she was enjoying substantial remittance income and partly because by that time she had joined another microcredit organisation and had already built up her loan rights there to almost 20,000 taka. So in mid-2005 the Grameen branch manager intervened, and gave her an enormous 50,000 taka 'special investment' loan, 21,000 taka of which was used to pay off her old Grameen debts (and most of the rest was used to repay private debt incurred for sending the daughter abroad). This is the example we referred to in an earlier section when we said we thought there were some injudicious cases of conversion of contract to normal loan.

There was more success with poorer members. Nargis is a very poor landless illiterate widow who suffered some social discrimination because her husband committed suicide. As soon as he died she left Grameen, clearing her debts with her savings but unable any longer to make the weekly payments. Later, as her children grew up and left home, she thought again about microcredit organisations, and when we met her she had joined Proshika, a national level NGO. She joined mainly to save, but she was obliged to take a small loan which she on lent to her sister-in-law, and when that sister-in-law stopped making repayments Nargis set off her savings against the loan balance and left. It was about this time that Grameen agreed to take her on again and in late 2003 she took a small 4000 taka loan, used initially to repay private debt, which she has since topped up several times, putting some of this money to use in her son's vegetable stall. But she is also in a local ASCA (a form of savings and loan club) from which she is able to take similar sized loans. With the help of local small-scale interest-free loans from neighbours, she more or less keeps up her payments to her two lenders. Encouraged by this, in mid-2005 she joins another microcredit organisation, ASA, and takes a 5000 taka loan and buys her son a 'rickshaw van'[42].

There are four of our respondents whom we selected because they were **not members of Grameen**, but who subsequently surprised us by **joining Grameen during the research**[43]. Of these, three were poor and one was wealthy. Their stories are very different. The wealthy respondent owns a tailoring shop in a market and also has some farmland. When we first met him he told us that he knew nothing of Grameen, but that he disapproved of microcredit organisations since they work with women who then disobey their husbands. He asked us rhetorically 'what kind of a bank is that?' But like other middle-class businessmen, he keeps well-informed about financial services in general, so that in 2004 when he heard of the very generous rate of interest that Grameen was paying on the GPS, he sent off his wife to join a centre, where her main role is to pay 250 taka per month into their GPS (though they were also obliged to take a small loan which he has used in the shop). She says 'I don't dislike the meetings but of course I can't waste time, so I just make my GPS deposit and loan repayments and come home'.

[42] A rickshaw is a pedal-driven tricycle for passengers: a rickshaw van is similar except that it has a flatbed behind the driver which is used to carry goods, (and sometimes passengers too).

[43] It is of course possible that we influenced their decision to join, merely by talking to them about microfinance. But we were aware of that problem and did our best to minimise it. We do not think it was decisive.

The three poor new joiners had to struggle to join, making several approaches to Grameen staff or Grameen centre chiefs before they succeeded. All needed access to a little capital to improve impoverished livelihoods, deal with debt, and gain a safe place to save. Bibi and her day-labouring husband, illiterate and landless (they don't even own the land their hut sits on) was advised by the centre chief of her local centre, with whom she is on friendly terms, that it would be helpful if she could get a wealthy family to sponsor her, by giving some kind of informal guarantee to the Grameen worker that they would cover Bibi's loans if she fell into trouble. At the time she joined Grameen Bibi was already a member of BRAC, but the BRAC weekly meeting was held at a place several kilometres walk from Bibi's home so once she secured her membership in Grameen she dropped out of BRAC. Bibi has a job sorting cotton waste in a tiny rural factory, and she uses her Grameen membership to save a little of her wage and to borrow to buy livestock. So far she is doing well. Like the other two poorer cases, Bibi has benefited from the expansion that has come with Grameen II, which has encouraged staff to take on some extremely poor new members, as we shall see in the next part of this section.

A respondent who **left Grameen membership** during our research illustrates an as yet unsolved problem in Bangladeshi microfinance. In many parts of the world, small businesspeople look to their bank or other financial partner as a resort in times of trouble. But in Bangladesh it is common for people to quit a microfinance provider if their business declines. Kalam is the son of a prosperous farmer, but his father is determined to make him stand on his own feet. Kalam borrowed money from two microfinance organisations through his wife Firoza, and used it to trade in betel nuts. But he is not a natural businessman, and the business never really got off the ground. As his income became more uncertain he instructed his wife first to leave BRAC (in early 2004) and then to leave Grameen (in the autumn of 2004). Kalam is now unemployed and the word in the neighbourhood is that he is turning to gambling, although the excellent reputation of her father-in-law has protected Firoza from ill repute so far. Grameen II's contract loan system was designed to help people like Kalam and Firoza, by reducing or rescheduling their repayments when business is in trouble, but as we have seen staff are often reluctant to use the system, and in this case as soon as Firoza's weekly payments began to show some irregularity, the staff were happy to help her close her account.

Bibi at work sorting rags

The reader will have noticed that in many of these stories respondents have **access to more than one microcredit provider.** As organisational growth has accelerated (see the first section) this has become more and more common. It is one of the factors that gives microfinance clients 'agency' and makes it less and less easy to talk about the 'impact' of specific microfinance providers on poor people and more and more sensible to talk about customer choice. Our respondents who joined Grameen and then left and again rejoined, or left and rejoined and then left again, were mainly able to make these choices because competition between microfinance providers has lowered the barriers and speeded up the process of joining and borrowing. Joyful, for example, was building up a good balance of savings in Grameen, but as is usually the case she came under strong pressure from the staff to borrow as well as save:. At one point she became concerned that if she was unable to service her loan regularly her savings would be jeopardised, so she closed her account and her membership and took her savings out, placing them elsewhere[44]. A few months later the household needed cash to put into a rice trading business that her son was setting up and so, with no hesitation and no opposition from Grameen, she joined her centre once again, started saving from scratch, and plans to borrow in time for the next major rice harvest.

She may have been influenced by Shamoli, who lives in the same neighbourhood, a poor and isolated one in south-central Bangladesh. Shamoli is the outstanding example of a client who has **a purely instrumental relationship with her microcredit providers**, and has no time at all for the rhetoric of 'membership' and group solidarity. She is illiterate, in her late 40s, with an older husband who does a little farming on their modest amount of land. They have grown-up sons, one in Dhaka who is slowly taking over as head of the family, and younger ones serving in a tea stall and day labouring. She told me, with no prompting, that

> NGOs are like any trader in the market now. You can buy what you like from any of them any time you like. You can join one and get a loan that same week and then leave again as soon as

[44] Not, as it happens, in another microfinance organisation, but by lending it locally at 8% per month.

> you don't need them any more, and still they will be delighted to take you back if you go to them again later

Her behaviour bears out her words. She was an early user of microcredit, having first joined Grameen in the early 1990s. Like many others she left around 1998, but came back later. When we met her she was taking modest loans from Grameen of up to 8000 taka, and placing the money with her sons (whether they had asked for it or not!) She was not a particularly regular re-payer and exasperated the poor centre manager, whom she treated with disdain. Just before our research finished she had negotiated a fresh loan from Grameen but the bank manager intervened to reduce its size, so she just shrugged and closed her account. That left her with memberships in BRAC, ASA, and the Productive Employment Project (PEP, a government run version of Grameen). At one point she left ASA because, she says, the group leader failed to support her request for a loan: but a few months later she decided she was in need of money again so she had her husband join the new ASA scheme for members' husbands. She joined BRAC as late as 2004, took a small loan, failed to service it regularly, applied for a new loan and was refused one of the size she wanted, and quit in September 2005. Meanwhile, as an inveterate consumer of microfinance wares, she discovered Proshika and joined. The Proshika staff were a bit canny, having heard about her from the other microfinance providers, so instead of getting her to attend meetings in her village, they used to send their worker to the tea stall in the market several kilometres away and collect repayments directly from her son. We went to see the son, who scratched his head and confirmed that he was repaying the loan but didn't know what it had been used for: he thought his mother had leased in some land (she had). He said that his mother's addiction to microcredit was a bit of a problem for the family and that big brother in Dhaka was trying to restrain her, with little success.

