MicroSave
Market-led solutions for financial services

Shelter Afrique House, Mamlaka Road
P.O. Box 76436, Yaya 00508, Nairobi, Kenya
Tel: 254 20 2724801 / 2724806
Fax: 254 20 2720133
Email: info@MicroSave.org
Website: www.MicroSave.org

GRAMEEN II
At the end of 2003
A 'grounded view' of how Grameen's new initiative is progressing in the villages

Written for ***MicroSave***

by **Stuart Rutherford**
with Md Maniruzzaman, S K Sinha, and Acnabin & Co

What is Grameen II?

What does it mean for Grameen staff and Grameen Members,
and for the general public in Bangladesh?

What does it mean for microfinance?

Dhaka, Bangladesh
January and April 2004

MicroSave - Market-led solutions for financial services

Contents

One-Page Summary

Part One: What is Grameen II?

- **The Grameen II Rule Book:** tells you, in a nutshell, what Grameen II is and how it works, by setting out a summary of product rules.
- **Classic Grameen and Grameen II:** runs through similarities between old and new Grameen, in respect of the delivery environment, group responsibilities, branch opening procedures, loan loss provisioning and write-off, staff performance incentives, and computerisation.
- **Grameen II in the field:** provides evidence to show how Grameen II is already in operation throughout Grameen branches, especially in key new areas such as converting old loans to the new Grameen II loans, converting the Group Fund to personal savings, loan-life insurance, the Grameen Pension Scheme savings (*very* significant), and in new deposit arrangements for the general public. It also shows that some elements of Grameen II are still rare, including, significantly, loan rescheduling, as well as variable loan terms and schedules. It comments on branch performance and concludes that Grameen II is good for Grameen.

Part Two: Grameen II and its providers and users

- **The staff:** shows why Grameen decided to invent Grameen II and discusses some of the more contentious elements – especially loan rescheduling and the drive towards greater flexibility in loan terms. Describes the view that Grameen II's many options are there for the field staff to use as they see fit, rather than for members to select from. Tells what we found in the field when we asked field staff what they felt about Grameen II and observed them at work. Staff are very enthusiastic about some elements (the new basic loan, loan-life insurance, the GPS, the special project loans) but more cautious about others (loan rescheduling and variable terms and schedules). We show why they think like this.
- **The members:** shows how members don't see Grameen II as a single package of services but are aware of incremental changes to the rules. We review which bits they understand and like, and which bits they are less aware of. We zoom in on savings and describe, with reasons, why the GPS is so popular, how it is growing, and what problems it may face. Figures show what happened, and why, when Grameen II was first introduced (there were some account closures). We see how the flexi-loan is helping some old defaulters return to Grameen, and how the recruitment drive is helping to boost member numbers. We show how members have multiple and complex financial portfolios of which Grameen only form a part.

Part Three: Grameen II and microfinance

- **Competition:** we see why Grameen II is not yet having much visible impact on the competition building up between MFIs in Bangladesh, but we show why we think the GPS has the potential to fundamentally change the demand side of the market.
- **Will rescheduling erode discipline?** we explain why loan rescheduling will **not**, despite the fears of some, lead to the collapse of credit discipline in Bangladesh
- **Marketing Grameen II:** we review the way that Grameen II is being marketed, and look at evidence on whether Grameen II is good at attracting and retaining the very poor.
- **The wider world:** Grameen II comes closer than did classic Grameen to satisfying the *universal* demand among poor people for reliable, flexible, financial services: it can be expected to be even more useful than was classic Grameen in environments other than Bangladesh – though any microfinancial service must be adapted to suit local quantities and frequencies of intermediation.

Grameen II At the end of 2003:
A 'Grounded View' Of How Grameen's New Initiative Is Progressing In The Villages

Stuart Rutherford with Md Maniruzzaman, S K Sinha, and Acnabin & Co

Introduction

Grameen Bank is the world's best-known lender to the poor and still reaches more poor people than most. Dr Yunus, who started Grameen in 1976, is the world's best-known practitioner of 'microfinance', or banking with the poor, and he is probably the world's best-known Bangladeshi. The Bank's work is one of Bangladesh's most successful exports, having been emulated in dozens of countries worldwide, rich and poor alike. Millions of poor households, not least in Bangladesh itself, have benefited from the services provided by Grameen and its emulators.

The methods the Bank uses – helping poor rural women form groups, lending each woman a succession of loans to spend on setting up or running a small business, and allowing her to repay the loan in small weekly instalments at group meetings held in her neighbourhood where members stand ready to help each other – are recognised around the world. They have been highlighted in scores of newspaper, radio and TV articles, described at length in several full-length books, and analysed by academics. They began to appear timeless, 'classic', even unchangeable.

Then in late 2001 Dr Yunus again took the microfinance world by surprise. A story in the *Wall Street Journal*[1] revealed that the Bank had been testing major changes to the way it goes about its work. Dr Yunus followed this up with an article in the April 2000 edition of the *Grameen Dialogue*, a house journal about Grameen's work, entitled '*Grameen Bank II: Designed to Open New Possibilities'*.[2] In it, Professor Yunus described, with great candour, some problems that the Bank and its client-members had been experiencing. He wrote that facing up to these problems had emboldened the Bank to 'dare to design a new Grameen methodology'. He then summarised just how different this new methodology was:

> "….gone are the general loans, seasonal loans, family loans, and more than a dozen other types of loans; gone is the group fund; gone is the branch-wise, zone-wise loan ceiling; gone is the fixed size weekly instalments; gone is the rule to borrow every time for one whole year, even when the borrower needed the loan only for three months; gone is the high-level tension among the staff and the borrowers…"[3]

And that just dealt with the things that had gone. As those features disappeared, many new ones arrived: simple, automatic loan rescheduling for borrowers who get into difficulty with their loans; a 'customised' loan service allowing bank workers and clients to pick the loan term and loan repayment schedule best fitted to their individual needs; loan-life insurance; bigger loans for proven entrepreneurs; new personal passbook savings accounts for every member; a contractual-savings 'pension scheme' for members; special provisions for the extreme-poor; and a raft of savings products for the general public. And much more besides.

More surprising still, Dr Yunus wasn't just promising change. He said that change was already in place, and looking good:

> "Grameen Bank II has emerged. The transition is now complete. The last branch of Grameen Bank switched over to Grameen II on August 7, 2002, completing the process of transition. The new Grameen Bank II is now a real and functioning institution. This second-generation microcredit institution appears to be much better equipped than it was in its earlier version."[4]

And yet, at a national-level microfinance workshop that I attended in Dhaka, the capital of Bangladesh, in 2002, I found that few microfinance observers, and fewer practitioners, including even the local Grameen replicaters, could tell me much about Grameen II. The international microfinance community appeared taken by surprise, too. Several commentators were concerned that the easy rescheduling of troubled loans would

1 November 27th 2001. Part of Dr Yunus's response to the Journal's article is reproduced in an Appendix.

2 The quotations in this Report are all from the revised edition of Muhammad Yunus, Grameen Bank II: Designed to Open New Possibilities published by the Grameen Bank in Dhaka in October 2002.

3 Yunus 2002, page 4 - 5

4 Yunus 2002, page 4

damage the bank's already weakened portfolio, and some even suspected that Grameen II was a camouflage designed to hide a supposed general weakening of the bank's balance sheet. But few of them knew much about what was actually happening in the field.

I was therefore very glad to respond to an invitation from ***MicroSave***[5] to take a closer look at Grameen II. Because ***MicroSave***'s business is to help improve microfinance practice, especially in Africa, and because African microfinance has been much influenced by Grameen, they asked me to look at what was happening in the villages rather than in Grameen's headquarters – hence the title of the research project that emerged, 'Grameen Bank II: a grounded view'. Given Grameen's eminence in the world of microfinance, we can expect that studies will soon emerge of the overall impact of Grameen II on its balance sheet and income statements – and in any case, Grameen's excellent web site provides timely monthly financial and outreach updates. What ***MicroSave*** wanted, and what I was keen to research, was an understanding of what is happening at the level of the local branch; of what Grameen II means for its members, clients, and local staff; and what Grameen II might mean for microfinance practice in Bangladesh and worldwide.

We started our research in late 2002, and we intend to go on working for another two years, to the end of 2005. This long time-frame is needed because Grameen II is a complex set of changes affecting more than three million borrowers and more than 12,000 staff. It will inevitably take time to settle in, and we wanted to witness that process in real time. We agreed with ***MicroSave*** to provide a 'status report' when we reached the end of 2003, and that is the paper you now have in your hand.

The aim of this document is to report on our three main areas of interest at the close of 2003: What is Grameen II? What does it mean to its members, clients and staff? And what might it mean for microfinance in Bangladesh and worldwide? These three constitute the principle sections of the Report, and a one-page Summary hints at their contents. To keep the report short, we ask readers requiring information on the background to the research and its personnel and methodology to contact the main author, Stuart Rutherford, on stuart@safesave.org.

What is Grameen II?

Grameen II, known formally as 'the Grameen Generalised System'[6] is the public face of the Grameen Bank in Bangladesh since mid 2002. More narrowly, it is the methodology[7] used by Grameen Bank to deliver financial services (and some other services) to rural Bangladeshis. It serves mainly poor (and mainly female) 'members' of the Bank, who each own a share in it, belong to one of its weekly-meeting groups, and both save at and borrow from the Bank. And it serves the general public, rich and poor of either sex, who may save but not borrow.

But it is more than that.

It also embodies a set of beliefs about financial services and the poor, notably that 'poor people always pay back their loans'; that credit for the poor creates self-employment for the poor, and access to it should be a right; that collateral as a way to secure loans is outmoded and can and should be abandoned in lending to the poor; that poor people can work together in groups to help each other manage their borrowing; and, perhaps most important of all, the idea that financial services, and credit in particular, are a powerful weapon against poverty and a powerful means to empower women. These beliefs profoundly affect the methodology.

Thus Grameen II can be defined, narrowly, by its products-and-services rules, but more broadly by comparison with conventional banking practice, and by comparison with the 'classic' Grameen system that preceded it. And of course it can be understood in terms of what is actually going on in the field. Let's start with the rules.

[5] Known at the time of starting the research as ***MicroSave***, but recently renamed ***MicroSave*** in recognition that its work and application has now expanded well beyond Africa.

[6] Yunus 2002, page 3

[7] Yunus 2002, page 5, uses the word 'methodology' in respect of Grameen II: he also uses the words 'system' (page 2: hence 'Grameen Generalised System'), and 'product' (page 5)

Understanding Grameen II, part 1:

The Grameen II Rule-book

Grameen Bank's product rules and operating procedures can be found in its *Circulars*. These are produced by the various Departments within the Head Quarters after extensive discussion with staff at 'Zone', 'Area' and Branch level. They are updated or supplemented from time to time, and copies are available to all staff[8]. They are expressly designed for staff, combining details of product rules and operating procedures with instructions, advice and examples of how to execute them. Supplements include guides that answer 'frequently asked questions'. Grameen II was introduced in accordance with these well-established Bank practices: consultation with staff was followed by the preparation of Circulars on which extensive staff training took place.

The Circulars are often lengthy and complex documents, and are not suitable for members and clients. Rather than produce a simplified 'rule-book' for members, Grameen has always preferred to inform its largely illiterate members orally, through the branch staff that visit the weekly *kendra* meetings. However, Grameen II has a seen a trend towards written material for members and clients: the Grameen Pension Savings scheme, for example, a service for members which came in with Grameen II, has its rules, and its current interest rates, set out in detail in the most recent version its passbook[9].

Imagining what a rule-book written *expressly* for members and clients might look may help readers understand the essence of the Grameen II methodology. In drafting one, I have used a number of sources. Foremost are the Circulars themselves[10]. Then there is the Yunus 2002 text, written for the general public and already referred to , and another public text of the same date, written by the Bank's General Manger, Dipal Chandra Barua[11]. The Grameen web-site has summaries of Grameen procedures[12]. I have also used some of the supplementary Circulars issued by the Bank, especially the '*Guide to the Loan Rules*[13]' written in Bengali in October 2003 for use by staff. I used records of meetings and correspondence with Dr Yunus, Mr Barua, and other senior staff at Head Quarter level, and staff at Zone, Area and Branch level. Finally, I used notes and corrections made to an earlier version of this Report by Mr Barua and Dr Yunus, for which I am very grateful.

In an email, Dr Yunus laid out for me what he described as the features that constitute Grameen II: they are shown in Table 1.

---

[8] At Branch level, there may be just one copy, or sometimes two copies of the more important Circulars. Branch Managers may photocopy them if they want their fieldworkers to have personal copies.

[9] In early 2004, as this text was being finalised, the Personal Savings passbook has been revised to include a box, at the head of every page, reminding its users of their rights to withdraw savings.

[10] Of the many Circulars, the longest and most important include No 12-02, of March 2003 '*Grameen Bank's Loan Rules' (Grameen Banker Reen Nitimala)*; Nos 2-06 and 2-27, of August 2000 and September 2001 '*Grameen Bank Pension Savings Rules* and *Revisions to the Grameen Bank Pension Savings Rules'*; and No 12-08 of October 2002 '*Loan Insurance Savings'*, etc.

[11] Dipal Chandra Barua *The Grameen Generalised System*, Dhaka, Grameen Bank, October 2002. This takes the form of a booklet of reproductions of more than eighty slides that Mr Barua developed for presentations. Three slides on pages 16 and 17, labelled 'Main Features of Grameen Generalised System', summarise the core of the system. I have also consulted the abbreviated November 2003 update of this text.

