

MOBILISATION OF RURAL SAVINGS BY Grameen (RURAL) BANK

Didarul Islam
Deputy General Manager
Bangladesh Bank

Paper presented at the Seminar on Rural Savings Mobilisation in
Bangladesh April 27 - 29, 1987 Jointly sponsored by Bangladesh Bank
USAID, APRACA and Ohio State University, U.S.A.

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1.0 Grameen Bank - A Bank for the Poor:

The rural landless population who constitute the largest segment of the society and the ones who are desperately in need of credit for mere physical survival remain totally outside the orbit of the banking system. Dr. Muhammad Yunus, Professor of Economics, Chittagong University launched an action-research programme in 1976 to examine the possibilities and design a comprehensive banking framework to bring the rural poor within a viable banking network. Professor Yunus reasoned that landless people having no tie with the land, are likely to be less conservative, more enterprising, mobile and receptive to new ideas. If financial resources can be made available to them at terms and conditions which are appropriate and reasonable, these millions of small people with their millions of small pursuits can add up to create the biggest development wonder. This action research project, which he called the "Grameen Bank Project", came into being with the following objectives in mind.

1. To extend the banking facilities to the poor men and women.
2. To eliminate the exploitation of the money lenders.
3. To create opportunities for self-employment for the vast unutilised and under-utilised manpower resources.
4. To bring the disadvantaged people within the folds of some organisational format which they can understand and operate and can find socio-political and economic strength in it through mutual support.
5. To reverse the age-old vicious circle of "low-income, low savings, low investment, low income" into an expanding system of "low income, credit, investment, more income, more credit, more investment, more income".

The project demonstrated its strength in the village Jobra and some neighbouring villages during 1976-79. Then with the sponsorship of Bangladesh Bank and support of all Nationalised Commercial Banks and Bangladesh Krishi Bank it was extended to Tangail in 1979.

With the success in Tangail the project was extended to several other districts: Chittagong, Dhaka, Rangpur and Patuakhali.

In September, 1983 the Grameen Bank Project was transformed into an independent bank with the name "GRAMEEN BANK". The Government provided 60 per cent of the initial paid-up share capital of the Bank while 40 per cent was held by borrowers of the Bank. Very recently (July, 1986) the government has raised the paid-up share capital to Tk. 7.20 crore out of which the government's portion would be 25% while 75% would be subscribed by the borrowers of the Bank. Managing Director, who is the Chief Executive of the Bank, is appointed by the government. Except foreign exchange transactions the Bank is empowered to carry out entire range of banking functions including research and surveys, and investment counselling to the clients.

Loanees are landless men and women who must form themselves into groups of five in order to receive loans for which no collateral is required. The group members should be like-minded and have similar economic and social background. Any person whose family owns less than 0.5 acre of cultivable land and the value of all family assets together does not exceed the market value of one-acre of medium quality land in the area, is eligible to take loans from the bank for any income-generating activity.

Before loans are given to the eligible borrowers they have to undergo an intensive training of one to two weeks about the philosophy of Grameen Bank and its rules and procedures. The group members have to pass a 'test' before the group is 'recognised'. During the test the members must satisfy the Bank staff of their integrity and seriousness, understanding of the principles and procedures of the Bank and ability to write his/her name.

Each group elects its own chairman and secretary who organise the meetings where the attendance of all the members are compulsory. Several groups in the same village are federated into a 'centre' and from amongst the chairmen of the groups a 'Centre Chief' and a 'Deputy Centre Chief' are elected. They conduct the weekly meetings of the centre, recommend loan proposals, supervise the loan activities and assist bank workers in their works.

Grameen Bank members create two savings accounts 1) Group Fund and 2) Emergency Fund. Each loanee pays an amount equivalent to one-fourth of the total interest paid to the bank. This is deposited in the Emergency Fund. This Fund is used as life insurance fund.