We conclude:

Shamoli's son in the tea-stall (right) explaining the problem of his mother's loans to researcher S K Sinha. Angaria, Sariatpur, November 2005

√ For microfinance clients in Bangladesh, the range of choice available to them is expanding rapidly

√ Grameen Bank, through Grameen II, is in the vanguard of this process, offering a wide a range of products with a wider range of applications than any of its competitors

√ Since Grameen does not go out of its way to market its products as a comprehensive solution to the money management problems of the rural poor, they are having to learn it for themselves. They are doing so, at rates which vary with the personalities and experience of individual households, resulting in an enormous variety of behaviours

√ As the range of choice expands, microfinance clients are becoming less and less constrained by convention and by instruction from staff, and more and more able to apply the products on offer as they please, to the full range of their financial needs

√ In the process, the idea of the microfinance centre as a club of women helping each other start and run businesses is giving way to the idea of the centre as an off-premises sales point for financial services: as its 'students' teach themselves new lessons, the classroom room is slowly turning into a money-shop

Borrowing to lend

A common debate about microcredit for women is the degree to which they themselves use and control the loans they take from providers such as Grameen Bank. We do not engage in that complex debate here (though we may do so in another publication). However in writing the diaries of our respondents we came across very many cases where the nominal borrower had handed the money over to somebody else to use. It may be useful to categorise the different forms of on-lending.

First, it is very common indeed for women members to hand over loans to an immediate family member, usually male and usually a husband father or son, for use. Sometimes in these cases the borrower herself retains overall control over the proceeds of the loan, sometimes not, and sometimes control is shared.

Second, it is common also for women borrowers to on-lend, usually for profit, to neighbours or to relatives outside the immediate household. Sometimes these loans have terms similar to traditional informal loans. For example cash might be lent at 5% or 10% per month, or lent for an agricultural season in return for a given amount of grain per 1000 taka lent. But we also found, with growing frequency, that these loans are made on 'microcredit' terms: the secondary borrower will repay weekly, so that it is easy for the member to keep up with her repayments at Grameen. Often, but not always, the secondary borrower will also pay for the Grameen member's savings deposits, in which case these payments can be regarded as interest on the on-lending.

Thirdly, it is common for Grameen loans to be used to make indefinite land lease contracts. These go by different names in different parts of Bangladesh, a common one being a *kot* loan. Under this arrangement, the lender enjoys the land until the borrower has paid back the loan principal in total, however long that may be. Although attempts have been made to outlaw these arrangements, they can be mutually beneficial. It is not uncommon for a middle income rural household to *kat* lease their land to a microcredit client poorer than themselves, in order to access capital to invest in education or some other occupation more rewarding than farming. We came across such cases among our respondents.

There is a traditional way of writing about rural lending that sees it as an expression of power relationships between groups or individuals. It may be useful also to reflect on what we saw among our respondents. Take first the case of Jahanara, an excellent example of the symbiosis between microcredit and the informal credit market:

> Jahanara has been widowed for many years and is in chronic poor health with crippling arthritis which prevents her moving around. She is aging and barely educated, but managed in the past as a 'koranic tutor', instructing young children at home in the rudiments of Islam. But this income is now drying up, because of competition from better qualified men in the local mosque. She now spends her time at home rearing chickens, ducks, and pigeons whose eggs and flesh are sold for her at the local market by children who take a small part of the income. She is indeed poor, and it is at first sight surprising that she is an active borrowing member of no less than three microcredit organisations, Grameen, ASA, and Proshika. She takes loans regularly from all three and on-lends them. This provides her with additional income and is her main social life. Indeed, she once left ASA because it shifted the meeting location away from her house, depriving her of a weekly gossip on her own doorstep. Recently she has relented and rejoined ASA. The people to whom she on-lends her microcredit loans do not always repay her regularly, but because of the creditworthiness that her membership of these three organisations gives her, she does not find it difficult to borrow short-term, either interest-free or on interest, when she needs it.

Reelu's is a case of a relatively low-income moneylender:

> Reelu's household is just about poor enough to qualify for membership in Grameen. We had selected her as an ex-Grameen member, because she had left Grameen when her husband went abroad. Now he is back, an old man, and runs a tiny betel-nut stall. When Reelu left Grameen, she was allowed to keep her GPS, which was a large one ($7.50 a month) but in 2003 Grameen staff persuaded her to rejoin, which she did, and opened an additional GPS. She is also in a local NGO where she saves and takes small loans. When her husband was abroad and remitting, Reelu fell into the role of a small moneylender. She has an open cheerful disposition, and people trust her. She gives interest-free loans to people who capture her sympathy, unsecured loans at an interest-rate of 5% or 10% per month for less deserving cases and for business people, and she also lends against jewellery. When we reviewed her transactions in the second quarter of 2005 we found that the range of her lending was from an interest-free loan of $6 to a poor neighbour to a $225 interest-bearing loan to a businessman. The latter was sourced from a large business expansion loan that Grameen had willingly given her (assessing her a good risk given her growing GPS and other savings deposits), so to balance her assets and liabilities nicely she has asked the secondary borrower to repay her weekly, which he does. Reelu is modestly proud of her lending, seeing herself as a helpful supplier of liquidity to family and neighbours.

Working with the poor

Microfinance in Bangladesh has three world-beating strengths:

- √ it enjoys massive outreach ('it has crossed 16 million active borrowers, with a staggering 70% of poor households having access' says the World Bank[45])
- √ it has some of the lowest interest rates on microloans in the world
- √ it has a continuing and genuine commitment to work with the poor and very poor

While other countries may be catching up with the first two of these, Bangladesh is likely to keep its lead in the third for some time. This tradition is largely the work of Grameen Bank, which was seen from the start as a means of conquering poverty by working directly with poor people. Grameen's spokespeople, above all founding managing director Muhammad Yunus who is still very active on the world stage, continue to stress this ultimate goal, without which microfinance, they argue, would lose its point.

'Working directly with poor people' means, in the Grameen context, recruiting women from poor households into centre membership. There is no ambiguity about that, so examining Grameen's success at working with poor people is an aspect of examining its membership. The questions for this report, then, are whether under Grameen II the bank has been better able to attract and retain people as poor or poorer than under classic Grameen, and whether it has been able to do it in larger numbers.

These are not easy questions. Bangladesh is steadily getting less poor, so the number of households that are poor when measured by an absolute standard such as *per capita* calorie intake (the basis of Bangladesh's official 'poverty line') is in decline: Grameen II would have to be doing better than classic Grameen just to take in a similar proportion of households with equally low calorie intake. Studying 'retention' is even more complex.

Nevertheless Grameen has always used a means test to screen applicants for membership, and it has been followed in this by virtually all the other microfinance providers. Its main components have been land ownership, asset ownership, and income. The first, land ownership, anchors the test: Grameen members should come from households that own no more than half an acre of medium quality agricultural land: the standard for the other two components is set in relation to the local price of such a piece of land. But it is hard to make such a test proof against loopholes: what do you do about landless young households that are about to inherit large quantities of land, or about couples who are themselves very poor even though they live in households with considerable assets? Perhaps for these reasons microfinance leaders in Bangladesh have often insisted on another argument: that any Bangladeshi *knows* who is poor and who isn't, and with a bit of experience and training this instinctive understanding can be made surprisingly reliable. Such arguments raise the eyebrows (and furrow the brows) of those who make their living by elaborate poverty studies, but there is much to be said for them, and in practice they do help Grameen field staff[46] make sensible decisions about who is eligible.

