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GRAMEEN BANK

A PROFILE

**Prepared for a Conference on
Financial Services and the Poor**

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GRAMEEN BANK
STATEMENT OF SOURCES AND APPLICATION OF FUNDS
for the year ended 31 December 1992

SOURCES OF FUNDS:	1992	1991
Net loss for the year as per accounts	5,654,567	8,310,919
Less: Prior year's adjustment- interest on advances to agri. projects credited earlier to suspense account, realised during the year	----- 20,226,075	----- 7,127,681
	14,571,508	(1,183,238)
Adjustment for items not involving movement of funds: Add: Depreciation	----- 19,904,181	----- 16,927,911
FUNDS GENERATED FROM OPERATION	34,475,689	15,744,673
OTHER SOURCES OF FUNDS	35,088,000	42,363,500
Issue of shares to members	1,105,423,514	386,625,799
Grants received for financing capital & revenue expenditures under Phase III (net of expenditures charged in the profit and loss account)	338,263,165	182,423,803
Deposits and other funds	456,337,960	263,285,359
Loans from foreign donors (IFAD)	172,026,320	-
Borrowings from banks	3,100,000	-
Increase in other liabilities	91,785,533	13,487,816
Encashment of Govt. treasury bills	3,000,000	12,000,000
Encashment of fixed deposits with banks	146,512,538	-
Disposal of fixed assets	3,772,176	9,115,290
Decrease in other assets	-	17,067,488
	----- 2,355,309,206	----- 926,369,055
	2,389,784,895	942,113,728
APPLICATION OF FUNDS:		
Repayment of Bangladesh Bank loan (housing programmes)	173,000,132	10,417,336
Investment in fixed deposits with banks	-	385,024,880
Net Disbursement of loans and advances	1,872,771,405	433,795,729
Purchase of fixed assets	100,723,887	105,816,473
Increase in other assets	158,696,793	-
	----- 2,305,192,217	----- 935,054,418
INCREASE IN CASH IN HAND & BALANCE WITH BANKS ON SHORT TERM & CURRENT DEPOSITS	84,592,678	7,059,310

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Particulars	Dec. '88		Dec. '89		Dec. '90		Dec. '91		Dec. '92		June '93
	Tk. '000	%	Tk. '000								
ETS											
Cash and Bank Balances	34,894	2	49,611	2	60,121	2	67,180	1	151,773	2	223,862
Investments	399,250	22	641,971	23	1,077,721	27	1,450,746	30	1,301,233	19	1,592,795
Loans and Advances	1,009,623	55	1,451,654	53	1,852,366	47	2,361,244	49	4,305,654	63	6,068,515
General & Collective loans	713,732	39	980,742	35	1,251,237	32	1,558,770	32	3,052,924	44	4,347,409
Housing loans (members)	289,852	16	460,667	17	588,657	15	778,530	16	1,162,689	17	1,633,240
Other loans and advances	6,041	0	10,245	0	12,472	0	23,944	0	90,041	1	87,866
Net Fixed Assets	115,308	6	161,751	6	264,245	7	344,018	7	421,065	6	448,738
Interest receivable	171,775	9	159,390	6	226,407	6	328,036	7	501,331	7	657,245
Other assets (Note 1)	105,991	6	299,277	11	482,675	12	288,896	6	202,660	3	245,961
TOTAL ASSETS	1,836,843	100	2,763,654	100	3,963,535	100	4,840,120	100	6,883,716	100	9,237,116
TOTAL LIABILITIES											
Current & Short-term deposits	8,716	0	8,761	0	9,141	0	21,237	0	45,138	1	42,376
Savings Bank deposits	18,312	1	43,262	2	55,346	1	74,604	2	89,737	1	105,886
Group Fund	208,381	11	315,432	11	455,009	11	611,273	13	946,235	14	1,220,827
Emergency Fund	51,281	3	79,911	3	118,917	3	145,220	3	145,500	2	145,529
Special Savings	23,150	1	31,457	1	40,187	1	43,356	1	57,582	1	64,420
Central Emergency Fund	4,233	0	5,389	0	9,759	0	34,329	1	51,694	1	64,427
Children Welfare Fund	10,385	1	17,976	1	28,392	1	35,116	1	49,571	1	58,183
Social Adv. & other funds & deposits	136,989	7	22,377	1	38,838	1	53,855	1	96,866	1	118,868
Other payables & liabilities	44,722	2	64,506	2	125,718	3	116,131	2	146,944	2	192,184
Employees PP, Pension & Gratuity	11,325	1	20,151	1	34,905	1	57,875	1	111,877	2	155,921
Employees Welfare Fund	555	0	710	0	884	0	873	0	1,538	0	1,458
TOTAL DEPOSITS AND OTHER FUNDS	518,049	28	609,932	22	917,096	23	1,193,869	25	1,742,682	25	2,170,079
Loans from banks and other institutions	1,232,888	67	1,768,311	64	1,886,518	48	1,876,100	39	1,878,226	27	3,569,969
Donor Contribution	25,283	1	307,620	11	1,079,221	27	1,648,271	34	3,091,957	45	3,291,398
Total Equity Capital	60,623	3	77,791	3	80,700	2	121,880	3	170,851	2	205,670
Paid-up Capital	56,923	3	71,991	3	72,000	2	114,363	2	149,451	2	150,000
Retained earnings and reserves	3,700	0	5,800	0	8,700	0	7,517	0	21,400	0	55,670
TOTAL CAPITAL & LIABILITIES	1,836,843	100	2,763,654	100	3,963,535	100	4,840,120	100	6,883,716	100	9,237,116