2.0 CONCEPT OF SAVINGS IN GRAMEEN BANK

2.1 Savings Automation

Grameen Bank understands the importance of savings for successful operation of banking business but Grameen Bank was not born to cater to this need of bank society. But while transacting it found that Grameen Bank operations are such that a reasonable amount of savings may be mobilised in the process. Grameen Bank started its business as a project of other banks using their man and materials and the main job was to provide bank credit to such segment of population who are otherwise not eligible for such bank loans. At such the act of mobilising savings did not come as a primary duty of the bank. That is true in the sense of usual bank deposit. But Grameen Bank was always very serious about savings by rural poor especially because they have to face tremendous difficulties for a very small sum of money.

2.2 The poorer, the better

The universal thinking about the poor is that they do not have any capacity to save and as such any attempt towards mobilisation of savings by these poor segment of population is useless and not worth endeavouring. But Grameen Bank authority was of the view that they are capable of saving provided they are put on the track and once start doing that thing they find that they

have some capability and thus gain some confidence in themselves. It might seem that their savings are very small in size, but when accumulated over a reasonable period of time it becomes a big thing. One gets astonished that such small savings grow so fast.

2.3 Small but regular

Another basic concept about mobilisation of savings by rural poor is that it must be small in size so that they do not feel the pinch of parting away the liquid cash, but that must be a continuous process. They must save at a very quick interval, say once a week or it may be a daily affair in some cases. This lesson is taught to them in a very nice and effective example, it is like this - that the village house-wife while cooking rice keeps a handful of rice away, but for that matter no body has to keep on starving. But doing it two times a day, she saves at least 2-3 kgs. of rice in a month which is a great saving to her. This saving does bring enormous services to her family. We must note the terms like 'great saving' or 'enormous service' in the context of poverty they pass through.

2.4 Unity and togetherness

One of the cardinal principle in Grameen Bank is that the strength of the poor lies in their unity and togetherness. They are strong enough to undertake any big venture provided they do it unitedly with the participation of each and everyone. A small saving by every member of Grameen Bank can make such a fund which may be used in such social and economic venture which otherwise is not within their reach. Such an example is establishment of primary school members of Grameen Bank.

2.5 Mountain comes to the Prophet

One exceptional thing is that although Grameen Bank is not making any saving mobilisation campaign, the local well-to-do people are coming forward to have deposit with Grameen Bank. This may be due to soundness of its performances in various aspects of banking. In some selected branches Grameen Bank has started accepting deposits on an experimental basis.

3.0 KINDS OF SAVINGS

Grameen Bank has different approach and different strategies for mobilising savings which can be described in the following ways :-

GROUP FUND

3.1 Members' Personal Savings

Saving mobilisation work starts with this kind of personal savings. Every member of Grameen Bank must deposit Tk. 1/- per week irrespective of the fact that he has taken a loan or not. So long one remains in the group he must deposit this sum which is considered as his personal saving and he is entitled to get refund of his entire personal saving together with interest in the event he leaves the group. This personal saving is a must for every member as soon as one enrolls himself/herself as a group member. Apart from making a saving habit it acts as a cementing factor for group to sustain, the sense of belonging to the group is intensified. It may seem to be very insignificant to the banker but soon it appears to be a great thing over time. It is amazing that such a little drops of savings has amassed a sum as big as 45 million Taka.

Upto March, 1987 the total amount of savings in this account comes to about 45 million Taka in about 5600 villages through 309 branches over a period of six years (Annexure-I). But this calculation about the number of villages and time span would not be considered accurate if we take into account the fact that many of the branches were just opened or that some are 1 year or 2 years old only. In that case we should take the mean and roughly we get 3 years' time span. So the appropriate statistics would be like that Grameen Bank can mobilise about 546 million Taka in 3 years and 1092 million taka in six years throughout the whole of Bangladesh (68,000 villages). This looks like a miracle that a saving of Taka one per week per member can accumulate such a big sum.