New in Grameen II

Grameen II introduces three innovations that may affect the poverty level of new recruits or alter the likelihood that they will remain in Grameen:

- √ it has introduced a new class of member, the 'struggling' member
- √ it has strengthened its means test
- √ its new range of products and product conditions may be more or less attractive to the poor or more or less easy for them to use

At the same time, growing competition between providers is forcing changes that affect membership.

[45] Praful C Patel, Regional Vice President, World Bank: *Microcredit: The way forward:* The Daily Star, Dhaka, January 25 2006

[46] Centre managers are responsible for recruitment, in consultation with the centre members led by the centre chief: staff from the Zonal audit office are obliged to check a proportion of memberships during their audits and have the power to cancel any that they believe inappropriate – no appeal from the branch staff is allowed. Research shows some such cancellations do occur.

The **struggling member programme** has certainly increased the number of very poor people who have contact with Grameen Bank. As we saw in section 1 there were 56,000 registered members holding 21 million taka in loans (about $6 each) at the end of 2005, and the number is set to rise. During our research we interviewed only about two dozen of these members, but they were uniformly beggars and extremely poor: the photograph on the right is not untypical. We have little doubt that the vast majority of these 56,000 members are indeed from among the very poor. But we don't yet know much about the utility of the loans they are taking nor about their future in Grameen. Global figures do not yet tell us much: by mid-June 2005, the latest figures we have to hand, 711 of the struggling members had ‘graduated’ to full membership of a centre, but we have no news of how they are doing.

Although we lack the basis for making any kind of judgment of the scheme, we remain interested in it. Most of the discussions in Bangladesh about microfinance and the very poor have assumed that the very poor must in some way be prepared – perhaps by skills training or some other kind of social intermediation[47] – to enable them to take part in conventional microfinance. Grameen’s struggling member scheme is the largest so far to take a different approach, in which microfinancial products are adapted to suit the very poor rather than adapting the very poor to suit the product.

Struggling member Anita and her granddaughter making a mud stove at her hut on the roadway, Sariatpur 2005. The child lives with her parents in the similar hut alongside. Anita has taken two loans of $9 and spent them on chickens (seen foreground). She repaid the loans from begging.

The **strengthening of the means test** was not a part of Grameen II as originally conceived, but was introduced in early 2004. A translation of the new rules appears as appendix 2. Perhaps the most notable changes are under paragraph 3 which lists the conditions that determine *in*eligibility. This sets a maximum household income level of 4000 taka per month (about $60 at end 2005 rates) and even less ($45) in the case of households with a formal salaried employee. Even with a conservative estimate of average household size, this implies that a per capita income of 50 cents a day would be the maximum allowed. Membership is also barred to anyone living in a household that has a worker overseas, or to anyone who is a graduate or owns any one of a wide range of domestic durables: a colour television, refrigerator, washing machine, air conditioner, vacuum cleaner, microwave oven, sofa set, timber bedstead, motor bicycle or power tiller.

These rules seem arduous to many centre managers, although in our observation they do their best to comply, or at least to have some more or less acceptable reason for lack of compliance (‘they took the power tiller out to the fields the day I was there ’, ‘they didn't tell us about the brother’s job’, and so on). One complaint that we were able to verify is that these rules make little allowance for differences in the economic status of branch areas. At our sample branch 3, in an isolated poverty-plagued area it is not so hard to find households that comply, but at sample branch 2, just 90 minutes on a metalled road from the capital, close to a prosperous market, and with a strong tradition of overseas work, very few households comply, and many of those already have membership in Grameen or in another microfinance organisation.

Not surprisingly, it wasn't difficult for us to find cases of recent joiners who do not comply, strictly speaking. However, in our opinion the main reason for non-compliance was not the strictness of the new rules but the pressures on centre managers that come from rapid expansion and the popularity of the new Grameen II products.

But to understand what is having by far the biggest impact on Grameen's membership recruitment and retention, including that of the poor and very poor, we need to look at the twin phenomena of Grameen II's **new products** and the changes in business practices brought about by **competition between providers**. The massive expansion of deposit taking has fuelled extremely rapid growth of business, involving an equally rapidly-growing membership, as we saw in section 1. Even if one takes a sceptical view of how many of these new members are poor or very poor, their numbers must certainly be in the hundreds of thousands in the last three years alone. As pressure piles on to centre managers to recruit as fast as possible, they stretch both the upper and lower end of the wealth-spectrum of new members they are willing to take on. We saw examples of that in the previous part of this section: the prosperous trader

[47] BRAC’s ‘TUP’ (Targeting the Ultra Poor) is probably the largest, most thoughtfully designed, and most successful scheme of this kind. See Matin 2001

who had no trouble getting his wife accepted as a member when he wanted to take advantage of Grameen's generous rates of interest paid on the GPS, and very poor women whom we had selected on the basis of their being ‘too poor to join an NGO’ but who surprised us by ending up in Grameen (and sometimes with other providers as well) during the course of our research. These effects have all been multiplied by competition between providers: all the major providers are expanding quickly, and they are being chased by a hungry pack of midsize organisations. As Shamoli said (pages 36-37) with rare self-awareness ‘these organisations will take anyone these days – even someone like me’.

At the top end of the wealth spectrum new members are being strongly attracted by the bigger loans, the education grants and loans, and the GPS. At the bottom end poor and very poor potential members are attracted by passbook savings, rapid access to loans (most organisations including Grameen will now give a new member a loan within one week of joining), and the ability to top-up loans, all of which make Grameen II loans much easier to manage than those of classic Grameen.

I must admit that much of this has taken me by surprise. When I began this research at the end of 2002 my guess was that certain key novelties within Grameen II would be the ones that would make life easier for the poor and very poor. I was thinking in particular of variable loan terms, variable repayment instalments, and the contract loan. I had long noticed[48] that the poorer you were the harder it was to make equal regular weekly payments *throughout the year*. I reasoned that variable loan terms would allow very poor people to take shorter term loans which could avoid the hungry season, and that variable repayment instalments would allow them to reduce their outgoings during times of hardship. Then, if things still went awry, they could apply for temporary contract loan status. But as we have seen it is precisely these three innovations – variable terms, variable repayments, and the contract loan – that have proved least popular with Grameen's field staff, and are still rarely to be found. I remain hopeful, as does managing director Yunus[49], that in the course of time these devices will be more often used and will prove of great benefit to the poorer members.

Researcher Maniruzzaman, on our team, has given particular attention to the question of recruitment and retention of the poor and very poor. He summarised his findings in a ***MicroSave*** Grameen II Briefing Note #5, on Membership, available on the ***MicroSave*** website (www.microsave.net)[50]. He reports a number of field studies:

- √ In a survey in 2003 of 63 women who had been members under classic Grameen of whom 31 had ‘dropped out’, it was found that the drop-outs fell into two main groups: mature members who no longer needed the services, and very poor members who found the weekly instalments difficult. This result suggested that any change that eases repayment difficulties is likely to improve the retention of the poorest members.
- √ In a survey of approximately 100 new members who joined our ‘observation’ centres during the research period 10% breached the eligibility rules. Of the remainder – by definition all eligible – about 11% were found to have come from very poor households.
- √ In another survey in 2005 about a hundred households in a small number of neighbourhoods close to Grameen centres were divided into quartiles on the basis of participatory wealth ranking. The households with Grameen memberships were concentrated in the two middle quartiles. Those that fell into the top quartile included both long-term members who had prospered under Grameen and new members who breached the eligibility rules. Those that fell into the bottom quartile included some recent joiners.