[12] Especially useful is the 'Grameen Bank at a Glance' section, http://www.grameen-info.org/bank/GBGlance.htm

[13] *Rin Nitimala Shahaika,* Dhaka, Grameen Bank, October 2003: drafted under the direction of Dipal Chandra Barua, Forward by Muhammad Yunus

<table>
<tr><td colspan="2">Table 1:
Dr Yunus: the Constituting Features of Grameen Bank II</td></tr>
<tr><td>Loan and Loan-related Products (all for members only)

1. Basic loan
2. Flexi-loan
3. Education loan
4. Bridge loan</td><td>Lending Features

• Growth of loan size on the basis of individual performance, supplemented by group and centre performance.
• Variable terms and variable repayment schedule.
• Special Investment Project Loans (for Microenterprise): loan size can increase in big jumps through special investment project loans.</td></tr>
<tr><td>Savings Products (italics indicate products available to members only)

1. Personal Savings
2. Special Savings
3. GPS
4. Fixed deposits
5. Doubling in 7 years
6. Monthly Income Deposit
7. Loan Insurance Savings</td><td rowspan="2">Management features

New strategy for branch opening
Time-based provisioning policy
Write-off policy
Bad debt recovery procedure
Gold Membership
Five ‘Star Awards’
450 members per centre manager</td></tr>
<tr><td>Other Services

8. Scholarship
9. Special arrangements for the destitute</td></tr>
<tr><td colspan="2">Source: personal correspondence with Dr Yunus, August 2003 (items slightly re-ordered, and item 9 added by the author)</td></tr>
</table>

In my simplified rule-book, which starts on the next page, more attention is given to the new rules and features of Grameen II than those that have been carried forward from classic Grameen. Readers who are already familiar with Grameen II rules may wish to skip to page 15.

Grameen II: A Simplified Rule-Book for Members and Non-Member Clients

Please note that this summary of Grameen's product rules is entirely unofficial and serves only to remind the general reader of the key elements of Grameen II. For a full understanding of the Bank's rules, please refer to the Nitimala *enshrined in its many Circulars.*

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 **kendra***:*

The rules for becoming a member are unchanged[14]. You should be from a household owning little or no land, assets of limited value, and located within the working area of a Grameen branch. Strong preference is given to women. As before, you should seek to form or join a group of five people (of one sex), all known to you, on good terms with you, and from your immediate neighbourhood, but not from your own household. You should then have your group formally recognised by Grameen staff by showing that you understand the norms expected of a Grameen member, including the 'sixteen decisions[15]'. Your group should elect its own Chair, and revolve this office among all members of the group over time. You are now a member of Grameen Bank, and you may buy shares in the Bank (see below).

Once your group is recognised, it meets weekly with other such groups of the same sex to form a '*kendra'* or Centre, in your neighbourhood. Typically, there will be six to ten groups in a *kendra* (thirty to fifty members), and once constituted, the *kendra* itself decides who can and cannot join its groups. The *kendra* is your forum for discussing all matters relating to your membership, both financial and non-financial. So your *kendra* should elect a Chair and an Assistant Chair, and you should revolve these positions among your membership over time. You should also choose a suitable place to hold your meetings, and erect a simple shed to provide shelter during meetings. Most Bank transactions take place at the weekly *kendra* meeting: only to accept a loan or to make a withdrawal from your savings do you need to visit the local Grameen branch. A Bank worker, known as a '*kendra* manager' (KB) attends every weekly meeting. You commit to attend each week, to honour all financial commitments on time, to assist your fellow members to do so, and to ensure the smooth running of your *kendra*. If you frequently fail to attend or pay, this may disrupt the timely issue or value of your loans or those of your fellow members. The composition and function of the *kendra* is thus largely unchanged from before.

B: Savings Accounts held by all Members:

Under Grameen II there are two accounts that *every* member holds, so we start with them. 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 you will be issued with a Passbook which records your Personal Savings. It also records (see below) your special savings, your loans, and your loan-life insurance .

- **a.** *Depositing:* You should deposit regularly into your Personal Savings at each weekly *kendra* meeting, though you may also deposit by visiting the branch if you wish to. If you hold a loan, your *minimum* weekly deposit should rise as your loan size rises (from 5 taka a week for loans up to 15,000 taka, to 50 a week for loans of 100,000 or more) but you may deposit more than this if you wish to, and you may vary the amount you deposit each

[14] Although a new Circular is being prepared while this report is being drafted

[15] 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.

week. Your *kendra* may, if it wishes, agree minimum weekly deposit amounts for its members.

b. *Obligatory deposits:* When you take any kind of loan except a flexi-loan, an obligatory deposit equal to 2.5% of the loan value will be deducted from the loan and placed in your Personal Savings account.

c. *Withdrawing:* You may withdraw savings from your Personal Savings account 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 if you hold a flexi-loan or a bridge loan (see later) you may not withdraw savings. To withdraw, you must visit the branch with your Passbook.

d. *Interest:* You earn interest on your Personal Savings balance at the rate of 8.5% a year based on the daily balance in your account, and payable annually

ii. **Special savings:**

Your Passbook will also record your Special Savings, an obligatory savings account that comes into use when you take a loan.

e. *Obligatory deposits:* When you take any kind of loan, an obligatory deposit equal to 2.5% of the loan value will be deducted from the loan and placed in your Special Savings account (5% in the case of flexi-loans).

f. *Withdrawing*: For the first three years, you may not withdraw from your Special Savings. After that, you can withdraw half the balance of the account once each three years, as long as you leave at least 2,000 taka in the account. However, if you hold a flexi-loan or a bridge loan you may not withdraw savings. To withdraw, you must visit the branch with your Passbook.

g. *Interest:* You earn interest on your Special Savings balance at the rate of 8.5% pa based on daily balances and credited to your account annually

h. *Share purchase:* payment for buying Shares in Grameen Bank may be made from your 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 'flexi-loan' version):

Although you are not obliged to borrow from the Bank at all times, you will without doubt borrow some or most of the time. By far the most common loan type is the Basic Loan, and it is linked in some way with many other aspects of bank activity. For that reason we deal with it next.

i. **Loan eligibility**: As a member of Grameen Bank, you have a right to borrow provided that you are seen as a responsible borrower by your fellow members. They will be influenced by your behaviour with loans and savings, and their assessment of the kind of loans you can manage. Begin to seek a loan by discussing it with your Group and *kendra* leaders. Loans are disbursed at the branch office. Normally, you will be expected to have been a member for one week before taking a loan. Please note that members of one group may take loans at the same time – the old 'staggered disbursement' system has been discontinued.

j. **Loan security**: Grameen Bank does not, cannot, and will not accept physical collateral of any kind. Your loans are secured against your own word, and against the help that your fellow-members have agreed to give you in case of difficulty. Note that your fellow members are *not* obliged to repay your loan if you fail to do so – they are only obliged to do their best to help you solve the problem that caused your failure to repay. In no circumstances will your KM ever require your fellow members to pay your dues on your behalf.

k. Obligatory savings: 5% of the disbursed value of your basic loan will be deposited into your own personal savings accounts: half of this amount will go to your Personal Savings, and half to your Special Savings account. 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: As a new member, your first Basic loan will be determined by the standards that have proved sensible for your area: on average the first loan will not exceed 5,000 taka. This may rise if you were previously a Member and are now returning. This sum will be your 'loan ceiling' for the time being. Your fellow members may recommend more or less than the standard, and the KM will listen to their advice. The final decision will be reached by agreement between you, your fellow-members, and the KM.

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

i. *Changes of loan ceiling due to loan repayment behaviour:* if you repaid your previous loan without missing any instalments nor savings, and with a good meeting attendance record, your loan ceiling may rise by 10%. A further 10% increase can be earned if all your fellow *kendra* members are also repaying loans with a 100% repayment rate. Where the individual or *kendra* 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 you miss a loan or interest payment, 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, your loan ceiling may be assessed as not more than 150% of your combined savings account balances (of any kind of savings account except Personal Savings). Loans taken using this rule are known as 'Bridge Loans' and are described separately below.

n. Loan term: you will decide, taking advice from your group and *kendra* leaders and your KM, the loan term most appropriate for you. 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, you may 'top up' the loan after six months (twenty-six weeks). That is, you may re-borrow the amount you have repaid during the first six months of your loan term, adding that amount to your 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 you may extend the loan term *without* topping up the loan amount.

p. Repayment schedule: all basic loans are repaid in weekly instalments, normally beginning the week following disbursement of the loan. You will decide, taking advice from your group and *kendra* leaders and your KM, the repayment schedule most appropriate for your loan. Together you will prepare a Repayment Schedule and note it in your 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 you may pay off part or all your loan, ahead of schedule.

q. Interest: interest is payable on your basic loan at the rate of 20% annual percentage rate. The total interest will be calculated and divided into equal weekly instalments for the life of the loan. If you repay late, or extend the term of your loan, you will continue to pay interest on your balance at the same 20% pa rate. Note, however, that in no circumstances can the total interest you pay on the loan exceed the disbursed value of the loan.

r. Loan rescheduling: the 'flexi-loan': the flexi-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 flexi-loan is designed to be a routine, non-shaming, sensible way for you to solve the difficulty. At any time you feel you are falling into repayment difficulties, discuss taking a flexi-loan with your fellow members and KM.

i. *when a flexi loan is taken*: a flexi-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. A member cannot choose to take a flexi-loan: it must be triggered by one these two circumstances

ii. *flexi-loan term and schedule*: the borrower and the KM 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. *flexi-loan value*: flexi-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 flexi-loan repayment may re-borrow up to twice the amount repaid in the previous six months. But a flexi-loan cannot exceed in value the original basic loan of which it is a rescheduling

iv. *completion of the flexi loan*: when the flexi 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, her loan ceiling will have to be refixed, 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 KM.

v. *flexi-loans and savings*: borrowers with flexi-loans may not withdraw from any of their savings accounts. Where flexi-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 *kendra* 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 at the normal 20% pa rate). The borrower must discuss the loan with the Branch Manager as well as the KM, at the *kendra* 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. Bridge loans

A bridge loan is simply the entitlement to borrow more than would be allowed under the normal basic loan ceiling because you have savings with balances worth more than two-thirds of your loan outstanding balance. Under such circumstances, you can at any time borrow an extra amount so that your total borrowings are as much as 1.5 times your total savings balance. This 'extra' amount must be repaid within six months of taking. It can be repaid in any amount at any time within that six months. It is charged at the same interest rate as a basic loan. While you hold a bridge loan you may not withdraw from your savings.

u. Special investment loans

A special investment loan is a basic loan larger than would be sanctioned under the normal basic loan rules. It is given to borrowers 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 you can be considered for a special investment loan. 'Gold Membership' status (see below) will also help you 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].

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 optional 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. Note that from 2004 members may take out similar insurance on the lives of their husband. [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 flexi-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.

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. Destitute and 'struggling' members: There are special services for very poor villagers under a 'destitute members' scheme. In this scheme, *kendra* members take responsibility for coaching a very poor woman who may take small loans with very flexible terms and schedules, without being a formal group or *kendra* member. A special category of the destitute are beggars – called 'Struggling Members' by the bank – and there are exclusive programmes for them. (Since this is a recent development, Dr Yunus's description of it is added as an Appendix to the Report).

dd. Gold Membership: If you have been a Member for five years and used basic loans with a 100% repayment record you will be recognised as a 'Gold Member'. This entitles you to increase your 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. 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.

Understanding Grameen II, part 2:

Classic Grameen and Grameen II

The delivery environment

As many readers who read my summarised 'rules' will notice, Grameen II leaves the ***delivery environment*** and the ***delivery personnel***, of classic Grameen almost wholly untouched. This, as will become apparent, is of great consequence. The branch and its staffing are unchanged[16], as are the *kendra* and its groups and their leadership – though there may be a renewed effort to increase the number of members per *kendra* and of *kendras* per branch. Rules for becoming or ceasing to be a member are as before – although as this is being drafted, staff are being sent new advice which strengthens checks to ensure that new members are poor and do not belong to any other MFI[17]. Because these features are largely unchanged, they do not feature prominently in the key Yunus and Barua texts on Grameen II.

The behaviour expected of members is largely unchanged, but because the extent to which they are expected to help each other (financially as well as morally) in cases of repayment difficulty remains somewhat poorly understood, it is given a separate sub-section ('Group responsibilities'), below.

Also largely unchanged is the way in which staff and members are informed about products. Grameen is constantly evolving, and, as we have noted, each step is recorded in a Circular drafted in the HQ (after field consultation) and send to Zone, Area and Branch offices. Circulars vary in length and complexity, but taken together, the quantum of currently-valid text they contain is very large indeed, much of it still dating back to before Grameen II was conceived. These two reasons – constant evolution and the sheer mass of material – help to explain why there is no single definitive document available to the membership which summarises product rules. *Kendra* Managers, briefed on the Circulars by the BM, store the information in their note-books and memories, and then pass it on orally to members in meetings. Thus, those matters considered by KMs to be important may be repeated frequently (and accurately) in the *kendra* meeting, and be well-understood by members, while other matters are less often and less well presented to members and may be quickly forgotten by them. This continuing feature is also of great consequence for Grameen II.

Grameen II can therefore be best understood as having *evolved* from classic Grameen, rather than being a revolutionary break from it. It is also helpful to regard it as 'work in progress' rather than a finished object[18]. We have already reviewed the changes in the products. But Grameen II includes several new management techniques designed to improve performance, public-relations, book-keeping and transparency. We review some of more important ones after first providing a note on the extent to which Members are responsible for each others' loans.

Group responsibilities

The Grameen methodology is sometimes described as being dependent on 'group guarantees' or on the 'joint liability' of members within the same 5-person group or *kendra* – their individual and several responsibility for loan repayment. A large literature on the effectiveness of joint liability has

---

[16] The professional staff consists of a Branch Manager, assisted by a Second Officer, and a number of *Kendra* Managers

[17] From now on, staff will be required to complete a questionnaire at the home of the applicant, and to store the completed form in branch records. Among other checks, the checklist will include an inventory of household assets and the possession of a large asset – such as a colour TV or a power tiller – will automatically exclude the applicant from membership. Source: conversation with Dr Yunus, Grameen Bank HQ January 4 2004.

[18] Commenting on an early draft of this Report, Dr Yunus observes 'In a way it is not intended to be a finished product at a given moment. Staff will be creating their own 'music' as they become more creative about it. All we have done is give him a piano!'

emerged. But, curiously, this matter has always been somewhat ambiguous within Grameen. It does not feature in Dr Yunus's original published formulation of the Grameen concept, the 1982 pamphlet *The Grameen Bank Project in Bangladesh.* That text is consistent with what Dr Yunus said in conversation with Jonathan Morduch and the author in December 2002: that he never intended the group or the *kendra* to *guarantee* the loans of its members. Rather, he expected members to help each other solve the problems that underlie repayment difficulties. The belief that Grameen practised a form of 'joint liability' arises, says Yunus, from the imagination of writers of economic analyses of group-based microcredit.