Source: GB Annual Reports 1988 to 1992, Provisional Accounts June 1993

Note 1: Includes Loan to SWCF/SIDE enterprises and Interest Receivable thereon.

Table 1.9 Comparative Profit and Loss Statement of Grameen Bank, 1988 through 1993 (June)

Particulars	Year ended 31 December										1993 (Jan-June)	
	1988		1989		1990		1991		1992		1993	
	Tk'000	%	Tk'000	%	Tk'000	%	Tk'000	%	Tk'000	%	Tk'000	%
1. INTEREST INCOME												
1.1 Interest on investment & short-term deposits	52,384	33	75,057	32	114,524	36	135,210	31	178,404	26	75,252	14
1.2 Interest on loans & advances (excl. housing and SIDE loans)	93,829	60	135,648	59	181,589	57	255,175	59	444,989	64	392,463	75
1.3 Interest on housing loans	11,232	7	20,484	9	24,325	8	42,761	10	74,175	11	55,987	11
TOTAL INTEREST INCOME	157,445	100	231,189	100	320,438	100	433,146	100	697,568	100	523,704	100
2. INTEREST EXPENSE												
2.1 Interest on Deposits	20,863	43	32,780	46	49,743	51	68,764	58	101,895	53	68,756	52
2.2 Interest on B.B. loans	531	1	5,047	7	5,696	6	5,383	5	2,212	1	4,808	4
2.3 Interest on other bank loans	4,081	8	5,187	7	3,967	4	5,699	5	35,620	19	28,132	21
2.4 Interest on IFAD, NORAD, SIDA & Phase III loans	22,674	47	28,074	39	33,088	34	28,698	24	39,977	21	18,556	14
2.5 Interest on Dutch Grant	439	1	421	1	442	0	442	0	442	0	220	0
2.6 Contribution for SAF					4,824	5	10,122	8	10,782	6	11,269	9
TOTAL INTEREST EXPENSE	48,588	100	71,509	100	97,760	100	119,108	100	190,928	100	131,741	100
3. NET INTEREST INCOME	108,857		159,680		222,678		314,038		506,640		391,963	
4. OPERATING EXPENSES												
4.1 Salaries and related costs	81,077	72	121,165	75	170,839	75	268,615	78	389,189	74	251,551	69
4.2 Other expenses	18,538	16	27,025	17	34,706	15	47,937	14	60,022	11	32,746	9
4.3 Loan and Interest loss provision	10,211	9	5,814	4	9,907	4	12,963	4	55,723	11	70,596	19
4.4 Depreciation	2,908	3	7,989	5	11,110	5	16,928	5	19,904	4	9,276	3
TOTAL OPERATING EXPENSES	112,734	100	161,993	100	226,562	100	346,443	100	524,838	100	364,169	100
5. OPERATING PROFIT (LOSS)	-3,877		-2,313		-3,884		-32,405		-18,198		27,794	
6. OTHER EXPENSE												
6.1 Training	37,120		63,282		79,361		60,450		44,568		20,864	
6.2 R & D							7,122		9,741		3,996	
6.3 M & E							6,945		7,971		2,966	
	37,120		63,282		79,361		74,517		62,280		27,826	
7. OTHER INCOME (Training, R&D, M&E, Int. on SIDE loans)	42,161		67,850		86,342		98,611		74,824		34,302	
8. PROFIT before Prior period adjustments							-8,311		-5,654		34,270	
9. PRIOR PERIOD INCOME							7,128		20,226			
10. NET PROFIT	1,164		2,255		3,097		-1,183		14,572		34,270	