Maniruzzaman concluded that the majority of new members are poor, but that the bank's membership policies are under stress. When he presented his results to senior management, he was told that Grameen is considering strategies to further discourage the non-poor, for example by greater insistence on

[48] In 1985 I started, in Dhaka, the first urban version of the Grameen model, and between 1985 and 1990 I ran a version of the Grameen model in a particularly poor and isolated part of southern Bangladesh, which grew to more than 25,000 clients. It was these experiences that set me off looking for innovations in, and alternatives to, the model.

[49] Interview in his office, Grameen HQ, October 1, 2003

[50] Another four Grameen II Briefing Notes can also be found there: they are two-page summaries of major Grameen II issues, mostly written in early 2005.

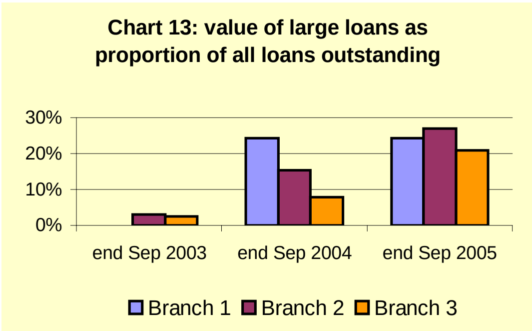
attendance at the weekly meetings, capping loan sizes, and discouraging large denomination GPSs. Some reflections on these ideas are included in our final section.

Section 3: Perspectives

In this section we consider a small number of matters that particularly distinguish Grameen Bank under Grameen II, and have implications for the future development of the bank.

Making the bigger loans perform

The biggest risk that Grameen is presently taking concerns the larger microenterprise loans. These, as we have seen in earlier sections, range from a low of 10,000 taka (about $150 at current rates) – though most are of 20,000 taka or more – up to several hundred thousand taka. The average outstanding value of the 932 loans in this category in our three sample branches at the end of September 2005 was 18,147 taka ($275), implying an average disbursed value of considerably more than that[51]. Chart 13 shows how the share of this kind of loan has grown over the three years of our research in our three sample branches. Note that growth has been uneven across the three branches. The smaller branch 1, by most indices the best performer, started disbursing these loans later but kept them to less than 25% of the portfolio in the two most recent years for which we have data. The poorly performing branch 3 has seen rapid growth of these loans in 2005. Branch 2, which has the highest proportion of upper-poor members and the most vibrant local economy, has shown the strongest growth and by September 2005 had the largest proportion of its portfolio invested in these loans.



These loans are not appraised using techniques that are becoming popular among microenterprise lenders around the world, nor have the centre managers (the equivalent of loan officers in other organisations) had any special training in business loan appraisal. Loans over $1,500 require guarantors and are secured against land titles, but otherwise Grameen continues to rely on the discipline of the centre and its belief that 'the poor always pay back'.

In thinking about whether that is wise, it helps to remember history and geography. Grameen has always had a very sharp focus on selecting members from poor rural households, and the traditional approach used in the centres tended to minimise differentials in the values of loans given to the members. Indeed, in the heyday of classic Grameen, loans tended to rise from a common initial loan size of, say, 3000 taka, by 1000 taka each yearly cycle, so one often found that a four-year-old centre would have members nearly all of whom were holding loans of between 6000 and 8000 taka. Classic Grameen also had overall credit limits for branches, tending towards overall credit limits for individual centres. These were done away with under Grameen II.

In other places in the world – I am thinking of organisations that I have visited in East Africa, for example – microcredit organisations, even those that emulated Grameen closely, often focused more sharply on market traders than on the general rural population, and often had less of a poverty focus. As a result, strong demand for differentials in loan values arose quickly within centres, and these organisations soon learned that even the milder forms of joint liability were very hard to enforce when a majority of members held loans that were 10 or even 20 times smaller than those held by an elite few. These kinds of pressures pushed many of these organisations to begin to deal with their larger borrowers as individuals, and to develop systems and training modules for loan appraisals based on the businesses' worth and cash flow. It may be that in introducing these larger loans under Grameen II, Grameen Bank itself is going to have to find out how to deal with this situation.

In the centres that we have been observing each week, we notice growing differentials in loan sizes between members. This is driven on the one hand by the increasing number of bigger loans to selected members, and on the other hand by the very large number of new members who have so dramatically swelled the ranks of Grameen's membership over the last couple of years. Most of these new members

[51] And members may, of course, hold one of these loans in parallel with up to two other loans

still have 'starter level' loans of 4000 or 5000 taka ($60-75). Irrespective of whether the larger loans lead to the 'East African problem', we should remember that repayment problems very rarely occur during the first years of membership when loan sizes and consequently weekly repayment instalment sizes are still small. As these loan sizes inevitably increase, it is possible that the current high rates of repayment being enjoyed by Grameen II will fall off. If so, it will be interesting to see whether this results in a decline in membership (or a decline in the rate of increase of membership) as members in difficulty drop out or are pushed out, or a rise in the number of contract loans negotiated, or in greater use of variable terms and variable repayment schedules: without strong guidance from head office the behaviour and attitudes of branch and centre managers will be critical here.

Maintaining the poverty focus

As the immediately previous paragraphs show, focusing sharply on the poor is, for Grameen, not merely a moral choice but a crucial aspect of its business model. Grameen is facing a real dilemma here. As this Report has generally shown, Grameen II products are very much more attractive to poor and very poor households than was the case under classic Grameen, because they are easier to use and between them address a wider range of financial needs, and this may become even more true as so-far-underused elements of Grameen II such as variable terms and variable repayment schedules become more common. All this is excellent news. But it is not just the poor who now find Grameen much more attractive than previously. Middle-class and wealthy villagers are being drawn to the bank by the deposit accounts that are open to them. As they find out more about the bank, not only are they taking it more seriously as a genuine competitor to the traditional commercial banks found in every market town in Bangladesh, they are also newly appreciating the facilities that are open only to members: large loans, education grants and loans, and the GPS, all offered in a corruption-free, friendly and relatively less bureaucratic environment. Inevitably an increasing number of such people are seeking admission to Grameen membership for their wives or daughters, making it hard for Grameen staff, under pressure to recruit as fast as they can, to resist their requests.

The answer to this dilemma that is now popular worldwide in microfinance is to argue for universal access for all who want the service, rich or poor. The argument in summary is that by taking on all classes of client, a microfinance provider will expand its business and be able to serve everyone better, including the poor and very poor. Grameen remains sceptical about that argument, as its recent actions have shown. In early 2004 it tightened the means test in an attempt to ensure that new recruits continue to come from the poorest households. In early 2006, in informal conversation with us[52], the deputy managing director mused about ideas such as putting a cap on loan and GPS values or making access to products even more closely dependent on regular attendance at weekly meetings. But making services *less* attractive would surely be a retrograde step: for just as more attractive services are more attractive to everyone, so less attractive services would be less attractive to everyone. Established members who have prospered under Grameen – and there are hundreds of thousands of them – would resent having their depositing and borrowing rights capped in this way. With a clear trend in Bangladesh towards relaxing compulsory attendance at meetings[53], Grameen would handicap its competitiveness severely if it really did get serious about insisting that everybody attends full-time at the meeting every week. And these ideas would also make Grameen's already over-complex rule books even fatter.

None of the present authors would argue that Grameen should relax its focus on the poor, for we all believe that outreach to poor and very poor households *with a full range of services, including loans*, is one of the greatest strengths of microfinance in Bangladesh[54]. But it is undeniable that Grameen's membership policy is under stress, and that how it relieves that stress will be a crucial part of its future success.