3.2 Group Tax Savings

It is obligatory on the part of every Grameen Bank loanee to deposit 5% of the loan amount he/she receives which is known as 'group tax' or 'group saving'. This money shall be deposited in the group's own account. The members from whose loan this amount is deducted shall have no personal right or claim over it. This money as a whole shall be treated as a fund belonging to the group. All members shall have equal rights to this fund. These sum together with members' personal savings constitute the Group Fund. Up to a maximum of 50% of the total amount accumulated in the Group Fund may be borrowed or invested by the Group members jointly or in partnership with other group/groups or an individual member may borrow for any purpose with the approval of all the members. Withdrawal from this may be made under joint signatures of the group Chairman, Secretary and the Bank Manager. Up to March, 1987 Grameen Bank has mobilised savings on this head some 83 million Taka. Calculating on the previous principle we can say that the rural landless poor people can have savings of some 1008 million Taka in three years and Taka 2016 million in six years even if the loan amounts remain as low as the present structure. If we could maintain the same principle in respect of agricultural loans we could have, by this time, amassed big savings as much as Tk. 4769 million (See Annexure No. 4).

Out of the Group Fund a large sum is being spent on purchasing Grameen Bank shares by the Group members. Grameen Bank members can purchase 75 per cent of the paid up capital which is Tk. 72 million. So far the Grameen Bank members have purchased shares worth 18.20 million Taka.

3.3 Emergency Fund

Grameen Bank charges simple interest on loans. After payment of the total interest accrued on any bank loan, the loanee has to pay an extra amount equal to ¼ of the interest paid which is known as 'Emergency Fund'.

Money accumulated in the 'Emergency Fund' shall be spent for the following purposes:

- a) To repay the bank loan of any member who becomes unable to repay the loan due to any accident (e.g. the death of a cow purchased with loan money, damage of rickshaw in accident etc.).

- b) To extend grants for repayment of the outstanding amount of loans in case a member of any group fails to repay his/her loan for any other reason where the total saving of the particular group is not sufficient for repayment of the same.
- c) To utilise the Fund in such other activities which may facilitate the repayment of loans of the members (e.g. making arrangement for veterinary services, adoption of health care programme for the members etc.).
- d) Arrangement of insurances of different types for the members (e.g. cattle insurance, crop insurance, life insurance etc.). The money from the Emergency Fund shall be spent in such programmes only on the basis of decision taken by the General Assembly of the Landless Association.

Upto March, 1987 Grameen Bank has accumulated over 25 million Taka in this account.

It may appear to some that it is an extra burden over the interest. But a deep thinking would reveal that the Grameen Bank borrowers pay lesser amount of interest since it is a simple one. It is ascertained that average interest charged is only 10% since the loan amount is lessened every week. So the rate charged for on account of Emergency Fund is only 2.5% and both together comes to 12.5% which is lesser than the normal interest rate on agricultural credit.

There have been instances that rural poor have become poorer because of the loan they have taken in the event that some mishaps are there. Hardly there is any credit programme in Bangladesh which has such provision towards facing the disaster of different types. The kind of loanees as those in Grameen Bank are very often the victim of such disasters and unless some sort of insurance coverage is there they find themselves in dire misery. It is amazing to note that they have not to depend on Insurance companies (That is costly too) but Grameen Bank has a built-in mechanism for such protection.

3.4 Deposit Banking

Very recently Grameen Bank has started accepting deposits from General public in Savings Accounts. A few selected branches do have such operation and deposits are accepted from selected depositors. This operation is being done in an experimental approach. It may be mentioned here that Grameen Bank has not yet started any campaign for mobilising deposits but doing it on approach from the depositors.

Being impressed by the excellent performances in credit disbursement, proper utilisation of credit and unheard of recovery performance the people in the locality constantly show their eagerness to keep their deposits with Grameen Bank. This is rather an unusual happening in the history of banking in Bangladesh. So far 3612 S/B A/Cs have been opened in 15 branches with a balance of Tk. 11,27,270 as on 28-1-1987(See Annexure No. 3).