Nevertheless, the use of some forms of joint liability, such as asking remaining members to repay loans left unpaid by absconding members, or to make up repayment shortfalls at weekly meetings, has been widely observed by commentators on Grameen, and in our own research we have seen continuing examples. Dr Yunus acknowledges that field staff may sometimes use these practices, and, well before the arrival of Grameen II, he developed rules to curb it, such as specifying that members should never be required to cover the dues of a member in difficulty for more than four consecutive weeks.

With Grameen II, and its emphasis on 'tension-free microcredit', it appears that Grameen is making even stronger efforts to ensure that strong forms of joint liability are a thing of the past. Now, even the 'four weeks' advice, just referred to, has disappeared. Under Grameen II, no member is *ever* required to pay for other(s), a rule that Dr Yunus emphasised in comments on an earlier draft of this Report. The web-site is equally clear, boldly announcing that:

> **No Collateral, No Legal Instrument, No Group-Guarantee or Joint Liability**
>
> Grameen Bank does not require any collateral against its micro-loans. Since the bank does not wish to take any borrower to the court of law in case of non-repayment, it does not require the borrowers to sign any legal instrument.
>
> Although each borrower must belong to a five-member group, the group is not required to give any guarantee for a loan to its member. *Repayment responsibility solely rests on the individual borrower*, while the group and the centre oversee that everyone behaves in a responsible way and none gets into repayment problem. *There is no form of joint liability, i.e. group members are not responsible to pay on behalf of a defaulting member.*
>
> (Italics added)

Branch opening and financing

Grameen II makes much greater use of the Bank's formal status and its statutory right to mobilise deposits[19] than formerly. When Grameen II branches are opened, in addition to sensitising potential members through public meetings, a new form of public meeting is held to attract potential depositors among the general public. It is possible for a branch to begin its work just with non-member depositor clients and start work with borrowing members only later, when deposit capital had been raised: in such a case a branch may never need to borrow loan funds (or funds for operations or other use) from HQ. Dr Yunus informs me[20] that all the branches that opened in 2003 have all been operating with their 'own' money from opening day.

Loan loss provisioning, loan loss recognition and recovery

Grameen II has introduced stricter procedures for the regular (monthly) recognition of loans at risk, for provisioning them, and for writing them off. Loans with ten weeks repayment overdues are now booked as doubtful and their total outstanding value provisioned unless the borrower agrees to move

[19] See *The Grameen Bank Ordinance 1983*, paragraphs 19(a) and (i)

[20] In comments on an earlier draft of this Report, March 2004

to 'flexi-loan' status (see the summarised rules, previous). If the borrower agrees a flexi-loan rescheduling then 50% of the loan value is provisioned at the next annual closing, rising to 100% when the flexi-loan remains outstanding at the end of a second year. At the end of the third year, any outstanding amount is wholly written off (even if the member is in fact continuing to make repayments). Bank workers pursue the repayment of written-off loans and are allowed to earn a percentage of such recoveries[21].

Staff performance

Under Grameen II the target ratio of field staff (KMs) to members has risen to 450, and branches are encouraged to serve at least 60 *kendras* of 50 members each. There are still no performance incentives built directly into the salary structure, but staff and branches can earn and display non-monetary awards ('stars') for passing certain performance indicators (including the loan repayment rate, profitability, savings in excess of the loan portfolio, school-attendance rates of members' children, and the number of member households that have crossed the poverty line).

Computerisation

Computerisation was under way before Grameen II but has accelerated. The target is to have all branches served by computer centres based in the Area Office by the end of 2003.

Understanding Grameen II, part 3:

Grameen II in the field, late 2003

We have looked at the rules of Grameen II, and briefly discussed how it differs from classic Grameen. Now for our third way of understanding Grameen II. What do we find in the field in late 2003?

Our evidence for what follows comes from several sources. First, we have our three 'research area branches[22]' where we have set up small local offices from which we track in detail what is happening in that branch area. Next, we have reports from our many trips to other areas where we carry out 'spot checks' to help show whether our research areas are in any way especially untypical[23]. Then, we have the special reports prepared by Acnabin & Co, an accountancy firm (on research area branch finances) and Dr Maniruzzaman (on the economy, demography and wealth-distribution of our research areas). As always, we have the contributions and feedback from Grameen members and Grameen staff at all levels.

Getting the job done

Our first task was to review the extent to which Grameen II has been implemented in the field. Is Dr Yunus right when he says that Grameen II has emerged and is actively practised in the branches?

The answer is a clear 'yes'. The practical steps that branch staff were required to take have been done quickly, efficiently, and successfully. However, some aspects of Grameen II practice are not yet fully observed in every branch. And some of the options contained within Grameen II have yet to be taken up widely. Table 2 describes this in a little more detail:

---

[21] We have seen no evidence so far that this produces a perverse incentive to let loans fall into arrears. Incentives for bank workers – with this one exception - point in the direction of maintaining high levels of loan collection. See the remarks in the section on 'Grameen II and its providers and users'

[22] In Torgaon (Dhaka zone), Saherkhali (Chittagong zone) and Chikundi (Faridpur zone)

[23] In 2003 we carried out such trips in Chittagong, Feni, Comilla, Munshiganz, Rajshahi, Gazipur, Dhaka and Bogra Districts

Table 2: The status of some key features of Grameen II at end 2003	
Status as at end 2003	**Features of Grameen II**
***Done*!**	**Loans**: All general and other 'classic Grameen' loans (except housing and education loans) have been converted to basic loans, the process explained to members, and all subsequent new loans treated as basic loans All general and other loans in arrears have been converted to flexi-loans (where the member was available and willing), along with appropriate loan-loss provisioning, and explaining the process to members Loan-loss provisioning of those general and other loans in arrears that could not be converted to flexi-loans has been completed All members are informed about the six-month basic loan 'top-up' facility, and it is now in general use 'Special project loans' have been introduced on a case-by-case basis and all members informed of this facility **Savings**: Personal savings accounts, and special savings accounts, have been set up for all members, and are in general use The classic Grameen 'group loan fund' has been fully converted to personal savings The Grameen Pension Savings scheme (GPS) has been fully introduced, and all members with loans of at least 8,000 taka (and many other members) have opened accounts Savings deposit services for the general public have been made available in every branch, often with great success
Doing	**Loans**: Some branches have begun to introduce Bridge Loans **Savings:** Some branches or individual workers allow withdrawals from personal savings accounts at any time in any sum for any reason; some allow partial or conditional withdrawals; some resist withdrawals
Barely started	**Loans**: Variable terms for basic loans (terms other than one year) remain rare Variable repayment schedules for basic loans (schedules involving unequal weekly instalments) remain rare Rescheduling basic loans by converting them to flexi-loans remains rare (except in the case of loans that were in arrears when Grameen II started) **Other features**: The special provisions for the very poor are being tried in a few branches[24]

Thus, Grameen staff have diligently carried out the essential steps necessary to effect a shift from classic Grameen to Grameen II, while moving more slowly on some optional features. Among the

[24] And, as noted in a previous foot-note, early 2004 saw the introduction of the 'Struggling Member' programme, featured in the Appendix.

optional features that have been little-used so far is the one that most alarmed some commentators – the day-to-day rescheduling of troubled loans.

We note below some of the evidence for the findings in our table.

Loan conversions

Figures 1 through 3 following show the composition of the loan portfolios of our three research sample branches for the period of conversion from classic Grameen to Grameen II. The shares for the different types of loan are given at quarterly intervals, and show quarter-close shares taken from the branch balance sheets[25].

Figure 1: Composition of Loan Portfolio, Torgaon Branch, taka

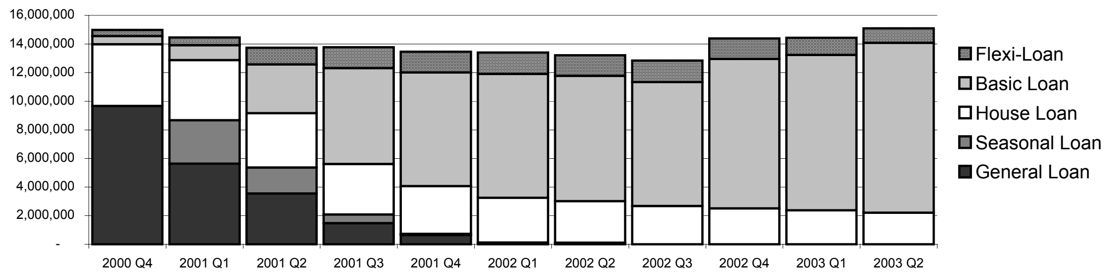


Figure 2: Composition of Loan Portfolio, Saherkhali Branch, taka

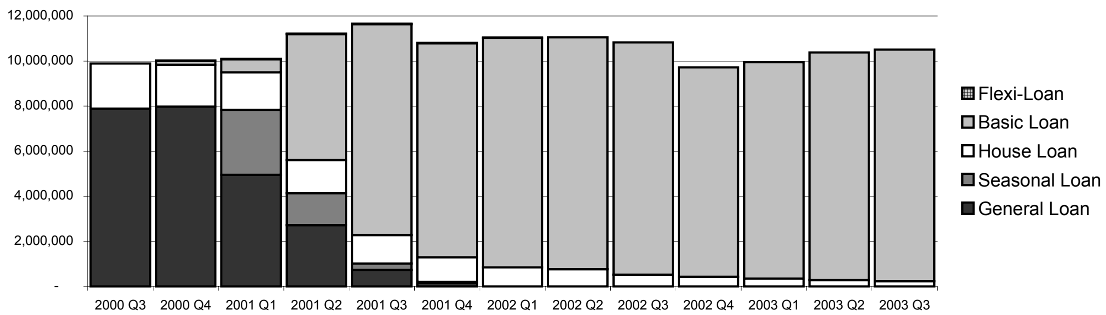
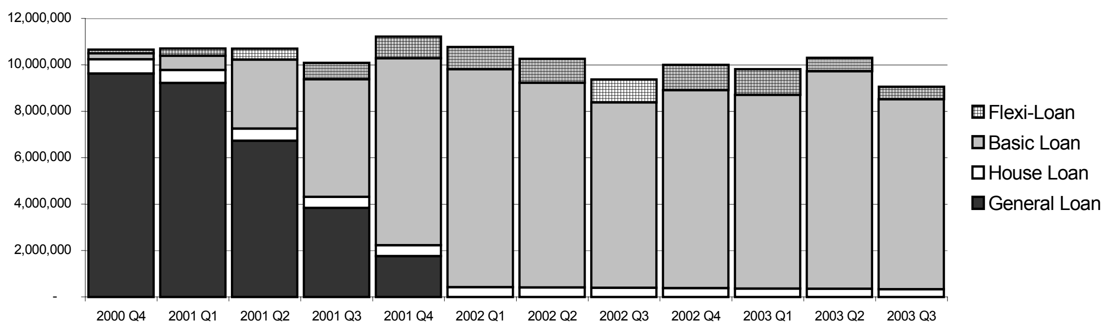


Figure 3: Composition of Loan Portfolio, Chikundi Branch, taka



Source: branch records. In the Chikundi branch books, seasonal loans were included in general loans

[25] For simplicity, leasing loans and cattle loans have been included in general or basic loans as appropriate

In the three branches conversion from classic Grameen loans (general and seasonal) to Grameen II's basic and flexi loans took about 15 months in all and was completed by the end of 2001. This was verified by interviewing members. The figures also show some differences between our three sample branches. Saherkhali, the best performing branch in terms of repayment (though with a smaller number of members and a smaller portfolio overall than Torgaon) had few arrears when Grameen II started and hardly needed to use the initial round of flexi-loans. Chikundi, a branch in a low-income isolated area had to use many flexi-loans and is taking time to get them paid off. Torgaon, which had – and still has – many housing loans, had to issue flexi-loans to members who had fallen behind in repayments partly as a result of the 1998 which made it hard for them to manage their high levels of debt, composed of general, season *and* housing loans. Note that in all three branches very few 'new' flexi-loans have been issued.

Savings conversion

Firgure 4: Composition of Deposits, Torgaon Branch, taka

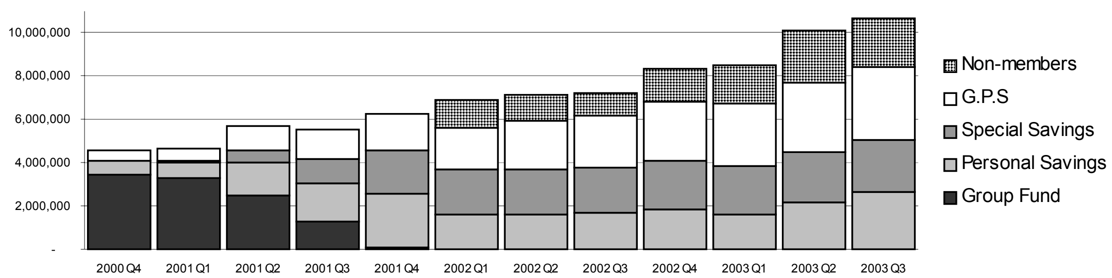
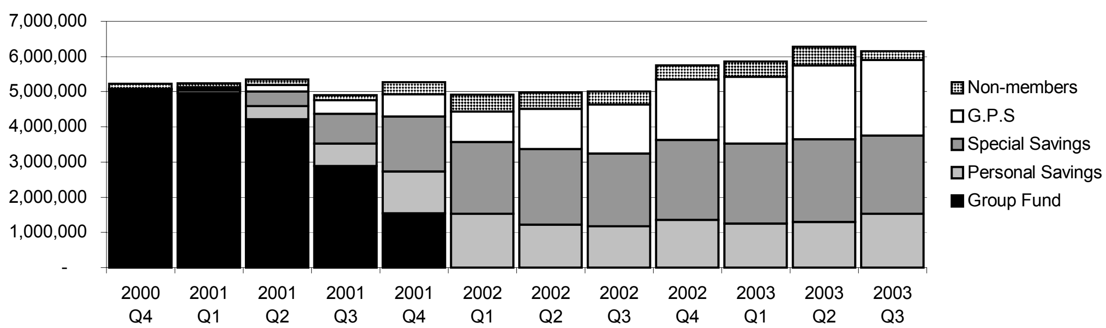


Figure 6: Composition of Deposits, Chikundi Branch, taka

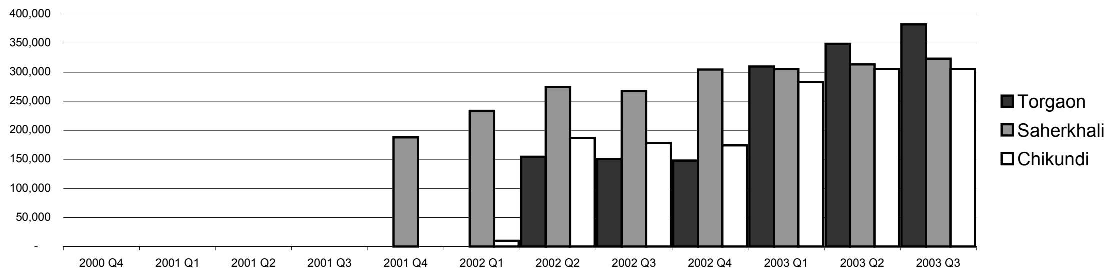


Source: branch records. In the Saherkhali branch books, personal savings held by members and non-members were not distinguished until third quarter 2003

These figures (4, 5 and 6) show how the classic Grameen group fund was converted to private members savings over the same period as the loans were being converted. This was verified through discussions with members and inspections of passbooks in the field. Again, there are interesting differences between our three branches. Saherkhali, despite having fewer members than the others, has an excellent savings portfolio, almost one half of which is owned by non-members. Nevertheless, Saherkhali's members have a low personal savings balance despite holding large GPS balances. This may be related to the sudden floods that Saherkhali suffered in mid 2003, and that Saherkhali is a branch where staff have been more willing than elsewhere to allow members to withdraw freely from personal savings accounts.