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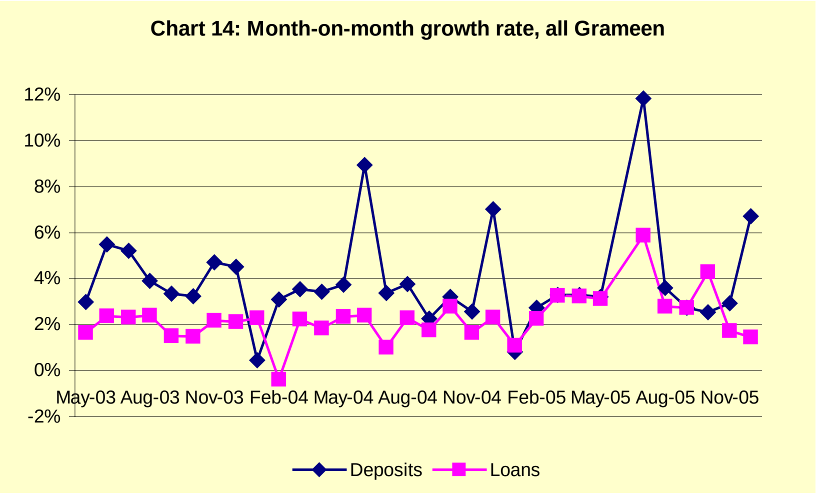
[52] With researcher Maniruzzaman, as reported in the *Grameen II Briefing Note 5: Grameen II's Membership*, available at www.microsave.net

[53] ASA, for example, has long since told its branch managers that they need not insist on attendance at meetings provided that payments are made. ASA members may send their payments through others, or just stop by for a few moments to make payments to the visiting worker. This trend is already observable within Grameen, as a centre observation diaries clearly show.

[54] For a well-argued contrary view, see Marguerite S. Robinson, *The Microfinance Revolution*, volume 1, World Bank, 2001, especially pages 19-22.

New challenges in fund management

As we saw in section 1, in late 2004 Grameen's deposit portfolio exceeded its loan portfolio in value for the first time in its history. Indeed, as chart 14 shows, for all except three of the 31 months from May 2003 to December 2005 the growth rate of the savings portfolio exceeded that of the loan portfolio, and in six of those months exceeded a growth rate of 5% per month: its average monthly growth rate for those 31 months was 3.95% as against 2.27% for the loan portfolio. At these rates the savings portfolio more than doubles every two years while the loan portfolio takes a little more than three years to double. When Grameen first fully established Grameen II in the field (in August 2002) it had a savings portfolio of 8 billion taka and a loan portfolio of 12 billion. At the end of 2005 its savings portfolio was 31.66 billion and its loan portfolio 27.35 billion taka.



So Grameen has a formidable new fund management challenge. Continuing to accept deposits at this rate and attempting to invest most of them in loans to members could deepen the repayment-risk problems discussed on the previous page, at an accelerating rate. Grameen has already signed one contract to shift some of its deposits into a mutual fund (unit trust) based on the Dhaka stock exchange, which, in common with many emerging market exchanges has been doing well lately. But prudence suggests that this kind of exposure should be limited. Given that the Bangladesh taka has been depreciating steadily against most of the world's main currencies, holding some of these savings reserves in hard currencies looks attractive, especially now with interest rates rising for the senior North American and European currencies. No more will be said on this matter, the details of which are beyond this village level 'grounded view' of Grameen.

There is another fund management issue of interest. Consistently since introducing Grameen II the bank has charged an annual rate of 20% (or a little more depending on how you calculate it) on the bulk of its loans to members, and has paid a maximum rate of 12% and an average rate of a little less than 10% on deposits. In discussions with economist Jonathan Morduch and me in his office in mid December 2002, founding managing director Muhammad Yunus said that calculations had shown that Grameen could survive comfortably on an interest rate spread of 10%, and events since then certainly seem to have borne this out. However, he suggested at that time that as long as the spread was 10%, it mattered less what the absolute rates were, which is why Grameen kept its lending rate at the lowest of all the big microcredit providers in Bangladesh, thereby favouring its poor borrowers. But as markets mature and become more competitive, of course, the absolute rate begins to matter more and more. The attractive rate paid on the GPS is one of the factors that is increasingly attracting middle income and wealthy villagers, challenging the membership focus on the very poor, as we have seen above. It may not be long before we see Grameen obliged to adopt a more conventional policy of making periodic adjustments both to the absolute rates and to the spreads.

An unfinished revolution

Grameen II is only a partial redesign of classic Grameen, focused mostly on changes to the product range and on product terms and conditions. It leaves the delivery structure untouched. Other than a recent rise in the average number of members, the institution of the weekly meeting centre, in its design at least, remains very much as it was when it emerged in the late 1970s. But the behaviour of its members is changing. Through the 1980s observers noted that members tended to be extremely passive. These days their confidence has grown. They are less tolerant of wasting time at quarrelsome or long-winded meetings, more likely to come and go as they please, more likely to send their money through others, more likely to argue with their centre manager when they feel the need, and more impatient: they expect to get a loan within days of joining, for example. The centre is so much a part of Grameen that it seems hard to imagine Grameen without the centre. But the centre was only a means to an end, not an end in itself. Grameen's purposes, in the famous phrases of Muhammad Yunus's 1982 paper *Grameen Bank Project in Bangladesh*, were:

- √ To extend the banking facilities to the poor men and women
- √ To eliminate the exploitation of the money-lender
- √ To create opportunities for self-employment for the vast underutilised manpower resource
- √ To bring the disadvantaged people within the folds of some organisational format which they can understand and operate, and can find social-political and economic strength in it through mutual support
- √ To reverse the age old vicious circle of "low income, low savings, low investment, low income" into an expanding system of "low income, credit, investment, more income, more credit, more investment, more income"

It is not impossible to imagine Grameen remaining true to these original goals and yet completely overhauling its delivery system. Since Grameen started, middle-class banking clients have gone from queuing up in front of little windows in the bank branch, to queuing up in front of ATMs, to tapping into their accounts through the Internet or mobile phone. It would be unfortunate if out of misplaced loyalty to tradition Grameen padlocked itself to the centre system for ever. Happily, I have never heard the most senior Grameen officers fall into this trap.

Besides the institution of the centre, there are other aspects of the bank that could be candidates for change in any future Grameen III. **Marketing** is one area that this Report has already discussed: putting clients instead of workers in charge of playing with new ideas, by giving them much better quality information on product terms and conditions, certainly deserves to be piloted.

Information technology is another area where progress has been slow and Grameen II has made no dramatic breakthroughs. Grameen Bank has a sister company, Grameen Phone, that is the leading mobile telephony company in the country, so it seems odd that the bank is still stuck with poorly performing data clerks hammering unreliable numbers into PCs at the area offices. When we ask field staff to name their biggest headaches, managing full weekly repayment at the centres is nearly always the number one item on their list, but sometimes it is ousted by computer errors. These two between them are the main cause of the extremely long hours worked by centre managers and other branch staff in many areas. Virtually every branch is covered by the Grameen Phone network and each branch manager has a phone. The potential is waiting to be exploited.

A related unfinished revolution remains the **regulatory environment** for microfinance in Bangladesh. Grameen Bank remains unique among microfinance providers in having a formal statute that provides legal endorsement for its lending and deposit collection services. The other major players remain registered as non-government organisations in one form or another. An understanding exists between them and the central bank that they may mobilise deposits from their own borrowing members but not from the public in general. Grameen Bank founder Muhammad Yunus has served on a committee which has proposed new legislation to the government. The proposal is to give microfinance providers two options: they may remain non-government organisations within an improved legal framework, or they may register as a 'microcredit bank', conceived as a private sector business entitled to lend and to mobilise deposits within a prescribed geographical area. As of early 2006, the Cabinet has indicated that it will probably submit only the first of these two options to Parliament. It may therefore be some time before a legal identity exists that would allow other microfinance providers to compete, especially in the field of savings mobilisation, on a level playing field with Grameen.

Grameen and the world of microfinance

Five years ago, when Grameen II was launched, the bank had been all but written off by its most hostile critics. It has bounced back. It has shown that it is still capable of radical change and massive growth. But where does it now stand in the wider world of microfinance?