R & D and M & E expenses are being included in GB accounts from 1991
Source : GB Annual Reports 1988 to 1992, Provisional Accounts June'93

Table 1.11 Key Ratios on Grameen Bank Income/ Expense Results, 1988 through 1993 (June)

Particulars	Year ended Dec. 1988	Year ended Dec. 1989	Year ended Dec. 1990	Year ended Dec. 1991	Year ended Dec. 1992	6 months ended June 1993
1. Interest income on investment & deposits/ Total Interest Income	33.3%	32.5%	35.7%	31.2%	25.6%	14.4%
2. Interest income on loans & advances (excl. housing and SIDE loans)/ Total Interest Income	59.6%	58.7%	56.7%	58.9%	63.8%	74.9%
3. Interest income on Housing loans/ Total Interest Income	7.1%	8.9%	7.6%	9.9%	10.6%	10.7%
4. Interest expense/ Total Interest Income	30.9%	30.9%	30.5%	27.5%	27.4%	25.2%
5. Salaries and related costs/ Total Interest Income	51.5%	52.4%	53.3%	62.0%	55.8%	48.0%
6. Other expenses/ Total Interest Income	11.8%	11.7%	10.8%	11.1%	8.6%	6.3%
7. Loan and Interest loss provision/ Total Interest Income	6.5%	2.5%	3.1%	3.0%	8.0%	13.5%
8. Depreciation/ Total Interest Income	1.8%	3.5%	3.5%	3.9%	2.9%	1.8%
9. Operating Profit/ Total Interest Income	-2.5%	-1.0%	-1.2%	-7.5%	-2.6%	5.3%

Source : Computed from Tables 1.8 and 1.9

KEY RATIOS ON LTB FINANCIAL RESULTS

Particulars	31 December 1988	31 December 1989	31 December 1990	31 December 1991	31 December 1992	30 Jun. 1993
1. House building loans/ Total loans	28.7%	31.7%	31.8%	33.0%	27.0%	26.9%
2. Interest Receivable/Total loans	17.0%	11.0%	12.2%	13.9%	11.6%	10.8%
3. Total deposits & Other funds/Total assets	28.2%	22.1%	23.1%	24.7%	25.3%	23.5%
4. GF,EF and SS deposits/ Total deposits & Other funds	54.6%	70.0%	67.0%	67.0%	66.0%	65.9%
5. Investments/ Total Deposits & Other Funds	77.1%	105.3%	117.5%	121.5%	74.7%	73.4%
6. Equity Capital/Total Asset	3.3%	2.8%	2.0%	2.5%	2.5%	2.2%
7. Equity Capital & Donor Contribution/Total Asset	4.7%	13.9%	29.3%	36.6%	47.4%	37.5%
8. Loan from banks/Equity Capital and Donor Contribution	1435.2%	458.8%	162.6%	106.0%	57.6%	102.1%
9. Investment/Equity Capital deposits & Other Funds	69.0%	93.3%	108.0%	110.3%	68.0%	67.0%

						(6 months)
10. Interest Income/ Total Assets	8.6%	8.4%	8.1%	8.9%	10.1%	5.7%
11. Interest Expense/ Total Assets	2.6%	2.6%	2.5%	2.5%	2.8%	1.4%
12. Net Interest Margin/ Total Assets	5.9%	5.8%	5.6%	6.5%	7.4%	4.2%
13. Operating Expenses/ Total Assets	6.1%	5.9%	5.7%	7.2%	7.6%	3.9%
14. Operating Profit/ Total Assets	-0.2%	-0.1%	-0.1%	-0.7%	-0.3%	0.3%
15. Net Profit/Total Assets	0.1%	0.1%	0.1%	0.0%	0.2%	0.1%

Source : Computed from Tables 1.8 and 1.9

GRAMEEN BANK - A PROFILE

----- This paper will discuss and profile Grameen Bank - an organization which provides one of the best examples of a success story in the field of micro-enterprise lending. It is an international phenomenon and example of a financial institution which successfully meets the credit needs of two million of Bangladesh's rural poor.

