

Financial Inclusion:
The Experience of Grameen Bank

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It is a great privilege for me to be with you here this morning, to learn from your experiences and wisdom and share with you the contribution of Grameen Bank in the field of financial inclusion.

Given the fact that the poor have not been traditionally welcomed to financial institutions because

- They have no asset
- They have nothing to offer as collateral
- They have no business experiences
- They have no training
- They have no credit history
- They have no education

and given the belief that Credit is a Human Right as advocated by Nobel Laureate Professor Muhammad Yunus, and if this right is established for the poor, they can overcome poverty by generating their own employment and income, the necessity to develop a financial system for the poor became urgent.

But how?

- How to provide credit and other financial services to the poor?
- What should be the methodology for credit delivery and recovery?
- How the poor may be identified and organized?
- Whether the existing banking system could be used for the service or a new system should be developed?

These became big questions.

Professor Muhammad Yunus with his concern and commitment for financial inclusion for poverty alleviation came forward with his strong determination to develop a financial system for the poor which should

- only serve the poor to help themselves to overcome poverty
- bring the disadvantaged people within the folds of some
- organizational format which they can understand and operate, and can find socio-political and economic strength in it through mutual support.
- create opportunities for self-employment and income for the poor
- be cost-effective and sustainable
- be need based
- be flexible and
- have a positive impact on the life of its borrowers

In order to achieve these objectives, he started the Grameen Bank Project in 1976, which became a bank in 1983. The Grameen Bank is a bank for the poor and of the poor. It has grown through a process of learning by doing. It is a highly innovative institution. It has developed unique inclusive financial products and services, its own criteria of targeting and a system of credit delivery and recovery, as well as training and technical assistance.

Grameen has a revealed preference for the poorest women. It regards women as the effective agents of greater family welfare and social change. If one is poor, she is welcome by Grameen, if one is poorer, she is more welcome and if one is the poorest she is the most welcome to Grameen.

Grameen Bank provides loan without any collateral. It is a trust-based banking. It does not require any credit history or business experience for providing loans.

In Grameen system, the bank goes to the poor. Its credit delivery and recovery mechanism is very client friendly and flexible. Repayment is made in weekly installments. It promotes social capital. The entire Grameen system is built on peer support with the framework of a five- member group and the broader framework of a centre. It develops leadership quality among its members through annual election of group and centre leaders, electing board members as the institute is owned by the borrowers.

In Grameen, all banking transactions take place at the centre meeting. All transactions are highly transparent. The poor do not come to the bank but the bank goes to the poor. As of September 2008, Grameen has 1,40,016 centers, 1,98,038 groups and about 7.6 million members. 97% of its members are women.

Grameen has always taken into consideration the potential and capacity of its borrowers, their affordability and viability. It has developed loan products and terms according to their needs. One can borrow more and more as one grows in confidence, skills, experiences and fulfill Grameen requirements.

Grameen promotes and maintains a problem-solving culture. It puts total trust in the creative potential of its staff and clientele in crisis management. Trust is the foundation of the Grameen system.

Grameen has both loan and savings products. It considers savings mobilization an integral part of its lending program. Its loan program includes basic loan, housing loan, higher education loan for member's children, micro enterprise loan, loan for village phone, business loan for graduate students of Grameen families and loan for struggling members. Grameen has also life and loan insurance products.

The period for the basic loan may vary from 3 months to 3 years. The period for housing loan is 10 years. Micro enterprise loan is also given for a period up to 3 years, education loan provided for the period of education. Grameen has also scholarship program for the children of its members. The basic loan which includes all income generating loan activities constitutes about 98 percent of the total loan portfolio.

The first disbursement of Grameen loan was US\$ 27 to 42 members. The cumulative disbursement by the end of September 2008 stood at US \$ 7.4 billion. The monthly

disbursement is more than US \$ 80 million. The amount of loan outstanding was US \$ 609.60 million in September 2008.

Grameen has different kinds of savings products. These are Grameen Pension Savings (for Grameen Bank members and staff), personal savings (open to all), double in 7 years-term deposits (open to all), loan insurance savings fund (Grameen Bank members), Fixed Deposit with monthly income (open to all) and others (like weekly compulsory saving at the rate of taka 10, additional GPS etc.).