As we said in an earlier section, it remains a giant, its microcredit interest charges are among the lowest in the world (in real as well as nominal terms), and it remains distinguished by an unrelenting and admirable mission to bring a full range of banking services to poor and very poor people.

Its reputation internationally remains mixed. In some respects it has fallen out of international fashion. The buzz of chatter about microfinance has moved on, and in many quarters – especially in North America – is now more preoccupied with commercialisation and with bringing formal sector financial institutions into the microfinance market than it is with poverty elimination. On the other hand, Grameen is still able to forge partnerships with other players to launch bold international initiatives. In late January 2006 the bank signed an agreement with the International Federation of Red Cross and Red Crescent Societies, the world's largest humanitarian network, to set up microcredit institutions in every country in Africa[55]

Nevertheless Grameen II has not, so far, raised as much interest in microfinance circles as it should. Even in its home country of Bangladesh many replicators of Grameen know very little about Grameen II, or have simply ignored it. Internationally, even among microfinance folk, 'Grameen II' enjoys some name recognition but few know much about it. We hope that our Report will go some way towards remedying this.

[55] Financial Times, January 26, 2006

Appendices

I: Product terms and conditions

What follows is a summary compilation by the author of the principal terms and conditions of the range of Grameen II products offered at the beginning of 2006. It is not an official Grameen Bank publication and questions about it should be addressed to the author at stuart@safesave.org rather than to the bank.

Part One: For Members Only
(*please note that certain features of Grameen II, including all loan products, are for Members only*)

A: Group membership and the centre:

The rules for member recruitment are unchanged from classic Grameen except that the 'means test' was clarified in early 2004 (see appendix 2 below). Members must come from a household located within the working area of a Grameen branch. Strong preference is given to women. Members are required to form or join a group of five people (of one sex and from different households) from one neighbourhood. The group will be formally 'recognised' by Grameen staff when there is evidence that members understand the norms expected of a Grameen member, including the 'sixteen decisions[56]'. The group selects or elects its own chair, and revolves this office among all members of the group over time. Membership confers the right and obligation to buy a share in the bank.

Once the group is recognised, it meets weekly with other such groups of the same sex to form a neighbourhood 'centre'. Typically, there will be ten or more groups in a mature centre (and recently centres have been growing larger). Once constituted, the centre itself decides who can and cannot join its groups. The centre is a forum for discussing all matters relating to membership, both financial and non-financial. To facilitate this, the centre selects or elects a 'centre chief' and an 'assistant centre chief', and these positions revolve among the membership over time. The centre chooses a suitable place to hold weekly meetings, and erects a simple shelter for meetings (loans are available to do this). Most bank transactions take place at the weekly centre meeting: members need go to the branch office only to accept a loan or to make a withdrawal from savings. A bank worker, known as a 'centre manager' attends every weekly meeting. Members undertake to attend each week, to honour all financial commitments on time, to assist fellow members to do so, and to ensure the smooth running of the centre. Members who frequently fail to attend or pay may disrupt the timely issue or value of their loans or those of other members.

B: Savings Accounts held by all Members:

Under Grameen II there are two accounts that *every* member holds. Both of them are types of personal savings account. (In Grameen II, unlike classic Grameen, there is no 'group fund' [a savings account jointly-owned by the members of the group]).

i. **Personal savings:**
On joining members are issued a passbook which records Personal Savings. It also records (see below) special savings, loans, and loan-life insurance .

- **a.** *Depositing:* members should deposit regularly into Personal Savings at each weekly centre meeting, though deposits may also be made at the branch office. Members who hold a loan must make a *minimum* weekly deposit which rises as the loan value rises (from 5 taka a week for loans up to 15,000 taka, to 50 a week for loans of 100,000 or more). Members may deposit more than this if they wish, and may vary the amount deposited each week. A centre may, if it wishes, agree minimum weekly deposit amounts for its members.
- **b.** *Obligatory deposits:* When any kind of loan except a contract-loan is taken, an obligatory deposit equal to 2.5% of the loan value is deducted from the loan and placed into Personal Savings.
- **c.** *Withdrawing:* Savings can be withdrawn from Personal Savings at any time in any amount for any purpose, and irrespective of the source and timing of the deposits (voluntary or obligatory). This applies equally to members without loans or with loans outstanding, though a member holding a contract loan or a bridge loan (see later) may not withdraw. To withdraw, the member must visit the branch with the Passbook.

[56] A set of undertakings to behave according to agreed standards in respect of family and social life. They can be viewed on the Grameen web site.

d. *Interest:* Interest is paid on Personal Savings at the rate of 8.5% a year based on the daily balance, and payable annually.

ii. **Special savings:**
The Passbook also records Special Savings, an obligatory savings account that comes into use when a loan is taken.

e. *Obligatory deposits:* When any kind of loan is taken, an obligatory deposit equal to 2.5% of the loan value is deducted from the loan and placed in the Special Savings account (5% in the case of contract-loans).

f. *Withdrawing*: For the first three years, withdrawals may not be made from Special Savings. After that, up to half the balance of the account may be withdrawn once each three years, as long as a minimum of 2,000 taka remains the account. However, if a contract-loan or a bridge loan is held, withdrawals may not be made. To withdraw, the member must visit the branch with the Passbook.

g. *Interest:* Interest is paid on Personal Savings at the rate of 8.5% a year based on the daily balance, and payable annually.

h. *Share purchase:* payment for buying Shares in Grameen Bank may be made from the Special Savings account. All members should hold at least one share in the bank. Should share dividends rise to a level higher than the interest paid on Special Savings, a member may use all her Special Savings to buy shares if she wishes.

C: The Basic Loan (including its ‘contract-loan’ version):

Although members are not obliged to borrow from the bank at all times, they are expected to do so most of the time. By far the most common loan type is the Basic Loan, which is linked with many other aspects of bank activity.

i. **Loan eligibility**: Members of Grameen Bank have a right to borrow provided that they are seen as a responsible borrower by fellow centre members. They will be influenced by behaviour with loans and savings, and their assessment of the kind of loans the member can manage. Members are advised to seek a loan by discussing it first with group and centre leaders. Loans are disbursed at the branch office. Normally, members are expected to have been a member for one week before taking a loan. Members of one group may take loans at the same time – the classic Grameen ‘staggered disbursement’ system has been discontinued.

j. **Loan security**: The bank does not accept physical collateral of any kind. Loans are secured against the word of the borrower, and against the help that fellow-members have agreed to give members in case of difficulty. Note that fellow members are *not* obliged to repay loans if a member fails to do so – they are only obliged to do their best to help solve the problem that caused the failure to repay. In no circumstances will the bank require other members to pay dues on behalf of each other.

k. **Obligatory savings**: 5% of the disbursed value of a basic loan is deposited into the borrower’s personal savings accounts: half of this amount will go to Personal Savings, and half to Special Savings. See above for details.
Borrowers of loans with a disbursed value of 8,000 taka or more must open and maintain payments into a Grameen Pension Savings account with a monthly deposit of at least 50 taka (see below).

l. **First loan value**: The first Basic loan will be determined by the standards that have proved sensible for the area and for the time: as of now it is unlikely to exceed 5,000 taka and may be smaller. The value may rise if the member was previously a member and is now returning. This sum will be the member’s ‘loan ceiling’ for the time being. Fellow members may recommend more or less than the standard, and the bank worker will listen to their advice. The final decision will be reached by agreement between the borrower, fellow-members, and the bank worker.