Loan-life insurance

Figure 7: Growth of Loan-Life Insurance Deposit Balances, taka

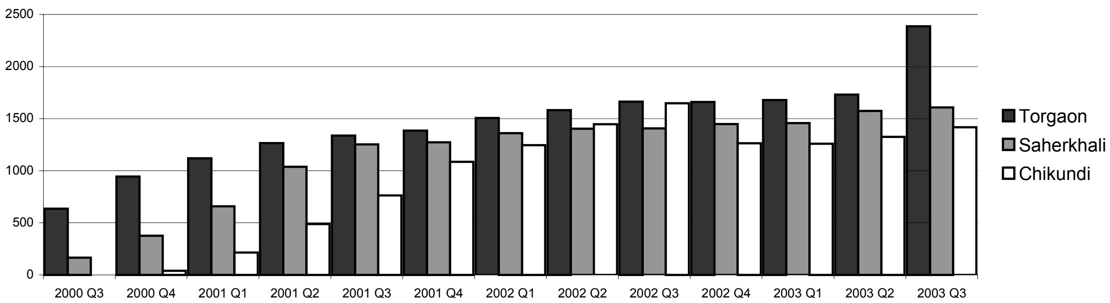


Source: branch records

Figure 7 demonstrates how the loan-life insurance has got off to a good start. Saherkhali was the first of our three branches to embrace it enthusiastically but in deposit balances it has been overtaken recently by Torgaon (which has more members and a bigger loan portfolio). Note, however, that branch staff didn't start selling this product vigorously until they had fully completed the groundwork of converting from classic loans to Grameen II loans.

GPS accounts

Figure 8: Numbers of GPS Accounts



Source: branch records

The GPS got off to a quicker start, with over 600 accounts in Torgaon within the first quarter of conversion to Grameen II. Saherkhali followed, but, because it has fewer members, its ratio of accounts to members soon overtook Torgaon's. Note that the jump in account numbers in the third quarter 2003 is due to a technicality: at that time Grameen was splitting large-denominated GPS accounts into two: a 'red GPS' of 50 taka per month which is compulsory for borrowers with loans of 8,000 taka or more, and other non-compulsory GPS accounts. Among our three sample branches Torgaon was first to start making this conversion. More on this later.

Savings withdrawals by members from personal savings

Source: branch records

Figure 8: Incidence of Withdrawals from Personal Savings per Quarter

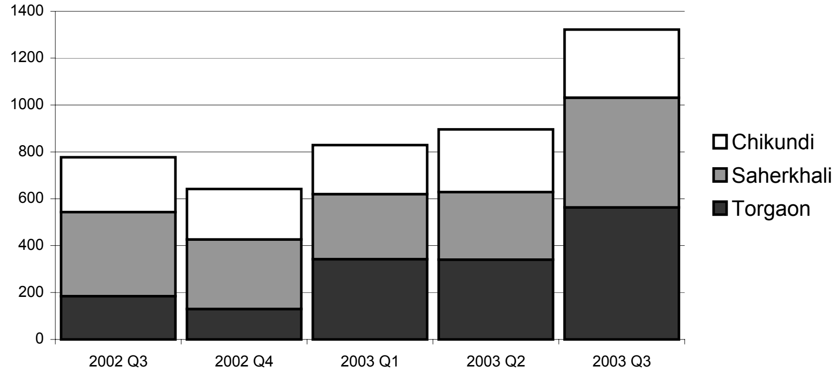
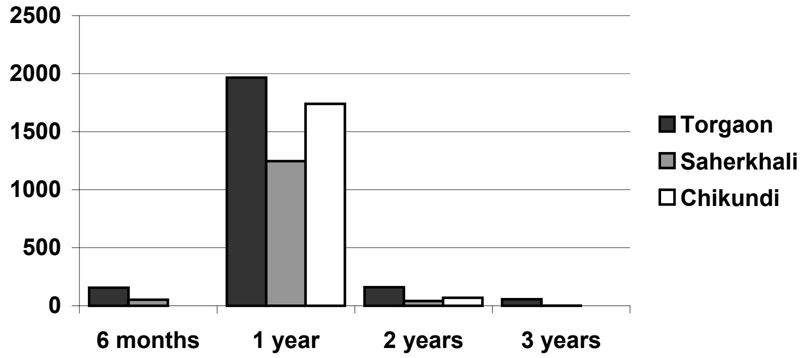


Figure 8 starts in the third quarter 2002, because before that branch records do not allow us to distinguish easily between member and non-member withdrawals. The figure shows the total number of member withdrawals for each branch for the full quarter. Thus, in Torgaon in the third quarter of 2002 there were less than 200 withdrawals made by the 2,600 members. Numbers of withdrawals have been rising more sharply recently, possibly because of the frequency with which our researchers raise this issue with members and staff.

Variable loan terms

Source: branch records

Figure 9: Terms of Loans Outstanding end Q3 2003 (vertical axis shows number of loans outstanding for each term)



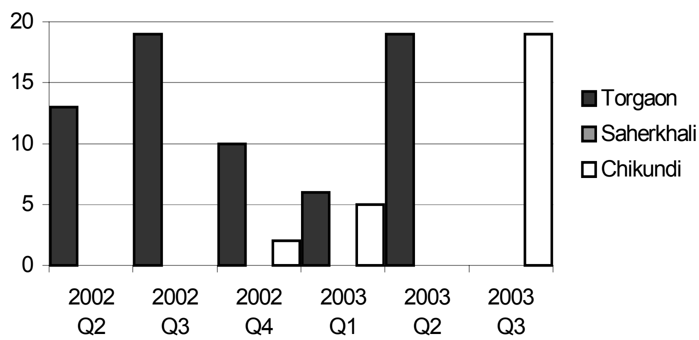
In Figure 9 we see that variable term loans are not yet at all common. Some 87% of all loans outstanding in our three sample branches are for the standard classic Grameen term of one year. In fact, the preponderance of the year-term for the regular basic loan is even greater than that, since the six-month terms are all for the 'cow-fattening loan' (a classic-Grameen inheritance) and the 2 and 3 year terms are all either for special project loans (such as mobile-phone loans) or are extensions of loan terms made for troubled loans after the first six months of a regular one-year term has been completed.

We were unable to find any examples of variable loan repayment instalments in our sample branches nor in our spot checks elsewhere.

Loan rescheduling

Source: branch records (available only from second quarter 2002)

Figure 10: Incidence of Loan Rescheduling vertical axis shows number of basic loans converted to flexi-loan



The rescheduling of basic loans by converting them into flexi-loans is one of the most contentious aspects of Grameen II. However, we have found that it is being used extremely sparingly, for reasons explored in a later section. Figure 10 demonstrates this. Saherkhali, like most branches, converted classic loans in arrears into flexi-loans when Grameen II first appeared, but, like many other branches, has since then not used flexi-loan rescheduling at all. Chikundi, the sample branch with the most troubled portfolio[26] of our three sample branches or indeed of the whole of the Shariatpur Area, has used it very sparingly, converting just 26 basic loans to flexi-loan terms in the 18 months to September 2003. The total outstanding taka value of these 26 loans at the time of conversion was 140,500.

Branch Performance

From the figures already shown, we can begin to note some aspects of branch performance during and after conversion to Grameen II – though it would be premature to *attribute* the changes to Grameen II. Starting with the balance sheets of our three sample branches, we can see that savings deposits have grown remarkably (figures 4, 5 and 6), especially in Torgaon and Saherkhali, and that the growth is strongest in member-owned GPS accounts and in the new public deposits, both Grameen II features. Saherkhali, for example, more than tripled its savings portfolio during the three years ending in the third quarter 2003. Similar growth can be seen in the consolidated figures for Grameen as a whole[27].

The size of the loan portfolio has not changed greatly over the last three years in our three sample branches (figures 1, 2 and 3). In Torgaon it dipped in the middle of the period but has recently grown back to where it was when the conversion started: conversely in Saherkhali it rose a little in the middle of the period but has recently declined again to end up near where it started. Chikundi has shown an overall decline, from about 10.5 million at the end of 2000 to about 9m at the end of the third quarter 2003. Again, the position is similar for the bank as a whole: loans (before provisioning) stood at 13,134 million at end 2001 and at 13,400m a year later (Annual Report figures).

With regard to profitability, the picture is mixed. As Table 3 (page 26) shows, before adjusting for loan loss provision, income exceeded expenditure in Torgaon and Saherkhali in the three years 2000, 2001 and 2002, and in the half year 2003, while in Chikundi expenditure exceeded income in all these periods. After loan loss adjustment, we find that Torgaon and Saherkhali returned profits for all these periods. In Chikundi declining loan loss provision has allowed the branch to show a profit for 2001 and for the first half of 2003, and a loss for 2002.

A declining loan loss provision suggests improving portfolio quality. On this, Acnabin and Co write:

> Trend of portfolio quality : Classification policy for bad and doubtful loans was changed in Grameen II and so comparison with pre-Grameen II period becomes difficult. However, a significant improving trend in the loan portfolio quality is observed in Chikundi between 2001 and 2003 and in Torgaon between December 2002 and June 2003. (Saherkhali has no flexi-loans after December 2001 and so is not shown.)

Table 4 shows the ratio of doubtful loans to total loan outstanding (excluding Housing)[28]

Table 4: Ratio of flexi-loans and overdue loans to total portfolio outstanding

	December 31 2001	December 31 2002	June 30 2003
Torgaon	12%	13%	8%
	21%	15%	6%

[26] in then opinion of Grameen staff, not just our researchers

[27] GPS balances bank-wide rose from 1,366 million taka at end 2001, to 2,537m at end 2002 (source: audited Annual Reports). Total deposits grew from 8,284m end third quarter 2002 to 12,161m at end third quarter 2003 (source: GB Monthly Updates)

[28] Further details of this analysis are available from the author

Observations in the field by our researchers support the view that despite the very restrained use of rescheduling (conversion of basic loans to flexi-loans, the main trigger for recognising doubtful loans) there is nevertheless an improving trend in loan collection in our sample branches. The exact reasons for this are not clear, and we should be careful not to attribute it, and certainly not attribute it wholly, to the borrowers' responses to the product changes that Grameen II introduced. It may be as much, or more, to do with a general improvement in staff procedures and morale following the successful overcoming, in many branches, of the difficulties that followed the 1998 floods. See the remarks in the following section.

Table 3: Income Statements for our three sample branches

Income Statement

	Chikundi				Saherkhali				Torgaon			
	2000	2001	2002	2003 Jan-June	2000	2001	2002	2003 Jan-June	2000	2001		2003 Jan-June
INCOME:												
Interest on loans	2,176,728	2,334,183	1,990,278	1,030,693	1,953,052	2,356,611	2,179,769	938,097	2,944,873	2,766,619	2,	1,330,224
Interest on deposits	1,934	985	1,928	370			186,490	-				
Interest on HO fund					-	396	451	-	-	2,818		3,636
Other income	13,157	30,376	94,676	64,975	69,075	85,040	118,049	61,826	20,393	119,571	2	78,349
	2,191,819	2,365,544	2,086,882	1,096,038	2,022,127	2,442,047	2,484,759	999,923	2,965,266	2,889,008	2,	1,412,209
EXPENDITURE:												
Salary & allowances	1,179,747	1,029,439	917,358	453,975	739,367	708,944	758,639	288,678	749,688	623,581	6	361,111
Interest	404,909	410,807	434,749	269,129	533,824	687,362	1,019,543	21,542	416,634	533,853	6	454,092
Other expenses	1,230,919	1,237,935	1,117,269	435,915	433,910	327,189	82,505	30,907	1,338,388	978,005	6	286,135
	2,815,575	2,678,181	2,469,376	1,159,019	1,707,101	1,723,495	1,860,687	341,127	2,504,710	2,135,439	1,	1,101,338
Net profit before LLP	(623,756)	(312,637)	(382,494)	(62,981)	315,026	718,552	624,072	658,796	460,556	753,569	6	310,871
Provision for the period		(1,852,659)	76,938	(1,471,481)		46,362	(54,434)	(2,888)		(667,228)		(478,543)

Net profit after LLP		1,540,022	(459,432)	1,408,500		672,190	678,506	661,684		1,420,797	173,685	789,414
Required provision at y/e	4,507,215	2,654,556	2,731,494	1,260,013	20,410	66,772	12,338	9,450	2,918,757	2,251,529	2,759,030	2,280,487
Remarks: Required provision for the y , so required provision as on 31.12.2000 shown as provision for the period in column 2000 4th quarter.												