3.5 Mobilisation of other savings

i) Members' current and S B A/C: Grameen Bank members can open current and savings account with their respective bank branch. This is required by the GB loanees who handle cash every day in the process of business transactions. They deposit their business capital and excess money is kept in Current or Savings Bank Account. At the end of February, 1987 the total deposit in SB A/C is 18.71 million Taka. But a bulk sum is withdrawn off and on and again deposited (See Annexure No. 2).

ii) Special Savings Account:

Grameen Bank loanees maintain special SB A/C with their respective bank branch. This special account money is generally mobilised by the loanees with the aim of undertaking some joint venture activities by several groups. The activities include purchase of STW, DTWs, holding ponds and agricultural lands, and village market on lease, establishing some small industries etc. Thus their dependence on bank loan is lessened and they feel a sense of owning a big sum. It is found that the cumulative deposit in this head came to 35.67 million Taka.

ii) Savings for education programme

One of the very outstanding social programmes of Grameen Bank is its school programme. Grameen Bank members are encouraged to send their children to school, if no school is available nearby they are to establish one at their own initiative and cost. For this purpose Grameen Bank members save some amount regularly and this fund is used towards education of their children. So far they have accumulated 3.6 million Taka. Here Grameen Bank does the motivation work.

4.0 QUESTIONS ABOUT GRAMEEN BANK SAVINGS

Savings mobilisation as described above is not allowed to pass without criticism. But a closer thinking will show that these criticisms are baseless and made out of ignorance or lack of understanding of the things in Grameen Bank. Normally the following criticisms are made;

- a) The poor borrowers are forced to save which is rather an exploitation.
- b) The group tax, contribution to emergency fund and weekly savings etc. add to the cost of borrowing.
- c) Unequal obligation for equal rights - that is, every borrower does not contribute equally but pro-rata basis, very good, but every body has got the equal right.
- d) Grameen Bank is very slow in expansion, so its impact is insignificant and it will take a very long time to cover the whole country.

The answer to these criticisms are there. The savings as practised in GB is a must one and there is no scope of avoiding, but that is required. Without this compulsion the target will not be achieved, but this strictness is for their benefit. Truly GB does have the claim to say in Shakespearean language "I am cruel only to become kind to you".

The criticism that the compulsory savings add to the cost of borrowing especially because the members are not that free to withdraw the savings does not appear to have been based on fact. If the group tax or emergency fund is a cost to the borrower then it must be an income to the bank. But is not so, it is never an item in the Profit and Loss account of the Bank. If these savings are not the borrowers' own fund, how come they are purchasing shares in GB with that fund? Those who make this criticism, either they do it out of ignorance or that they hold GB in contempt for nothing.

The answer to third criticism is that no tax is fixed at the same rate for everybody. It is simply a case proportional taxation.

The Answer to the fourth criticism that GB is very slow can be given by saying "If you are an honest man then you can be sure that there will be one less rascal in the world". Neither GB has shouldered the responsibility nor the Government or any other agency have given the responsibility to GB to do the whole thing for the country. "Something is always better than nothing" the old proverb says.

5.0 LESSONS LEARNT:

5.1 EL DORADO for the poor

The rural poor in Bangladesh are no fools. They are making their own EL DORADO. The poor are enriching their treasure-house with every sweat from the brow, but the richer urban class are always in search of an EL DORADO made by some Providence or other.

5.2 Weaker Sex is Stronger

It is for the first time in the history of banking in the whole world that about of its clientele are from the so-called "Weaker Sex" and they have proved to be stronger in respect of discipline, hand work, intelligence, farsight, sense of proportion, better utilisation of money and above all repaying the debt on time every time. Rural women folk are never considered as an economic work-force. The general idea is that they lack prudence and are not capable of doing business. But GB women have proved that they can undertake all sorts of economic activities and can repay the bank loan out of profit without any delay. They have, thus strengthened themselves and with some economic power in hand they have heightened their status. I would like to quote from my article entitled 'Grameen Bank and Women's lib' which runs thus:-

"We are familiar with seminars, meetings, placards and even violent demonstrations demanding women's lib in many highly developed countries of

the world. They put demands and wait for their fulfilment by some quarter or others. But women lib movement in rural Bangladesh has rather been started in a different way by the women themselves and having a quick and concrete sign of success. Taking the blessings of Grameen bank loan operation they are having a silent women lib movement with achievement of success slowly but steadily".

5.3 The poorer, the Richer in Skill

Another lesson we have learnt from GB operation is that it is not correct to say that the poor people lack in initiative, skill and intelligence. In fact, they have all of these qualities. What they lack in is one instrument, the credit. Given this in proper way they can do miracle. For want of this power only all other powers are subsided. They put all the labour, produce the desired goods and services. But the bulk of these goods and services are snatched away by some one who employs the cash capital.