m. **Subsequent loan value**: Later loans are determined by changes to the ‘loan ceiling’. Changes to the loan ceiling occur in two ways:

i. *Changes of loan ceiling due to loan behaviour:* if the previous loan is repaid without missing any instalments nor savings, and with a good meeting attendance record, the loan ceiling may rise by 10%. A further 10% increase can be earned if all fellow centre members are also repaying loans with a 100% repayment rate. Where the individual or centre record is not perfect but still good, the rates may be 5%.
Note that the basic loan ceiling may also drop, if repayment and attendance are poor. For example, each time a loan or interest payment is missed, the ceiling reduces by 2%. It may also reduce, by up to a maximum of 500 taka, for poor attendance at weekly meetings.

ii. *Changes of loan ceiling due to savings balances:* at any time, the loan ceiling may be assessed as not more than 150% of a member's combined savings account balances (of any kind of savings account except Personal Savings). In this case, the savings may not be withdrawn to below this two-thirds level, even if the savings contract matures. See also paragraph **u** 'bridge loan' below.

n. Loan term: borrowers will decide, taking advice from group and *centre* leaders and from the bank worker, the most appropriate loan term. Terms may range from 3 months to 3 years (or even more in special circumstances).

o. Loan 'top-up': for loans of 12 months duration or more, loans may be 'topped up' after six months (twenty-six weeks). That is, the member may re-borrow the amount repaid during the first six months of the loan term, adding that amount to the loan outstanding balance. In that case, the term of the loan is extended by a further period (usually six months) so that in most cases weekly repayment amounts do not rise – and may even fall – as a result of a top-up (see below for more details). In some cases members may extend the loan term *without* topping up the loan amount.

p. Repayment schedule: all basic loans are repaid in weekly instalments, beginning the week following disbursement of the loan. The member decides, taking advice from group and centre leaders and the bank worker, the repayment schedule most appropriate for the loan. Together they prepare a Repayment Schedule and note it in the Passbook. Weekly instalments may vary seasonally, for example, or may be smaller at the start of the schedule than at the end, or in an extreme case every instalment may be different. Note also that at any time the member may pay off part or all the loan, ahead of schedule.

q. Interest: interest is payable on the basic loan at the rate of 20% annual percentage rate (10% p.a. 'flat'). The total interest will be calculated and divided into equal weekly instalments for the life of the loan. If the member repays late, or extends the term of the loan, the member will continue to pay interest on the balance at the same 20% pa rate. Note, however, that in no circumstances can the total interest the member pays on the loan exceed the disbursed value of the loan.

r. Loan rescheduling: the 'contract-loan': the contract-loan is a basic loan that has been rescheduled because the basic loan borrower falls into repayment difficulties: that is why it is dealt with here. Grameen knows repayment difficulties are inevitable for the poor, and the contract-loan is designed to be a routine, non-shaming, sensible way for the member to solve the difficulty. At any time the member feels she is falling into repayment difficulties, she should discuss taking a contract-loan with fellow members and bank worker.

i. *when a contract loan is taken*: a contract-loan is taken when a member falls into serious repayment difficulty. It is *obligatory* if a borrower fails to make basic loan repayment instalments for ten consecutive weeks, or fails to make GPS deposits for four months, or has not repaid half the loan half way through the term. A member cannot choose to take a contract-loan: it must be triggered by one these circumstances or its likelihood

ii. *contract-loan term and schedule*: the borrower and the bank worker will agree a new term and schedule for the remaining outstanding loan balance. There are no fixed limits to the rescheduled term nor the size of instalments

iii. *contract-loan value*: contract-loans can be 'topped up' like the original basic loan: after each six months, the borrower may re-borrow amounts already repaid in that six month period, and in circumstances of excellent contract-loan repayment may re-borrow up to twice the amount repaid in the previous six months. But a contract-loan cannot exceed in value the original basic loan of which it is a rescheduling

iv. *completion of the contract loan*: when the contract loan is paid off in full (which can be done ahead of the revised schedule if circumstances change) the borrower is again eligible for basic loans. However, the loan ceiling will have to be re-fixed, starting from the entry-level or close to it in the most severe case, or equal to the most recent loan ceiling in the most favourable case, depending on the advice of fellow members and the bank worker.

v. *contract-loans and savings*: borrowers with contract-loans may not withdraw from any of their savings accounts. Where contract-loans are 'topped-up' obligatory savings at the rate of 5% of the loan are made as usual, but are placed wholly in the member's Special Savings account, the whole of which is used towards repayment of the outstanding loan and interest.

D: Other loan products:

Grameen II also offers four other types, or sub-types, of loan to its centre members: housing loans; bridge loans; special investment loans; and education loans. It has also introduced loan-life insurance.

s. Housing Loan
Housing loans are available with terms ranging from 1 to 10 years with values ranging from 5,000 to 25,000 at interest of 8% a year. (A loan for housing exceeding 25,000 can be taken as a Special Investment Loan – see below – at the normal 20% pa rate). The borrower must discuss the loan with the Branch Manager as well as the KM, at the centre meeting in the presence of other members. The repayment schedule is weekly. Pre-payments are accepted. Since housing loans are subsidised, and the bank limits the amount available by Zone, loans are given to members against certain priority criteria such as need, and quality and age of membership.

t. Special investment loans
A special investment loan (or a ‘project’ loan, or a ‘microenterprise’ loan) is a basic loan larger than would be sanctioned under the normal basic loan rules. It is given to borrowers of at least three years standing who can demonstrate that they have a viable larger enterprise capable of absorbing extra loan capital (an example would be a loan to become a ‘Grameen phone lady’ – the operator of a mobile telephone within the Grameen Phone network). In its operation, terms, repayment schedule, interest rate, and so on, it is treated as a basic loan. Special investment loan borrowers are required to make a higher weekly deposit into their personal savings account.
Usually, at the discretion of the Branch Manager, a member may hold a normal basic loan *and* a special investment loan at the same time. There are no fixed limits to the value of a special investment loan, but a GPS of a high value and good savings behaviour are preferred before the member can be considered for a special investment loan. ‘Gold Membership’ status (see below) will also help the member qualify for a special investment loan. [Note: The ‘cow fattening loan’ is one kind of special investment loan that is given, six moths or so before the Korbani Eid festival, to members who wish to fatten a cow for that festival’s ceremonies. It can be repaid in a lump sum after selling the cow, though interest on the loan is paid weekly].

u. Bridge loans
While a member (of three years standing) holds a basic loan, she may top-it up short term (maximum 6 months) if her savings are large enough, by using a form of special investment loan known as a ‘bridge loan’. She may top up to 150% of the value of her savings (other than personal savings) which may not be withdrawn (even if they mature) until the bridge loan is fully repaid. See also paragraph **m.ii** above: the bridge loan is an extension of the use of savings to secure loans available short-term after the loan has been disbursed.

v. Education loans
This special loan programme (in place since 1997) offers to lend for the costs of higher education for promising students of Grameen member families. The loan goes directly to the student, who begins to repay when he or she begins to earn. Note also that there is a scholarship programme for high-school students (see below).

w. Loan/life insurance savings
Grameen II has introduced insurance cover for all its loans, operated as a savings scheme. Members choosing to use this service open a savings account and deposit 2.5% of the outstanding value of the current loan on the last day of the calendar year (3% from 2004). Extra deposits are required to retain cover for a second year only if the current loan outstanding value has risen, and the extra deposit is paid on the additional amount only. Interest on these savings is not paid to the saver, but is used to create an insurance fund. In the event of the death of the borrower, the bank sets off the loan debt against this reserve fund, and the family may withdraw the deposits, net of interest.
It now appears to be the case that taking this cover is regarded as compulsory rather than voluntary. Note that from 2004 members may take out similar insurance on the lives of a resident husband, at a higher cost (the cost was raised again during 2005 when it appeared that the bank was likely to make losses on the scheme)
[Note also that the cow fattening loan (see above) offers a special optional insurance that pays half the loan value if the cow dies].