Grameen II and its providers and users

We have looked at Grameen II's rules, noted differences between Grameen II and classic Grameen, and seen that much, though not all, of Grameen II is actively being practised in the branches. In this section, we report on our many conversations, mainly with staff and members, but also with some non-members[29]. Some of those conversations are held in a systematic way: we have about 70 regular respondents in our three sample branch areas with whom we discuss their financial affairs, including any dealings they have with Grameen and any views they have about Grameen, at least once a month. Other conversations are more casual, or are directed at exploring particular issues that come up as our research proceeds. Our aim is to get a better understanding of what Grameen II means to those who practice and observe it. We start with the staff.

Perceptions, part 1: the staff

The view from HQ

Dr Yunus is very clear about the reasons for developing Grameen II. Grameen faced a repayment crisis, aggravated by the nationwide floods in 1998 and the subsequent over-indebtedness of many of its borrowing members. These events exposed weaknesses in classic Grameen, above all its inflexibility in responding to the repayment difficulties its members inevitably experience. Dr Yunus ends his introductory text *Grameen Bank II: Designed to Open New Possibilities*, thus:

> Now looking back I feel that it was lucky for us that Grameen was faced with a crisis. This crisis led us to create Grameen II, which has the built-in capacity to handle crises and disasters in a much better way than ever before. Under normal conditions, [Grameen II] is not only a powerful and efficient system, capable of providing custom-made financial services to support the economic and social upliftment of each individual borrower family, but also it frees micro-credit from the usual stresses and strains.[30]

Of course, Grameen II is more than just a response to problems with loans. It changes Grameen's approach in three other areas: in pension savings, in treating its members' savings individually, and in opening up its deposit services more widely to non-members. We have seen that major steps in all these areas have already been taken in the field: dealing with the loans crisis was not given overriding priority.

Indeed, there is a curiosity in this that needs to be explained. Dr Yunus's text makes it clear that *inflexibility* was the main weakness of classic Grameen: [31]

> The system consisted of a set of well-defined standardized 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 that allowed her to return were not easy for her to fulfil.

One would therefore expect that the elements of Grameen II that seem to address the problem of inflexibility most directly would be among the first elements to be taken up. They would include, above all, *individual loan terms* (so borrowers can better match their loan to their needs, can avoid taking loans at difficult times of the year, and can bring their weekly repayment instalments down to a more easily manageable level), *individual repayment instalment schedules* (so borrowers can match their repayment values to periods when they are best placed to repay), and *loan rescheduling* through flexi-loans (so borrowers can solve sudden difficulties with dignity). Yet, as we have seen in the previous section, *these elements are still uncommon in the field*.

Why is this? I explored the reasons in interviews with Dr Yunus[32]. These three elements are all *options* within Grameen II. Yunus makes this clear in his text:

---

[29] We have not looked at the public deposit services in detail yet, and do not report on them here

[30] Yunus 2002, pages 22 and 23

[31] Yunus 2002, page 2

[32] 30th July, 1st October (with Dr David Hulme) 2003, and 4th January 2004, in his office

> There is only limited scope in [classic Grameen] for the exercise of judgment by the foot-soldiers of micro-credit. [Grameen II] is different. It allows a staff member to be creative. He can design his loan product to make it a best fit for his client in terms of duration, timing of the loan, scheduling the installment, etc. The more a staff member becomes a creative artist, the better music he can produce.

In making this point again in conversation, Dr Yunus used an analogy from computing: Microsoft Windows has many options, but the average computer user uses only a few of them, and comes to know the others only slowly, perhaps never. She may actively search for options only when she feels the need to, and this is what Dr Yunus expects to happen with Grameen II options like variable terms and schedules, and rescheduling. As bank workers and managers face up to the repayment difficulties experienced by their members, they will come to understand the advantages of the flexible options built into Grameen II, and begin to use them. It may need an especially daring bank worker to try them out, but if they succeed in solving the problem, others in the branch or area will be encouraged to use them.

Dr Yunus made another point. At the time of designing Grameen II, there was anxiety among some senior staff that the 'flexi-loan' would be abused: that too many field workers would see it as an easy-way-out and it would become widespread. If that were to happen, it was feared, the discipline underlying the lender-borrower relationship, which Grameen has painstakingly built up over twenty-five years, would be eroded. And with Grameen II's new tighter arrangements for recognising doubtful loans and writing off bad ones, such a proliferation of flexi-loans would lead to massive over-provisioning and thus to an overly pessimistic account of the quality of the loan portfolio[33]. HQ, therefore, has not been pushing field staff to use rescheduling. Indeed, rather the opposite: it has raised a challenge to branches and areas to be '*chukti-mukti*' ('flexi-free').

We see, then, that Grameen II devolves very great power and responsibility to its field-level workers, who are seen not so much as the executors of a set of prescribed rules as the interpreters of a set of options. This can be seen as standard banking practice: in conventional banks branch managers normally enjoy considerable discretion in granting loans and setting their terms. It has two consequences for us as researchers, which we need to take up:

1. First, it means that to understand why Grameen II is like it is, we need to understand how fieldworkers think. This vindicates our village-level 'grounded' approach. We take this challenge up in the next sub-section.
2. Second, it means that it is *staff*, and not *customers*, who are seen as the makers of the choices that Grameen II offers. Does this explain why Grameen does not issue a rule-book to its members? What does this say about Grameen's attitude to marketing its products? We take up these themes in the third main section (Grameen II and microfinance).

The view from the field

Anyone who spends time with Grameen field staff quickly sees that they are hardworking[34]: there is a lot of voluntary overtime, sometimes because a posting away from home in a rural area means that working with colleagues is more fun than alternative ways of spending free time. They are conscientious: reports tend to be filed on time, *kendra* managers tend to turn up on time for meetings, even in bad weather. They are sometimes discontented: flat organisational structures like Grameen's make for slow promotion prospects for staff[35]. But there is one characteristic that many of them share that is of particular significance for us as we try to understand how they view Grameen II and why

---

[33] As described in the 2002 Yunus text (page 16) and the 2002 Barua text (page 14) 50% of the value of a loan is provisioned as soon as it moves to flexi status, a percentage that rises to 100% after the second year. In fact, we found that Grameen is practising an even more rigorous policy: in the 2002 audited accounts 60% is provisioned during the first two years of a flexi-loan. The branches appear to have been required to use an even higher figure, of 75%, but we found some inconsistency between our sample branches in how they interpret this instruction. A borrower who is unwilling to move to flexi status is declared a defaulter as soon as ten consecutive repayment instalments are in arrears (among other triggers), and the loan is 100% provisioned.

[34] These observations are true for workers in microfinance generally in Bangladesh

[35] Grameen tackles this problem as best it can by generous retirement pensions and severance pay.

they behave as they do: they see themselves as *guardians* – guardians of Grameen's interests, and guardians of the interests of their *kendra* members.

This helps to explain why they enthusiastically take up some aspects of Grameen II while moving more slowly on others. For example, they welcomed the GPS once its implications were grasped[36]. If I ask HQ whether GPS deposits act as *de facto* security against loans I get a guarded answer: the GPS is just one element of a member's interactions with Grameen, and it will be taken into account along with other elements, and the views of fellow-members, if a member falls into difficulties[37]. If I ask *Kendra* Managers (KMs) I usually get a more robust reply: the GPS safeguards Grameen because it reduces losses caused by loan default, and it safeguards members by forcing them to hold reserves they can liquidate if they get into trouble. Many KMs persuaded all their borrowing members to open GPS accounts even though, under the rules, only those with loans of 8,000 taka or more are required to.

But their self-image as guardians can also make them behave cautiously. Those seniors who thought that flexi-loans might be abused by fieldworkers got it wrong, because they failed to see that fieldworkers would perceive the risks *just as they did* – or even more so. Early on in our research a Branch Manager told us that

> Grameen runs on rhythm. That rhythm depends on the constant repetition of simple basic behaviours. Fixed invariable one-year terms, and fixed invariable equal weekly payments are very much part of that rhythm. Upsetting those basic patterns would risk the fundamental validity of the Grameen method.

He felt that everyone's interest is best served by continuing with the arrangements that he believed had worked for classic Grameen: one-year loan terms, equal weekly repayments, and full on-time repayment. 'I would do anything', he told us, 'rather than issue a flexi-loan. Flexi-loans are a bad idea'. Other branch staff have made similar comments to us, not just on Grameen's II's shift to flexible loans, but also on other aspects of Grameen II that they see as too flexible. For example, another Branch Manager made it clear that he thoroughly disapproved of open withdrawals from personal savings – 'it will lead to the ruin of Grameen', he told us, if members withdraw savings when they like, especially if they get into the habit of withdrawing savings to make loan repayments. He wanted Grameen to return to a policy of no withdrawals until the account is closed or, failing that, of allowing withdrawals in only two circumstances – severe illness and marriage. His field staff confirmed to us that he encouraged them to resist withdrawals as much as possible.

A common feature of such views is the fear of creating precedents – of allowing 'bad habits' to entrench themselves. Just as some in HQ thought (wrongly) that flexi-loans would encourage workers to adopt the bad habit of using them too freely, so some fieldworkers fear that allowing members to withdraw their personal savings will lead to all members withdrawing all of their savings, and that allowing loan rescheduling will lead all other members to want to reschedule their loans. To be fair to the fieldworkers, they haven't been exposed to the ample evidence, in Bangladesh and internationally, that such fears are unwarranted, nor have they yet experimented enough to learn these things for themselves.

As a part of being the *guardians* of members' interests, field staff may see themselves as the *interpreters* of members' interests. Many KMs told us that 'members won't want loan terms other than one year' or that they won't want variable repayment schedules, and give their own belief as sufficient reason for not offering them. A typical argument runs as follows. 'Members are used to one-year terms and would be confused by anything else – don't forget that most of them are illiterate. They have a hard time understanding the rules. I may tell them something in the *kendra* meeting over and over again, but they still won't remember it. Variable repayment schedules could be downright dangerous for members: husbands, who give their wives the repayment money, would think their wife was cheating them if suddenly one week she asked for more. It's better if everyone repays in the same

---

[36] See figure 8, page 23: the GPS was introduced quickly in our sample branches

[37] Conversation with Dr Yunus, 30th July 2003

way – otherwise there's bound to be someone in the *kendra* who'll try and take advantage of the confusion and claim that since someone else is paying only half a *kisti* (repayment instalment), so she should too. Members don't like it if there's confusion, they think their loan rights will be damaged. They like to keep their record clean. In any case, no-one's ever asked for non-standard terms or schedules, so there's no evidence that anybody wants them.'

So if staff are not using the devices that Grameen II offers them to make loan use easier for members, and thus make repayment difficulties rarer, what are they doing? What, exactly, did that Branch Manager mean when he said that he'd 'do anything rather than give a flexi-loan'? Our observations of *kendra* meetings, and our discussions with staff and members, provide some answers. *Kendra* Managers continue to enforce loan repayment discipline much as they did under classic Grameen, and in this they do very much as their counterparts in the other big Bangladeshi MFIs, like BRAC and ASA, continue to do. The main device is the imposition of what could be called '*meeting-day joint liability*': the refusal to end the meeting and allow members to return to their homes, and the refusal to conduct other bank business – such as processing loan applications or authorising savings withdrawals – until all repayments due are collected, or at least until there are firm promises of paying them before the close of the day's business. This puts effective pressure on members to lend each other enough to cover the day's dues[38]. Described thus, such measures may seem somewhat oppressive, but in fact they represent the practical actualisation of the shared responsibility for each others' difficulties that Grameen has always tried to foster among its members[39].

Under such circumstances, it is unlikely that even a member in extreme repayment difficulty would ratchet up ten consecutive weeks of non-payment of dues, and the circumstances that would trigger automatic loan rescheduling are thus avoided[40]. *Kendra* Managers quickly identify members with repayment problems, and under Grameen II they can take advantage of the six month (twenty-six week) 'top-up' rule: they coax such members through to the twenty-sixth week, when they can borrow again an amount equal to half the original loan, enough to pay down any debts still outstanding to fellow-members and to provide some helpful liquidity to manage the remainder of the loan[41]. If after that the member remains in difficulty, then she is coaxed through to the close of the loan, after which members and staff may agree to suggest that the members closes her account and leaves the *kendra*.

I have focused on these attitudes and behaviours because it is important to understand them. But we should remember Dr Yunus's expectation that as time goes by field staff *will* come to use variable terms and schedules, and flexi-loans, more readily, and shift away from imposing the harsher forms of 'meeting-day joint liability'. In commenting on an earlier draft of this report, Dr Yunus wrote that:

> '… 'meeting-day joint liability' is still noticed because of the same mind-set of the gradually shrinking number of staff who would insist that he'd 'do anything rather than give a flexi-loan'. I am hoping that in Grameen II 'meeting-day joint liability' will disappear, even if it exists in some centers today, because there is no reason for the staff for insisting on "perfect repayment" from everybody, every week. Grameen II has been designed to make microcredit "tension-free". If a borrower cannot keep up with the current repayment schedule she can opt for an easier repayment schedule under flexi-loan. Sky should not fall on the staff or the borrower if a borrower goes from basic loan to flexi-loan'.

---

[38] The pressure falls especially strongly – and especially effectively – on members who are known to have cash, or the prospect of cash, that day. Thus, members due to get a loan disbursed that day, or members who have brought large GPS deposits, or large Grameen Phone payments, to the meeting, often feel themselves morally obliged to lend short-term to members with repayment difficulties. This can cause resentment.

[39] Please refer back to the discussion of 'group responsibilities' on page 15

[40] The situation is different in cases where repayment has worsened to the point where members are not attending the meetings. This is the case, for example, in some *kendras* in Chikundi, one of our sample branches. In such circumstances, the automatic triggers for flexi-use tend to occur, and KMs recommend conversion to flexi-loans more readily.