5.4 The rule of Rule of Thumbs

Grameen Bank works on the basis of experience of things as it exists in the field - that is there is rule of Rule of Thumbs. The experts say that there will be no market for the product the landless poor will be making, agriculture will be disturbed and that it will add nothing to national economy etc. GB was of the view that these problems are solved automatically. If there is no market then the poor producers will not produce. They are not as foolish as our nationalised industries to produce and pile up in godowns. GB believes in the Rule of Thumbs - that is, GB works on the basis of experience in the very micro level. To help the rural poor does not require much study and research because lot of such things have already been done. What is required is proper action. GB started action with the conviction that :

- i) rural poor are hard-working but for small sum of money capital they are hapless but never hopeless,
- ii) this money capital have not been arranged from institutionalised sources for want of age-old belief in security (normally land),
- iii) that poor are helpless when alone, but when united in some form or other they are stronger than anybody.

So the work was started and things were made fit for them. Costly and wasteful research do not bring any good for them.

5.5. Agricultural VS Non-Agricultural:

Another important lesson that we learn from GB is that rural finance does not necessarily and essentially mean agricultural finance. There are many more economic activities in rural Bangladesh through which rural poor can effectively engage themselves in income-generating activities. Rural poor should be allowed to adopt any activity that they might find comfortable and profitable. The limited land resource in Bangladesh can not offer earning opportunity to everyone. It will be wiser to think about other activities (details given in my article entitled "It is wiser to be wise to-day-than").

References:

1. Didarul Islam - The book "Rural Finance" published in March, 1985.
2. Didarul Islam - The article "Grameen Bank and Women's Lib" published in the English daily The Bangladesh Observer, May 30, 1983.
3. Didarul Islam - The article "It is wiser to be wise to-day than " published in English daily The Bangladesh Times, September 30, 1977.
4. Dr. M. Yunus - 'Grameen Bank As I see it', ILO, November, 1980.
5. Dr. M. Yunus - 'On Reaching the Poor' - a paper presented at ILLD workshop at Delhi, India, April, 1984.

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CONSOLIDATED CUMULATIVE STATEMENT AS ON MARCH 31, 1987 (a)

Particulars	Lakhs (Taka in 0000000)						Total
	Chittagong	Tangail	Rangpur	Dhaka	Fatuakhali		
1. Amount Disbursed (b)							
Landless(Male) :	985.22	2176.09	1500.26	1246.45	472.69	6380.71	
Landless(Female) :	2003.63	1949.62	1674.41	2406.86	2121.43	10155.95	
Total Disbursement :	2988.85	4125.71	3174.67	3653.31	2594.12	16536.66	
(c) :	(153.32)	(110.81)	(137.60)	(148.15)	(154.23)	(704.11)	
2. Amount Repaid							
Landless(Male) :	820.06	1902.54	1245.13	1043.65	399.45	5410.83	
Landless(Female) :	1473.34	1572.52	1213.02	1830.91	1586.30	7676.09	
Total Repaid :	2293.40	3475.06	2458.15	2874.56	1985.75	13086.92	
:	(106.42)	(86.10)	(98.82)	(115.54)	(101.43)	(508.31)	
3. Amount remaining unrepaid after one year(in percentage) :	1.78	2.23	3.73	4.37	0.47	2.62	
4. Amount Overdue(i.e. remaining unrepaid after two years) :	0.40	6.02	0.12	0.46	0.00	1.34	
5. Saving in Group Fund (d)							
Landless(Male) :	74.89	178.86	115.95	91.79	34.70	496.19	
Landless(Female) :	146.60	162.52	135.92	177.02	155.03	777.09	
Total Saving in Group Fund :	221.49	341.38	251.87	268.81	189.73	1273.28	

(a) Grameen Bank started out as "Grameen Bank Project" in the village Jobra of Chittagong in Aug., 1976 and in Tangail in November, 1979. Grameen Bank operational as an independent bank on October 2, 1983.

(b) This Figure does not include Tk. 307.80 Lakh disbursed so far as Housing Loan .