Grameen has mobilized more than US\$ 826 million as deposits including US\$ 373 from non-members (Sept. 2008). The deposit as percentage of outstanding loans is 136 percent. Grameen Bank offers very attractive rates for deposits. Minimum interest offered is 8.5 percent and maximum rate is 12 percent.

As Grameen is always for developing and operating a sustainable micro credit program, it charges the borrowers an affordable interest rate. It remains cautious to avoid changing a price which makes the borrowers pay for any inefficiency of the system or luxury of its management.

According to Professor Muhammad Yunus poverty focused microcredit programs should charge a lower rate of interest which may be equal to the cost of funds at the market rate plus up to 10 percent. He calls it Green Zone. It may be in the Yellow Zone as well which equals the cost of funds plus 10 to 15 percent. If any program charges an interest rate higher than the Yellow Zone, they operate in the Red Zone, which according to Professor Muhammad Yunus is the territory of the moneylenders. This is for maximizing profit and not for maximizing social benefit.

The interest rate Grameen Bank charges for its loans is lower than the rate of interest the government of Bangladesh has fixed for government run microcredit programs. The interest rate for government program is 11 percent flat. It is only 10 percent flat for Grameen basic loans. There are in fact four interest rates for loans from Grameen Bank: 20 percent (declining basis) for income generating loans, 8 percent for housing loan, 5 percent for student loan and interest free loans for struggling members who are beggars. All interests are simple interest. The amount collected from the borrowers in interest can never exceed the principal amount. Grameen Bank earns profit. It has earned profit every year except in 1983, 1991 and 1992.

The struggling members program of Grameen is a very special program. It is an example of deepening financial inclusion. It is a program for beggars only. The objective of the program is to provide financial services to the beggars to help them find a dignified livelihood, send their children to schools and graduate into becoming regular Grameen Bank members. More than 100000 beggars have already joined this program and many of them already left begging.

Basic features of the struggling members program 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 installments very small.

- 3) Beggar members are covered under life insurance and loan insurance programs without paying any cost.
- 4) Groups and centers are encouraged to become patrons of the beggar members.
- 5) Struggling Members are not required to give up begging, but are encouraged to take up additional income-generating activities like selling popular consumer items from door to door, or at the place of begging.

Grameen Bank has developed a decentralized system. It always delegates decision making power and authorities to the lower level- zonal offices, area offices, branches, centers and groups. It operates a transparent system so that everything remains visible. It follows a participatory process.

Grameen monitors all its activities continuously and thoroughly. It tries to reach out even to the remote and dark corners of the system to keep them clean. It has developed a strong Management Information System (MIS). All its branches are computerized.

Grameen has a well-organized Internal Audit System. It conducts both financial and management audit of its offices at all levels.

Grameen believes in human dignity and value building. The principles of self-esteem, self-confidence, self-discovery, self-reliance, unity, work and discipline are very important in the Grameen system.

Grameen is not only interested in providing financial services to the poor but it is also interested in improving the quality of their lives. Grameen credit is not an end in itself. It is a means to end poverty. The 16 decisions taken by the members themselves and 10 indicators to assess the poverty level are the examples of this. According to a recent report 65 percent Grameen members have already crossed the poverty line.

In order to encourage competition and achieve the objectives of sustainable operation and poverty alleviation. Grameen has introduced 5 star system in its management. It examines both financial and social performance and leads the system to higher level growths.

The 5 stars are Green, Blue, Violet, Brown and Red. These are provided to branches and staff for 100 percent achievement of a special task. The green star is for 100% repayment, the Blue is for earning profit, the Violet is for self-financing, the Brown is for all children in school and the Red is for all the members moving out of poverty.

Conclusion:

- If we consider people as both the end and the means of development and if by development we mean a positive change in the lives of the bottom half of the population we must give due attention to the financial inclusion.
- The success of Grameen Bank in helping poor come out of poverty can be attributed to its focus on providing microcredit as a human right.
- If this right is established and if adequate institutional, financial and legal steps are taken with due diligence to create an enabling environment to help microcredit programs grow for an inclusive microfinance, it will pave the way for building a poverty free world.