[41] We have also witnessed – though such cases are still uncommon as far as we know – another inventive use of the top-up rule. I call it the 'empty top-up'. At twenty-six weeks a member in repayment problems may be given an extension of term without any cash top-up. The effect of this is to halve the weekly repayment amount due. This achieves much (though not all) of what the flexi-loan was meant to achieve. As our research continues, it will be interesting to see whether this device becomes popular, or even replaces the flexi-loan.

There is already evidence of a trend towards taking up the more 'liberal' options of Grameen II. In two of our three research branches, for example, attitudes towards open access to withdrawals from personal savings have changed markedly during our first year of observations. Branches that were openly hostile to the idea of open withdrawals a year ago are now proud that they comply fully with the rules, and allow members to take withdrawals at any time for any reason. We have verified this on the ground, in *kendra* observations and in our work with our regular member respondents. Unwrapping Grameen II is a dynamic process, and we anticipate continual developments as we go on talking to staff and observing their behaviour.

Perceptions, part 2: the members

The view from the villages

If we ask members about 'Grameen II', or about the 'Grameen Generalised System[42]' we generally get blank looks. This is because Grameen II wasn't presented to members as an integrated set of financial services, nor presented to them all at one time, nor comprehensively in simple written Bengali. Members are of course aware of changes to the rules and procedures, and of new products. A table summarises our findings about member understanding and opinions on a selection of Grameen II features.

Table 5: Common answers by members to questions about their understanding and opinion of some key Grameen II features

Features	**Understanding**	**Opinions**
Basic loans and their characteristics	Well understood	Neutral to positive: some believe that basic loans reduce their overall loan rights compared to classic Grameen. The six-month top-up is generally liked.
Flexi-loans	Not well understood except by members who both hold and repay them	If known, then seen mostly as the way that the Grameen allows loan rescheduling for Grameen II loans most say 'not at all'.
Variable terms and variable repa insta	aware of the longer terms offered for special project loans	on the grounds that Grameen would never allow them, so it's not worth talking about. Others say they would like them, while a few say they prefer things to remain as they are[43].
Spec proje	Surprisingly well known considering only a minority of members hold them	rules?' members often quote 'loans for taxis and for mobile phones' even if they have little prospect of being eligible to take one
Loan-life	Quite well understood	Very positive. Some members ask for cover for

[42] In Bengali: or we might ask about '*dityo onko*' – the second stage, as Grameen II is sometimes known

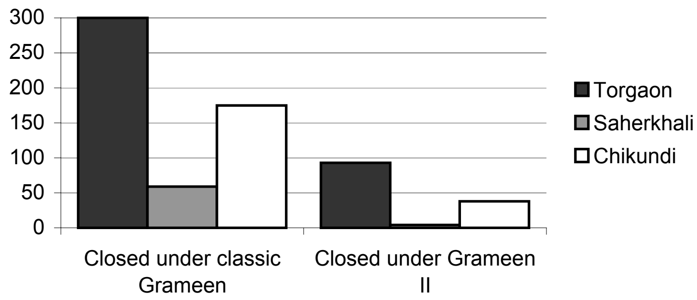
[43] It is arguable that the one-year term offered by almost all MFIs in Bangladesh continues to dominate pro-poor lending because it does suit a large number of borrowers, by providing the best trade-off between loan value and the weekly repayment burden. Some commentators have compared it favourably with the 4-month terms offered in some East African MFIs, for example. Nevertheless, it is undeniable that a broader choice of terms would be welcomed by many Bangladeshi borrowers. MFIs that have tried optional 3- and 6-months terms have had much success with them.

insurance		their husbands, a wish Grameen has just granted
Personal savings and special savings	Well understood, except for withdrawal rights	Positive: much preferred to the old 'group fund'. Members generally would like open access to their personal savings, but some believe Grameen restricts or forbids withdrawals. A few mistakenly believe that the group fund still exists.
GPS	Well understood	Extremely positive. Even among members who opened a GPS only because they are required to as a condition of borrowing, many like the GPS for its own sake. Some members hold large or multiple GPSs. A common comment is 'Grameen should have done this years ago'. Only a minority resent having to open them as a condition of borrowing (and even then it might because they already hold a similar product in another bank).
Implied relaxation of joint liability, and 'tension- icro- credit'	Not understood	Met with disbelief: many members comment that realisation: 'we have to sit there until someone comes up with the money, even if it takes all day': od asking our sir – he just won't listen to excuses'.

Some reasons for these levels of understanding by members have been reviewed in the previous section, where we looked at field staff attitudes. Here, we take a look at some aspects of member behaviour and opinion that haven't been discussed so far.

Account closures

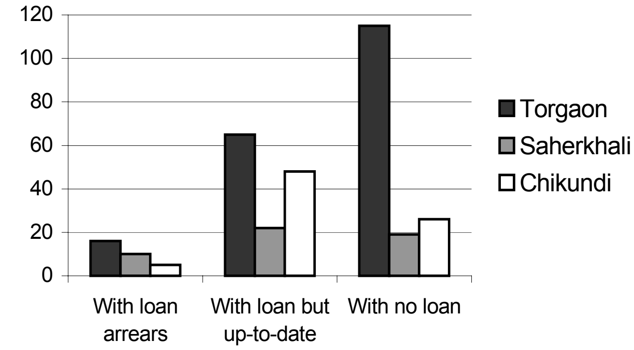
Figure 11: Member Account Closures, October 2000 - March 2002



We were told by Area Managers that when Grameen II first arrived a good number of members chose to leave the *kendra*. We were keen to learn more, and we checked records at our three sample branches. Figure 11 shows that 300 accounts were closed (or 'members dropped out' to use the language favoured by staff) in Torgaon during the transition: this was about 12% of the membership at the time. In Saherkhali 59 members closed their accounts out of a branch membership of about 1,600 (about 4%). In all three branches closures of accounts that had *not* been converted to Grameen II were the clear majority, suggesting that these were members that for one reason or other failed to convert. What might those reasons have been? At first, our guess was that these were members with loans in default, who took the opportunity to leave, perhaps by setting off their loan arrears against shares of the group fund due to them. But staff said that most members who dropped out were not loan defaulters, and a closer (but difficult!) look at branch records showed that this is probably so. Figure 12 shows a sample of these closures, and it is clear that only a few were members with loans in arrears. By talking to members and seeking out a few examples of members who closed their accounts, we concluded that the main reason for these account closures was the combination of two factors – (1) these were members who for one reason or other were ready to leave anyway (perhaps they had grown old, or no longer wanted to borrow – see some of the case studies of account closures in the section on 'Attracting and Retaining Poorer Members', below) *and* (2) who now had an opportunity to take out their savings in full, including their share of the group fund. Some said they hurried to take this chance, since they were aware that Grameen was again changing rules, and they feared their savings would again be blocked if they didn't take them now. A few of these 'drop-out' members later rejoined Grameen, but we don't have accurate numbers.

The significance of savings

Figure 12: Loan status of a sample of early GB2 account closures



Indeed, as the table suggests, issues to do with savings in some form or other play a very large role in member opinions of Grameen II. Many members are neutral about the shift to basic loans, and perceive no big change in the way Grameen deals with loans (other than the top-ups, and the attraction of big special project loans). By contrast, the GPS caused a big stir. It was immediately welcomed by many members. Others were wary at first but soon came to appreciate the facility, as shown in the example alongside. Some members joined expressly to be able to open a GPS, which is available only to members and staff[44]. Others have multiple GPSs, or hold GPSs that are much bigger than required for borrowing. A few hold GPSs as 'proxies' for non-member family and neighbours. Many older members prefer a GPS to their loans: the frenzy of loans with their rapid turnover is fine when you're building up your life, but as you approach old age a GPS is a more restful way to leverage the few taka that you can spare from your cash-flow each week or month.

We asked one member's husband what he

him they'd have to open one, as a condition for getting a loan. He was resentful, he said. 'And now?' we asked. 'Now I see that this is better than borrowing. In fact, we've stopped borrowing. Our main ambitions are for our children's futures, and this GPS seems a better way to deal with their future schooling and marriage costs. Grameen should have done this years ago'.

But there are words of caution to be said about the GPS, and it is good that our research is long-term, so that we'll be able to identify and track issues as they emerge. Already Grameen is having some difficulty with a problem that ASA also faced when it ran an equivalent to the GPS for borrowing members[45]. During difficult times, it is hard for some members to pay into a big GPS and service a loan simultaneously. For this reason, Grameen is now distinguishing between what staff popularly call the compulsory 'red GPS' – a GPS of 50 taka a month, the minimum required to be a 8,000 taka borrower – and voluntary GPSs of any value. In a *kendra* in Shariatpur[46] we found that this shift was causing anxiety among members: it had not been well-explained to them (or they had not well understood the explanation) and this led them to be more suspicious of the GPS than any group of members we had met anywhere during our research so far. Table 6 shows some statistics for the GPS in our three sample branches.

[44] The Ministry of Finance has yet to allow Grameen to offer this product to the general public.

[45] ASA's work in this respect is documented in Wright, Graham A.N. & Matin, Imran & Christen, R.P., *ASA's culture, competition and choice: introducing savings services into a microcredit institution*, Nairobi, Kenya***: MicroSave***,
1 Jan 2001

[46] Not under our sample branch, Chikundi, but under a neighbouring branch.

Table 6: Data on the GPS at 30th September 2003			
	Torgaon	Saherkhali	Chikundi
GPS accounts held by members GPS accounts held by non-members*	2,387 17	 8	 15
Of these: Number of GPS accounts held by members with loans of 8,000 taka or more (a 50 taka pm account is compulsory)	 1,142	 882	 n/a
Number of GPS accounts held by members with loans of less than 8,000 taka (not compulsory)	1,245	709	n/a
Number of GPS accounts held by members with no loans	17	26	n/a
arrears: by one month by two months by three months	58 60 100	130 75 110	n/a n/a n/a
dropping out of the *kendra*			

Because the minimum term of a GPS is five years, and most are for ten, none has yet matured[47]. This fact reminds us that time is one of the reasons that we have not generally detected decisive shifts in financial behaviour among members resulting from the coming of Grameen II. Some better-off members have taken the bigger special project loans, but we have yet to study them in detail. As we have seen, most members don't perceive much change in the way ordinary loans are treated, and they don't report changes of behaviour. The flexi-loan is helping some old defaulters to return to membership and borrowing (see the first box below): and the drive for increased membership has helped some join or rejoin (see the second box below). Where it is freely available, the facility to

Sh

built a house, installed a well, and invested in dairy for 12,000 taka, and she took regular loans of up to 12,000. But five years ago she tried to send her husband to work overseas. They were swindled by the broker, losing, she says, 70,000, composed of Grameen loan cash, land sales, and local *howlats* (interest-free loans). Her husband's health declined. Jorina stopped going to *kendra* meetings and stopped paying her loan. Her overdues totalled 11,000 taka. Then a year ago she agreed to shift to flexi-loan status, paying just 25 taka a week on weeks when the KM visited her at her home. More recently, a new Branch Manager tempted her (she says) with talk of phone loans and education loans (she has a school-age son), so she agreed flexi-loan terms of 50 taka a week. She pays this at the *kendra*, which she now attends regularly. Her son-in-law runs a market stall, and she hopes to borrow from him interest-free to pay off the rest of her flexi-loan. She hopes Grameen will then give her a fresh basic loan. That should be enough for her to repay the son-in-law and resume her borrowing career at Grameen.

[47] Members don't yet know – because they haven't been told – that when their GPS matures they have an option to take a lump sum (capital plus earnings) or to take a monthly income (earnings on the lump sum invested as a fixed deposit). For the time being, members and field staff assume that they will take it as a lump sum.

make withdrawals on demand from personal savings is proving helpful to some members, especially to repay loans in difficult weeks or to handle sudden small-scale cash needs. And as we have seen, there are members who are shifting their priorities from borrowing to saving, via the GPS[48].

Nurjahan Begum is widowed and poor: she makes a few straw mats and her day-labouring son struggles to support her. They have no land. She'd been a Grameen member for eight years, but had to leave when her husband died and her *kendra*, with her reluctant agreement, decided she would no longer be able to make loan repayments. She joined other NGOs, notably CARE (where she saved as part of an employment scheme) and Proshika, and she joined local savings and loan clubs (ASCAs). But she really wanted to get back into Grameen – an ambition which grew when she heard about the GPS, which she liked. Finally in July 2003, taking advantage of Grameen's recruitment drive, she rejoined Grameen. She immediately took a loan of 4,000 taka – handy, since she had an annual premium to pay on her life-insurance policy with National Life (bought initially with her CARE savings).

The members' financial portfolios

The two examples that accompany the previous paragraph show clearly that transactions with Grameen form only a part of the financial lives of many members. To gain a better idea of how Grameen II fits into the financial landscape of the Bangladeshi poor is one of the main reasons for our monthly meetings with 70 or so respondents. Table 7 shows one aspect of their portfolios.

Figure 13: Location of Opening Balances of 19 sample Grameen Members, taka

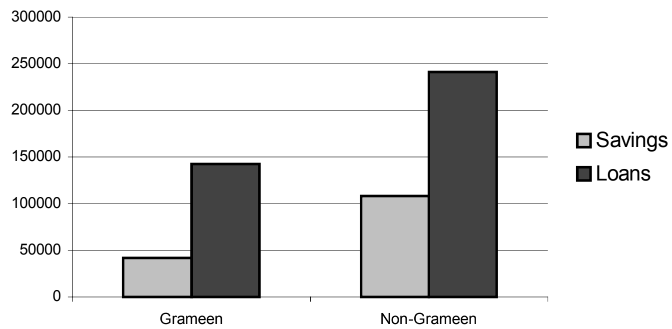


Table 7: Financial behaviour of 19 Grameen Members in Torgaon and Saherkhali

This kind of device or service…	…is also used by this number out of the 19 Grameen members in the sample:
Other NGO(s) (using similar group-based savings and loans)	**8**
Other group-based financial intermediary(ies), such as an ASCA	**11**
Formal banks (mainly savings accounts used to store remittances)	**6**
Formal insurance companies	**1**
Private loans on interest (given or taken)	**9**
Private interest-free loan ('*howlat*') (given or taken)	**16**
Private savings ('mud bank' or similar)	**12** (reported so far)

Source: research data

[48] It may be worth noting that this shift – if it is indeed occurring – suggests that there is no 'cultural antipathy' to saving among the poor of Bangladesh. It seems more likely that poor people's choice of instrument for intermediating their savings depends on which model happens to be available in their locality – typically deposit collectors and ROSCAs in West Africa, ROSCAs and money guards in East Africa, and moneylenders in South Asia, for example. See further remarks under the section 'Grameen II and microfinance', below.