E: Other savings products:

In addition to the two personal savings accounts that every member has (Personal Savings and Special Savings), Grameen II also offers a range of optional or semi-optional savings products: the Grameen Pension Savings; conventional Fixed Deposits; fixed deposits that double in seven years; and monthly income savings schemes

x. **Grameen Pension Savings (GPS):**
The GPS is obligatory for all borrowers with loans of 8,000 taka or more, and is optional for all other members. It is a 'recurring' scheme in which a fixed sum (minimum 50 taka) is deposited each month for a term of five or ten years. The savings attract interest at 10% APR (for 5 year terms) or 12% (for 10 year terms), so that savings almost double after ten years. Payments can be made up to three months late, provided a small additional amount is deposited alongside the late payments. Payments more than four months in arrears cause the account to close and deposits to be returned, with reduced interest. If the account holder has a loan of 8,000 taka or more and goes into arrears of more than four months on the GPS, it triggers a shift from basic loan to contract-loan status.
When the savings plan matures, it can be taken as a lump sum (deposits plus interest earned) or as monthly income, using the same system as described below for the monthly income savings scheme. The GPS can be used as security for a 'bridge' loan (see above).

y. **Fixed deposits:**
Grameen II offers Fixed Deposit accounts to members. Lump sum deposits are made and attract interest starting at 8.75% APR for a one-year term and up to 9.5% for longer terms.

z. **'Double in 7 years' fixed deposit**
This version of the Grameen Fixed Deposit account returns double the amount deposited after seven years (an interest rate of a little over 10% APR).

aa. **Monthly Income Scheme,**
This version of the Grameen Fixed Deposit account pays monthly income starting immediately after the sum is deposited, instead of term-end interest. The interest rate is 10.04% APR for a five-year term account and 10.67% APR for a ten-year term.

F: Other services and features:

bb. **High-school scholarships:** Grameen offers a limited number of scholarships (grants) for high-school students who are children of members. Currently, each branch offers at least four scholarships each year, two reserved for girls and the other two open to both boys and girls.

cc. **'Struggling' members**: There are special services for very poor villagers under a 'destitute members' or 'struggling members' scheme. In this scheme, centre members take responsibility for coaching a very poor man or woman, usually a beggar, who may take small loans with very flexible terms and schedules, without being a formal group or centre member. The declared objects of the scheme are to help beggars move on to other forms of livelihood, and to help beggars graduate into regular centre membership[57]. Because it is subsidised, the scheme is accounted separately from the remainder of the bank's lending.

dd. **Gold Membership**: If the member has been in membership for five years and used basic loans with a 100% repayment record she will be recognised as a 'Gold Member'. This entitles her to increase the loan ceiling more rapidly.

Part Two: For Non-Members

G: Savings products for non-member clients

The general public may open fixed deposit accounts (including the 'seven year double' version) and monthly income savings accounts. Interest rates vary from 8.75% p.a. (12-month fixed deposit) to 10.4% p.a. ('7-year double' fixed deposit). They may also open personal savings accounts (passbook accounts) which are essentially the same product as the members' personal savings account. They may not, however, open a GPS, which is for members and staff only.

The general public opens accounts and makes transactions by visiting the bank during working hours, as in a conventional bank.

[57] Statement by founding managing director Muhammad Yunus, April 18, 2004

II: The member selection rules

The following is our translation of the circular issued by Grameen head office in late December 2003.

Grameen Bank

Head Office, Mirpur-2, Dhaka-1216

Circular No-12-19/2003

Date : 27-12-2003

Coordination & Management Department

GA BA/PAKA/SA PA/101 (principles)/2003-4039

Subject : Principles governing the recruitment of new members

The following rules have been developed to ensure that the really poor – and especially the poorest – are given the highest priority in membership recruitment.

1.0 The Main criteria for membership:

1.1 To be eligible for consideration, a prospective member of Grameen Bank should belong to a family that owns not more than half an acre of cultivable land, and owns other assets with a total value of not more than the local purchase price of an acre of moderate grade cultivable land. Unless these two conditions are met, no one can become a member of Grameen bank.

1.2 An acre of uncultivated or fallow land will be considered equal to a half-acre of cultivable land.

1.3 Among all eligible prospective members of the Bank, priority in selection must first be given to the poorest.

1.4 Land that has been given out for sharecropping by the prospective member will be considered as his or her land. However, land that has been taken in for sharecropping will not be considered as his or her land.

1.5 Where the father of the prospective member is alive but the prospective member lives in a household separate from that of the father, ancestral land will not be considered as belonging to the prospective member. In such a case, the decision about membership will take into account the prospective member's current economic condition, especially with regard to the condition and contents of his or her own household.

1.6 Not more than one member of a joint family (a household) can take membership in a single group[58]. Similarly, blood relations may not join the same group.

2.0 The following should be given membership priority:

2.1 Widowed, deserted, and divorced women; beggars; those who receive Jakat or Fitra[59]; milk-nurses, messengers and sweepers; and those who live either separately or in the paternal home but whose living conditions (and those of any children) are miserable.

2.2 Those whose livelihood is by giving physical labour in other people's houses (for example: by earth-digging, road-building, brick-breaking and similar work); those whose home has only one room, or a roof made of polythene, or a single or double tin roof. Those who own less than half an acre of land and have very few income-earning members in the household. Those who are unable to meet their basic expenses, or are unable to send their children to school, or who send their children to work in other people's houses.

2.3 Those whose household has many members of whom very few are income-earners. Those from households where the prospective member, his or her spouse, or their children, earn their living by working in other people's houses. Those unable to send their school-aged children to school for lack of income or lack of resources such as land. Those whose household contains members able to work but unable to earn because of a lack of capital.

[58] The 'group' is the primary unit of membership of the Bank, and usually consists of 5 (but sometimes more than 5) members of a single sex.

[59] Forms of alms in Moslem society

2.4 Those whose household includes no males able to work. Those who sleep on the floor or on a bamboo mat, or have no furniture other than a bamboo cot, mosquito net, mattress and quilt.

2.5 Landless women who are involved in productive income-earning work, but own no capital and carry on their businesses by borrowing small amounts of money from others.

2.6 Those who have to buy their rice all the year round to eat. Those farmers who borrow from moneylenders to finance their crop and repay after harvesting.

2.7 Those whose daily income is less than 100 taka or whose monthly income is less than 3,000 taka.

2.8 Those who, lacking farmland of their own, farm land mortgaged, leased or sharecropped in.

2.9 Those in households whose men are day labourers, or van or rickshaw pullers, or whose women maintain their families through petty crafts such as bamboo or cane work, sewing or needle work, etc, with a capital of less than 3,000 taka.

3.0 The following should not be considered for membership:

3.1 Those in households one or more of whose members is working abroad, or in households earning more than 3,000 taka a month (this rule applies even if the household meets the land and asset ownership criteria laid out in section 1.0 above).

3.2 Those in households with a member who is a government or non-government employee of fourth class rank or higher, earning more than 3,000 taka per month.

3.3 Those in households with a member who is already a member of another loan-giving organization, or hold a loan from such an organization.

3.4 Business people whose monthly income is more than 4,000 taka.

3.5 Description of the homestead: Those whose home has more than two tin-clad structures, or one brick-walled tin-roofed structure (other than their father’s structure). Those whose home, regardless of structural type, is worth more than 40,000 taka.

3.6 Those from households with land or ponds or fish farms leased out and earning more than 3,000 taka a month in average.

3.7 Those whose educational qualification is graduate or higher.

3.8 Those who own a colour television, a refrigerator, a washing machine, an air conditioner, a vacuum cleaner, a microwave oven, a sofa set, a box bed, a wardrobe, or similar; those who own a motorcycle, a trawler, a power tiller, or similar.

These rules will be in effect immediately.

In case of any difficulty understanding these rules, staff should contact the Coordination & Management Department.

[Signed]

Professor Muhammad Yunus
Managing Director

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