(c) Figures in parenthesis indicate amount for the current month.

Particulars	Chittagong	Tangail	Rangpur	Dhaka	Patuakhali	Total
C. Savings in Emergency Fund^(e)						
Landless(Male) :	17.33	57.87	21.52	18.85	6.56	122.13
Landless(Female) :	24.06	35.94	17.71	28.54	23.13	129.38
Total Savings in Emergency Fund :	41.39	93.81	39.23	47.39	29.69	251.51
7. Loan from Group Fund						
Landless(Male) :	34.41	81.44	72.82	53.15	10.62	252.44
Landless(Female) :	43.41	44.31	42.10	66.87	21.39	218.08
Total Loan from Group Fund :	77.82	125.75	114.92	120.02	32.01	470.52
8. Number of Members						
Landless(Male) :	10,307	16,440	16,786	12,185	4,869	60,587
Landless(Female) :	33,106	30,983	47,544	43,153	39,071	1,93,860
Total Number of Members :	43,413	47,423	64,330	55,338	43,940	2,54,447
9. Number of Centre						
Landless(Male) :	407	669	603	518	202	2,399
Landless(Female) :	1,553	1,517	2,150	2,015	1,543	8,778
Total Number of Centre :	1,960	2,186	2,753	2,533	1,745	11,177
10. Number of Village Covered						
:	775	1,228	1,384	1,467	781	5,635
11. Number of Branches in Operation						
:	56	57	76	73	47	309

- (d) A group member can borrow from the Group Fund with the consent of remaining group members. Loan from this fund can be used for both consumption and investment purposes.
- (e) It is sort of insurance fund. This fund when operational, will cover the members from accident, death and disaster.

ANNEXURE NO. 2

GRAMEEN BANK

MEMBERS' SAVINGS IN PERSONAL, SPECIAL AND EDUCATION
PROGRAMME A/C

Position as at the end of February

	(Taka in (00000)		
	Deposit	Withdrawal	Balance
1. Special Savings	955.09	239.81	715.88
2. Personal Savings/ Sonali Bank A/c)	606.07	620.23	45.84
3. Personal Savings Current A/c.	187.19	172.96	14.23
4. Education Programme Sonali Bank A/c.	36.02	15.22	20.80

DEPOSIT BANKING IN GRAMEEN BANK SAVING BANK ACCOUNTS

Position as at the close of January, 1987

<u>Name of the Zone</u>	<u>No. of Accounts</u>	<u>Opening balance</u> <u>(January)</u>	<u>Closing balance</u> <u>(January)</u>
Chittagong (4)	832	586546	545744
Tangail (4)	768	229348	235078
Rangpur (3)	540	155245	128500
Dhaka (2)	1242	327907	175499
Patuakhali(2)	230	34798	42448
<u>Total:-(15)</u>	<u>3612</u>	<u>1333845</u>	<u>1127269</u>

Figures in parenthesis indicate the number of branches.

POTENTIALITY OF SAVINGS FROM AGRICULTURAL CREDIT

Fiscal year	Amount disbursed	Amount that comes in 5%	5% amount retained (no. of years)	(Taka in (000000))	
				Compounding factors 15%	Product (Amount)
1972-73	33	1.65	14	7.075	11.67
1973-74	22	1.10	13	6.153	6.77
1974-75	30	1.50	12	5.350	8.02
1975-76	36	1.80	11	4.652	8.37
1976-77	85	4.25	10	4.046	17.19
1977-78	138	6.90	9	3.518	24.27
1978-79	153	7.65	8	3.059	23.40
1979-80	260	13.00	7	2.660	34.58
1980-81	336	16.80	6	2.313	38.85
1981-82	395	19.75	5	2.011	39.71
1982-83	633	31.65	4	1.749	55.35
1983-84	1005	50.25	3	1.521	76.43
1984-85	1150	57.50	2	1.322	76.01
1985-86	631	31.55	1	1.50	36.28
1986-87	<u>400</u>	<u>20.00</u>	-	-	<u>20.00</u>
	<u>5307</u>	<u>265.35</u>			<u>476.90</u>