The sample used here is the 19 Grameen members in the two research areas where we have been at work for a year, and refer to the period December 2002 to October 2003 (other respondents are non-members or ex-members or members of other NGOs etc). The table shows that here, as elsewhere in Bangladesh[49], rural poor and near-poor people tend to have complex and multiple financial 'portfolios'.

Preliminary analysis suggests that when we first started interviewing them in November 2002 these 19 members held, between them, about 150,000 taka in loans outstanding from Grameen, and about 50,000 in savings of one sort or another at Grameen (figure 13). However, these sums represent a minority of their personal 'balance sheets', since they held about 250,000 taka in loans from other NGOs, ASCAs, and private sources (both interest-bearing and interest-free), and about 100,000 in assets (including savings at other NGOs, banks, ASCAs, and with money-guards, savings at home in 'mud-banks', and private loans out to others). We also looked at the *flows* of cash between these members and their service providers. About 98,000 taka flowed towards these 19 members, in the nine months in question, from non-Grameen sources (in the form of loans taken or savings withdrawn or loans to others repaid) whereas only about 56,000 taka flowed in from Grameen (in the form of new loans or withdrawal of savings). For flows out (depositing savings, repaying loans, or making loans to others), totals for Grameen and non-Grameen services and devices were about the same. Taken together, these figures suggest that Grameen has done well with attracting savings, and a closer look shows that much of this is due to the popular GPS. An illustration of the complex way in which Grameen members, like other poor and near-poor Bangladeshis, manage their money is given in the box:

Mrs HB is from a poor rural background, and married a boatman who now also share-crops a little land. She joined Grameen sixteen years ago, and has used her loans well, educating her son, rebuilding their home, and generally making life more secure and comfortable. Now 40, she has an adult son who contributes to the household income by working as a mason, and HB is trying to send him abroad to work. She also has a younger daughter with a severe speech and hearing disability.

When we met her in late 2002 she had a 20,000 taka basic loan from Grameen, and a GPS of 100 taka a month as well as personal savings. But since 1992 she has also been a member of ASA, an NGO, and has a loan of 7,000 from them, used for treatment of her daughter. Recently she joined another NGO, BURO Tangail, and took a 5,000 taka loan used to repair her husband's boat. She also opened a

taka outstanding, also used for her daughter's treatment: it is a 'paddy
repaid in a mix of cash and paddy. She has for many years kept a 'c last time she broke it open she found 3,000 taka which also helped repair the boat. She gives and takes interest free loans ('*howlats'*) with her neighbours and relatives, mostly small, but some quite big.

In mid 2003 she had a cash crisis, brought on by treating her daughter at the same time as trying to send her son abroad. She had to withdraw cash from her Grameen personal savings (in order to make her basic loan repayments), and she had to break her GPS, from which she got 7,000 taka: Grameen

issue her a 'cattle fattening' loan of 8,000 taka. She remains up-to-date on her Grameen, ASA and BURO loans, and her new GPSs, but the paddy loan lender is having to wait to get paid.

[49] See Rutherford, 'Money Talks: Conversations with Poor People about Managing Money in Bangladesh', on the IDPM website (www.man.ac.uk/idpm) and in *Journal of Microfinance*, forthcoming 2004.

Grameen II and microfinance

This section will be brief, and will merely point to some of the issues that the arrival of Grameen II raises for microfinance in Bangladesh and abroad. As our research continues, we will hope to shed more light on these questions.

We consider six issues. First, what effect might Grameen II have on the emerging competition between MFIs in Bangladesh? Second, will the arrival of the GPS cause a shift in the nature of microfinancial services in the country? Third, will loan re-scheduling undermine the repayment discipline which many believe is the foundation of Bangladeshi microfinance? Fourth, should Grameen market Grameen II differently, and if so, would that lead to a more 'tension free microfinance'? Fifth, does Grameen II allow the MFI to attract poorer members and retain them longer? Sixth, is Grameen II 'culturally specific' to Bangladesh or could it work well elsewhere – perhaps where classic Grameen is already being replicated or adapted?

Competition

The three giants of microfinance in Bangladesh, Grameen, BRAC and ASA, are all expanding quickly. Grameen and BRAC already reach more than 3 million clients, and are growing. ASA has announced a bid to achieve 4 million by end 2005 (up from less than 2 million now). Several mid-size MFIs, such as BURO-Tangail, TMSS and SSS, are also growing quickly. And figure 13 in the previous section reminds us that MFIs aren't the only ones looking to capture the business of helping the poor to manage their money: the services and devices available in the informal sector have the lion's share of the market.

Competition between MFIs is a strong but strangely muted matter in Bangladesh. Outsiders are often quick to ask about the potential impact of Grameen II on competition, but when I talk to the MFI community in Dhaka, I find that few of them know much about Grameen II. To test this in the field, we systematically checked with the branch managers (or equivalent) of ASA, BRAC and Proshika in one of our research areas. None of them could tell me much about Grameen II. None of them thought that Grameen II represented significant new competition to their own work. With one exception, none of them could report any instance of their own members asking them about features available in Grameen but not in their own programmes: the exception was at BRAC, where a fieldworker reported that a member had asked if BRAC was going to offer the GPS[50].

In our own conversation with Grameen members, we hear contrary comments about competition. On the one hand, many rural people see the MFIs as all broadly the same[51]. On the other, there's fierce 'brand loyalty': ask a Grameen member which is best and most likely she'll say 'Grameen', while an ASA member will say 'ASA' and a BRAC member 'BRAC'. In part this recognises *history* – many members have been with their respective MFI for many years. In part it recognises that there isn't open access to membership: you can't easily leave BRAC and join Grameen, since there may not be 'seats' available in the local Grameen *kendra*. Once you gain a seat in a new MFI, you may have to wait to build up your loan-taking rights to where it was in your previous MFI[52]. So most members keep the 'seats' they have, and add new seats as they become available, rather than select between seats on the basis of quality or range of services. As we remarked earlier, the unchanged group-based

---

[50] Though this was phrased as 'will BRAC *re*introduce it' – BRAC tried it out two years ago, and abandoned it in their rural branches – rather than as 'Grameen are doing it, so why don't you?'

[51] In Rajshahi I sat with women who had membership in three different MFIs. I asked which was the best, and why. The only reply I got, apart from a shrug, was 'they're all good as long you give them their repayments'.

[52] Which is why some MFIs – including Grameen – have, in a rare practical acknowledgement of competition, started to offer bigger loans to people with an MFI history.

delivery environment of Grameen II is of significance for its impact, not least in this matter of competition.

A related question often asked by outsiders is whether the rapid growth of the industry in Bangladesh is leading to over-supply of the standard one-year loan product, and whether this will in turn lead to over-indebtedness of members. There is no systematic research on which to base a clear answer to this question, but insights from our work can help. Note, first, that, as we saw in the previous section, MFIs, despite their astonishing outreach, are still responsible for only a minority share of their members' household balance sheets. Poor households in Bangladesh are very used to borrowing a *howlat* (an interest-free loan) here to repay a loan there, and they know that they need to do that in order to get a lump sum of money in place at the right time for a particular spending need. In principle, borrowing from one MFI to repay another is no different. But in practice there are two big differences, and both are seen by poor people as wholly welcome. First, the lump sums that can be had from an MFI are unusually large and therefore unusually useful. Second, the MFI loans can be repaid in small weekly instalments, and finding a few tens or a few hundreds of taka each week is not so difficult for many members, and can be handled by customary practices.

The GPS – a major shift?

The microfinance revolution in Bangladesh was a micro*credit* revolution, led by Grameen. It is astonishing but fitting that it is Grameen who is leading the massification, if not the introduction, of contractual savings products like the GPS. It was a small-scale local MFI in Tangail in the early 1990s which first showed that the appeal of contractual savings to the rural poor may be as strong as its appeal to the middle classes. Middle class folk have had such a strong appetite for the device – known as a DPS, or 'deposit pension scheme' – that some commercial bank staff have been able to extract payments just for providing application forms. The MFI BURO Tangail took it up in the later 1990s and still offers it. ASA and BRAC both tried it for a few years. But it is Grameen, by offering it in all its 1,200 branches nationwide, which is bringing it within reach of masses of the rural poor and near-poor.

If you're poor, but are able to set aside a small amount each week from your regular cash-flow, there are two basic ways in which financial services can help you leverage that set-aside. One is to use it to *pay down* loans, and this is the route that Grameen brilliantly pioneered in the first days of microcredit. But the other is to use it to *build up* savings[53]. That second route depends on there being a rock-solid deposit-taking institution, which Grameen clearly is. With that in place, it is now possible for millions of rural poor and near-poor to chose the 'second route'. There is no greater pleasure for me, in doing this research, than to sit with members as they come to see this for themselves. 'Instead of taking all those loans, I could have put some of the repayment money into a GPS – I would have a huge sum saved up now, instead of having only a few hundred taka in my personal savings and the need to take yet another loan'[54]. They nearly always end with the phrase 'Grameen should have done this years ago'. And so it should.

But Grameen *is* doing it now, in a big way. Inevitably, more and more Bangladeshi poor will become attracted to the idea. It's already happening, even though no single GPS has yet matured. The GPS, done on the Grameen scale, has the potential to change the demand side of microfinance dramatically. We shall be watching carefully.

A caveat with the GPS is in regard to the high rate of interest it pays (about 12% pa for the ten-year term) relative to providers of similar products (whose rates are tending to fall at present). Dr Yunus remarks[55] that within the closed system of Grameen, as long as a cost-covering margin is maintained between the rates paid on savings and the rates charged for loans, the absolute values of these rates is

[53] For more on this argument, see Rutherford *The Poor and Their Money* Oxford, New Delhi, 2000

[54] The appeal of the GPS is of course increased by its relatively high interest rate (relative to the equivalents offered by commercial banks): this is very apparent to many non-members who would like to access the GPS if they could.

[55] In conversation with the author, July 2003.

not a matter of concern to managers, and the rates should be dictated by the desire to keep loan rates low as possible for poor borrowers and to reward their savings well. Nevertheless, if the GPS does prove extremely popular it might displace some borrowing, potentially leading to a mismatch between a growing and expensive savings portfolio held long-term and a static or even shrinking portfolio of short-term loans.

Rescheduling and repayment discipline

'If Grameen does this flexi-loan rescheduling thing, that'll be the end of microfinance in Bangladesh'. So goes a common refrain. Is it true? Here are a factual and a theoretical answer.

Factually, we don't know, because Grameen isn't doing much rescheduling yet (see the first section, especially the sub-section titled 'Loan rescheduling' on page 23). There is little or no evidence yet on which to base a judgement.

Theoretically, there are good reasons not to be worried. The worry is fed by the illusion that 'if we let one do it, all will do it'. Such worries are rarely justified. Allowing clients to withdraw savings does not (except partially, and in the short term) encourage all savers to pull out their deposits, as experience worldwide and in Bangladesh[56] shows. If that were the case, why should savers want to save in the first case? Similarly, *with the exception of those also in trouble* and *those whose initial schedule was inappropriate* a rescheduled loan for one borrower in trouble will not encourage other borrowers to default, and thereby damage their prospects for continuing access to loan facilities. Note the two exceptions in italics: the lender should want to reschedule the loans of troubled borrowers, to avoid catastrophic loan failure; and the lender should want to shift to more appropriate scheduling in the first place, if it is available – and that's a strong reason to urge Grameen II staff to experiment more boldly with variable terms and schedules.

Marketing Grameen II

The preceding remarks lead naturally to the discussion of how Grameen II is marketed. As we saw in our discussion in the sub-section called 'The view from HQ' on pages 27 and 28, it is the staff, not the end-users of Grameen II's services, who are seen as the makers of choices between the service and product options in Grameen II. Staff market to members those aspects of Grameen II that the staff member approves of, or believes will attract members. Many disapprove of variable terms and schedules, so they don't market them. Many think that big loans for vehicles and phones will attract members, so they often mention them in *kendra* meetings, even if few members qualify for them. So Grameen II features are *indirectly* marketed to clients. Should Grameen change policy, and market more directly? Should it present Grameen II as an integrated package of answers to the multiple financial needs of poor and near-poor rural people? If so, how should it go about this? Should it start by producing a comprehensive product and services rule-book in simple Bengali? Or will it just need time for staff to absorb all the elements of Grameen and to start offering them all to their members? Time will tell, and we'll be watching carefully.

Attracting and retaining poorer members

Although Bangladeshi MFIs for many years famously claimed to be working with "the poorest of the poor", an important conversation in microfinance began in the mid-1990s when it was realised that in fact many households in the bottom 25% of the population ranked by indicators such as income and assets were not joining the MFIs, or were joining them only to leave them again after falling into difficulties. So we were interested to see whether Grameen II is proving better than classic Grameen in attracting and retaining very poor members.

---

[56] See Wright, *The case for voluntary, open access savings facilities* CGAP Working Group on Savings Mobilization, CGAP 1999

It is very likely that Grameen II has not yet fulfilled its potential in this matter. This is because some of the Grameen II features that look as if they would be attractive to the very poor are not yet strongly in place. For example, variable loan terms and variable schedules that might let very poor households escape the treadmill of having to find equal repayments on loans every week throughout the full year, are not yet common. Nor is loan rescheduling. The special arrangements for the destitute have not yet begun in our three sample branches[57].

Nevertheless, Dr Maniruzzaman has conducted research for us in late 2003 which involved in-depth interviews with some 126 households equally distributed among our three research areas[58]. The households were equally divided among four categories:

> ***Recent account-closures:*** members who have left Grameen since Grameen II arrived
> ***Recent joiners:*** members who have joined Grameen since Grameen II arrived
> ***Continuing members:*** current members with uninterrupted long-term membership
> ***Poor non-members:*** poor non-member households living near a Grameen *kendra*

Dr Maniruzzaman looked at the composition and livelihood strategies of each household. He then measured each household according to a dozen indicators of economic status, with each indicator scored from 0 to 5, so that the composite score for each household ranged between 0 for the very poorest to 60 for the very richest. The data require further analysis, but Dr Maniruzzaman's preliminary findings are as follows.

The poor non-members, by definition, have low economic status scores (11.2, compared to an all-category mean of 22.7). Their households tend to be small (3.85 people on average, compared to an all-category mean of 4.57 and to 5.31 for continuing-member households) and don't have much male labour: they have on average less than one adult male per household, while continuing-member household have on average more than 1.5. Thus, the women who could be candidates for Grameen membership among the non-member households are far more likely to be widowed, deserted or abandoned than women in other categories. Such a finding supports the common-sense assumption that membership will be higher among larger households well-endowed with male labour.

In some respects – above all in this important matter of household size and composition – the recent-joiners are not that different from the non-members. They also tend to come from rather small households (3.97 members on average), and they too don't have much adult male labour (on average only 1.03 men per household). So does this suggest that Grameen II is beginning to recruit among the poor-non-member category? Probably not, since the average economic status score of the new joiners is 25.4, much higher than the non-joiners and not so far behind the continuing-members (28.5). These households that do now join are younger on average than the non-member households, are far more likely to be farming their own or leased-in or sharecropped land than are the non-joiners, and their non-faming male adults tend to have occupations that require some level of skill (such as masonry or carpentry), rather than being just labourers. So the working supposition here is that new members tend not to come from the poorest households but from younger ones engaged in small-scale farming or with some skill-base.

We turn our attention, then, to the matter of staying-in, rather than joining, the *kendra*. In this respect, the analysis of the category of members who have closed their accounts recently is particularly interesting. In many ways they appear similar to the continuing members: this is true of their average economic-status score, their household size and many aspects of its composition (including the average number of adult males, which is even higher than for the continuing-member category). Why, then, did they close their accounts recently? A closer look at the numbers, and the use of non-qualitative data drawn from interviews, enabled Dr Maniruzzaman to distinguish two contrasting types within the drop-outs. We could call them 'Retirees' (of whom there are 13 in the sample) and 'Drop-outs' (of whom there are 17). Summarised cases are shown in Table 8 below. The 'Retirees'

[57] They have begun in one or two areas, and in the coming year our research will include visits there. See also Appendix 2 for a new scheme for 'struggling members'.

[58] Dr Maniruzzaman can be contacted at maniruz@bdcom.com: details of the study's methodology can be obtained from him.

have higher economic-status scores (above 30), are older, with longer memberships, and report leaving Grameen because they (or their successful offspring) no longer need its services or find that its services are now less attractive to them. No doubt they include some of the ‘early leavers’ that we looked at on page 33. The ‘Drop-outs’ are quite different: they are poorer (measured by their economic-status scores) and report problems with repaying loans as the main reason for leaving (or for being asked to leave). Almost half of them reported difficulties reconciling their household cash-flow with the fixed repayment schedules required by Grameen, and another significant group reported repayment difficulties occurring in the wake of the death, illness or unemployment of a male earner. Such a finding would give further strength to the belief that Grameen II should press ahead with implementing its ‘flexible’ innovations, such as allowing withdrawals at will from personal savings, variable loan terms and schedules, and sympathetic loan rescheduling.

Table 8: Account closures: ‘Retirees’ and ‘Drop-outs’

Retirees	**Drop-outs**
Mrs F is not poor. She has some land, a good house, a radio, a bicycle, a sugar cane plot, and her sons run a tailoring shop. But the sons are adults now, and they had two reasons for telling their mother to leave Grameen: they no longer need loans as badly as they used to, and they feel ashamed of their mother when she attends a weekly meeting with poor women. At 45, Mrs R was a Grameen member for many years. Her family owns a shop in the market which her husband manages while she and her daughters raise cattle. To extend their businesses, they have mortgaged some of their land, raising 22,000 taka, and they have a 15,000 taka loan from another NGO. Mrs R repaid her last Grameen loan early, after 40 weeks, in order to get a bigger one. But when Grameen refused to raise her loan size by a large margin, the family decided that they had outgrown Grameen, and she left. The household where Mrs A lives is not poor. It owns almost 5 acres of land, a well built house, a shop in the market, and six head of cattle. They mortgaged land to raise 100,000 taka used to send her son to work in Saudi Arabia. He now sends remittances and Mrs A no longer feels it necessary to remain in Grameen.	They own no land other than the small plot that *kendra* and was repaying her loans reasonably well. But the caste profession of her husband, shoe repairing, became unviable in their village, so he went to Dhaka to find labouring work. He was often unable to find a safe way to send money back to the village, so Mrs B became irregular in her Grameen repayments. She was forced to drop out. son who also looks after three school-age siblings as well as his own wife and infant. Mrs R took a 5,000 taka loan from Grameen to rent in land and grow sugarcane. But her son’s income simply couldn’t stretch to feeding the family, investing in the land, and paying the Grameen repayments on time. Reluctantly, she had to leave. Our poorest example is Mrs Bh, whose husband and son drive rickshaws to maintain a large joint household with several children. When the son repayments and her GPS deposits. She asked to be allowed to withdraw personal savings but was refused. She fell deeper into arrears and was forced to leave.

Source: research by Dr Maniruzzaman in all three research areas

Grameen II – for consumption in Bangladesh only?

Poor people have incomes that are small and may be irregular and unreliable as well. Because of this, they often find themselves without enough current cash resources to buy the things they really need, a list which includes everyday items like clothing, as well as dealing with illness and emergencies, investing in well-being through better housing, education, land or other productive assets, and stocks for shops and other trading businesses. More often than any other group of people, therefore, the poor need to finance purchases from past income (via savings) or from future income (via loans): around the world poor people often need to save or to borrow to buy something as basic as a shirt. It is the job of financial services to facilitate such savings and loans, and the poor are voracious consumers of financial services, as we saw in the earlier section on 'The members' financial portfolios'. The services they have access to are largely informal and, unfortunately, often unreliable[59]. They therefore warmly welcome new services which prove to be dependable: services which are locally accessible, convenient, flexible, variable, frequent, and continuous, and which offer them opportunities to save, borrow, and insure. Recent literature[60] has shown that despite *cultural* differences between countries these hard facts of financial life for poor people are universal[61] wherever a cash economy exists.

Grameen II comes closer to this ideal form of financial services for poor people than did classic Grameen. While classic Grameen focused quite narrowly on credit, Grameen II offers a wide range of savings opportunities, and some basic insurance. Moreover, Grameen II offers services which are more variable and accessible than did classic Grameen: personal savings can be made and withdrawn at any time, long-term savings can be made in a wide variety of deposit values, and loans – in principle if not yet fully in practice – that can be taken using any broad range of terms and repayment schedules.

All this suggests that Grameen II will prove more adaptable and more suitable to environments other than Bangladesh than did classic Grameen. Of course there are economic, legal, demographic and geographical differences that affect the degree to which microfinance – including the Grameen approach – can thrive. Dense populations, a long history of monetization, price stability and a tolerant legal environment all help microfinance of any sort. Grameen II is even better equipped than was classic Grameen to take advantage of such opportunities.

This is not an argument for importing Grameen II wholesale into new environments. Microfinancial services must always be adapted locally to the quantities and frequencies most in demand by poor people. ***MicroSave*** has developed toolkits for examining these matters in detail, and readers are strongly recommended to consult this material[62].

---

[59] See Graham A.N. Wright and Leonard Mutesasira, *The Relative Risks to the Savings of Poor People*, *MicroSave* Briefing Note # 6

[60] Stuart Rutherford, *The Poor and Their Money*, Oxford University Press, New Delhi, 2000

[61] There is theoretical backing from anthropology for this universalism. The human elements necessary for basic financial intermediation (including group-based versions), such as reciprocity, reciprocal exchange, sanctions, and groups, can all be found in Donald Brown's list of 'human universals', the set of behaviours that have been recorded as existing in *all* known cultures examined by anthropologists. (See Brown, D, *Human Universals*, New York 1991, as cited in Steven Pinker *The Blank Slate*, London 2002). Non-universal cultural preferences, such as religious objections to the use of interest, have been successfully negotiated in many places, not least in Bangladesh, a mainly Muslim country.

[62] Information available on their web site www.microsave.org/toolkits.asp?ID=14

Appendices

Appendix 1: Extract from Dr Yunus's response to the *Wall Street Journal* article

The original *Journal* article appeared on 27th November 2001. On December 1st, Dr Yunus's response, extracted as follows, was one of the earliest public statements about Grameen II.

> **"New Generalised Grameen System**
>
> "…Gradually we started noticing that our rules were not appropriate for the borrowers in this situation. We took a long preparation to develop a new flexible system and field-tested it over months. We finally introduced the new system in September of 2000. It is a simplified and generalised Grameen system. This can work equally well both in normal and disaster situations. It allows the enterprising borrowers to move ahead faster. Everybody fell in love with it. Borrowers loved it, staff loved it --- because it is so simple, it can offer tailor-made loans rather than previous single-size-fits-all type of all loans. Good news for the WSJ, the questions they raised about provisioning, defining overdue, repayment rate etc have become irrelevant in the context of Grameen's new generalised system.
>
> "New system, basically has two types of loans --- (a) Basic loan, and (b) Flexible loan. A borrower can take a basic loan for any income-generating purpose. It can be of any duration mutually agreed between the bank and the borrower, unlike the old system where all loans were for one year. Basic loans can be for 3 months or 6 months, or for 2 years or 3 years. Unlike the old system, now amounts of weekly repayments can be varied during the loan period, according to the pre-negotiated amounts documented in an agreed repayment schedule.
>
> "Borrower has to pass through a very strict six-monthly loan quality check-point. If a borrower fails to pay the total amount she is supposed to pay, according to the repayment schedule, during the past six-months, she is classified as a defaulter. Now the entire unrepaid amount, even if it is the first six months of a 3 year loan, becomes overdue. Hundred per cent provision will be made for all overdue loans, unless it is converted into a "flexible loan".
>
> "If a defaulter wants to continue to repay her overdue loans she can do it by converting the overdue amount into a flexible loan. Flexible loan is actually a rescheduled loan. She can negotiate her repayment schedule. Fifty per cent provisioning will be made for the outstanding amount under the flexible loan, even if her repayment rate is 100 per cent.
>
> "If a borrower fails to repay the flexible loan according to the schedule, the loan becomes overdue, and hundred per cent provisioning will be made for the overdue loan. The borrower will again have the option to renegotiate the loan and convert it into a flexible loan.
>
> "Fifty-five per cent of borrowers of Grameen have already moved from the old system of multiple loans to generalised single loan system. Now it has become easy to check the quality of the loans; basic loans mean loans having hundred per cent repayment, flexible loans mean loans at risk. Year 2002 will be the year of completion of the transition process from the old system to the new system. By the time this transition process will be completed our guess is 85 per cent of the borrowers will be on basic loans and 15 per cent on flexible loans, aggregate repayment rate will be 98 per cent and above. In the new system the repayment rate is determined by the ratio between what was the weekly installment the borrower agreed to pay on a particular week according to the repayment schedule, and what is the amount she actually paid. It would no longer be determined under the old method. We'll not have any misunderstanding left on this issue.
>
> "Fifty-one per cent of our 1170 branches now have switched to computerised book-keeping and MIS. We hope to have 85 per cent of our branches come into computerised book-

keeping and MIS by the end of 2002. This makes it easier for the generalised Grameen system to offer all its attractive features for the benefit of the borrowers.

“New system has brought another excitement and inter-branch competition in Grameen. This system has introduced a grading system for branches. This grading system awards colour-coded "Stars" to indicate the quality of performance of a branch. If a branch (typically 2,500 borrowers) has 100 per cent repayment record for two consecutive years it is awarded a green star. If the repayment falls below it during any two successive years, the star is lost. A branch can similarly earn stars for earning profit (blue star), for carrying out its entire loan programme with its own deposits, even generating surplus of deposits for the use of other branches (violet star), by making sure that hundred per cent of the children of Grameen families are in school or have graduated from primary school (brown star), by making sure that all the borrowers in the branch have crossed over the poverty line, certified through an evaluation of each family with a rigourous ten-point test of Grameen (red star). Branch staff can actually wear the stars as a badge of honour and display their stars in the branch stationery to show their achievement.

“Now there are 388 branches with one star or more. There are 10 branches with 4 stars. No five star branch yet. We are expecting that by the end of next year branches with atleast one star will increase to 550, that is nearly one-half”

Appendix 2: Destitute and Struggling Members

In early 2004, as this report was being finalised, Grameen announced a new programme for beggars (a category of 'destitute' member). *Grameen at a Glance* described it as follows:

'13.0 Beggars As Members

Begging is the last resort for survival for a poor person, unless he/she turns into crime or other forms of illegal activities. Among the beggars there are disabled, blind, and retarded people, as well as old people with ill health. Grameen Bank has taken up a special programme, called Struggling Members Programme, to reach out to the beggars. We are expecting at least 10,000 beggars to join this programme, in 2004.

Basic features of the programme are :

1. Existing rules of Grameen Bank do not apply to beggar members; they make up their own rules.
2. All loans are interest-free. Loans can be for very long term, to make repayment instalments very small. For example, for a loan to buy a quilt or a mosquito-net, many borrowers are paying Tk 2.00 (3.4 cents US) per week.
3. Beggar members are covered under life insurance and loan insurance programmes without paying any cost.
4. Groups and centres are encouraged to become patrons of the beggar members.
5. Each member receives an identity badge with her picture and name, and Grameen Bank logo. She can display this as she goes about her daily life, to let everybody know that she is a Grameen Bank member and this national institution stands behind her.
6. Members are not required to give up begging, but are encouraged to take up an additional income-generating activity like selling popular consumer items door to door, or at the place of begging.

Objective of the programme is to provide financial services to the beggars to help them find a dignified livelihood, send their children to school and graduate into becoming regular Grameen Bank members. We wish to make sure that no one in the Grameen Bank villages has to beg for survival.'