It is an example of a leading approach and model which addresses goals in the area of poverty alleviation. From President Clinton's references to the Grameen model during his campaign interview with Rolling Stone Magazine, to Belgium's King Boudioun's bestowal of honour on its founder, Professor Yunus, Grameen seems to be redefining the concept of rural credit delivery. Everyone wants to demystify, understand, dissect, and, replicate this phenomenon.

This paper attempts, in a general way, to explain the workings of Grameen, and answer some of the most common questions raised by potential replicators, practitioners, policy makers from donor agencies, NGO leaders, and representatives from multilateral development banks.

These questions come from skeptics, and supporters alike. What is Grameen? How does it work? Is it really so enormously successful, and if so, why? How has it been able to sustain such tremendous growth over the past eight to ten years? Is it a viable institution? And....is it replicable?

In answering these questions, the message this paper wishes to convey is this: within the social, cultural and economic environments in Bangladesh, Grameen Bank has been highly successful in reaching the poor, but in doing so it has been heavily reliant on the availability of donor grant funds. It presents an outstanding vehicle for reaching the destitute and the poorest of the poor in Bangladesh. Reaching two million members with credit and maintaining a reported 97% collection rate is remarkable, to say the least. But it should not be regarded as a par .cea - a self-funding bank model for alleviating poverty. Its extraordinary expansion programs have been possible because of the infusion of these large amounts of primarily grant funds.

As "replication" appears to be associated with the Grameen model these days, in looking to the Bank as a model for the setting up of similar finance institutions elsewhere, this subsidy factor should be considered. Those who would like to photocopy the bank's personnel and operations manual and bring it to Uruguay, or Burundi, or Detroit..... should, in addition to social and economic factors, look at this funding issue.

The author brings to this discussion, an appreciation and knowledge of Grameen based on direct working experience. For a period of four years, from 1989 to 1993, while living in Bangladesh, she had the honour of working with Grameen Bank and a group of international donors. This experience provided a unique opportunity - watching Grameen grow and develop during a period of almost explosive growth.

The donor group was actually a consortium of seven - comprising the Ford Foundation, IFAD, and bilateral aid agencies from Canada, Sweden, Norway and Germany. During the four year period, donors provided Grameen with over \$US 85 million in funds, mostly grant, used primarily to finance its ambitious expansion programs, as well as various institutional developments. The consortium approach to project financing and management emerged as a result of a desire on the part of Grameen and the donors to establish an equal partnership. The author was responsible for coordinating overall communications between Grameen and the donors and facilitating the project's monitoring, evaluation and reporting. As this was an experiment, a new approach, some hurdles were crossed along the way. After a number of initial role re-definitions - basically a re-working of the traditional donor/client relationship, consensus of the consortium members is that it was a positive experience, with potential impact on today's changing aid delivery systems.

WHAT IS GRAMEEN BANK

The story of Grameen's birth began in 1976. While a disillusioned economics professor at Chittagong University, Professor Yunus came upon Sophia Khatoon of Jobra Village. She was making "murahs" - bamboo stools - and earned two pennies a day. She explained that, without money to buy the bamboo she needed, she had to borrow from the trader who bought her stools.

After some talk Yunus discovered that there were 42 other villagers in similar circumstances. Altogether they needed just \$28 to finance raw materials. By offering himself as guarantor, Yunus convinced a local bank to lend Sophia and her friends the money. They paid it all back, including the interest. Yunus continued to defy conventional banking practice, and from Jobra, Grameen has grown into an internationally acclaimed institution which today boasts a membership of almost 2 million, with a branch network throughout the country of just over 1000. Just this past May Grameen watched the U.S. \$1 billion roll over on its disbursement odometer. That is very impressive considering the population of Bangladesh is about 110 million, of which about 85% is rural and....poor.

Grameen combines an enlightened social development agenda with a business approach to micro-lending. It is both responsive to its clients needs and progressive and creative in its banking, with the inclusion of savings mobilization. To paraphrase Prof. Yunus

himself, access to a system of formal credit is a fundamental human right. If the poor are provided credit on sensible terms than they themselves can judge how best to improve their economic situations. Grameen Bank creates the environment, both social and financial, within which the poor can receive the necessary credit to undertake small-scale activities. Members, by accepting this credit, agree to a system of group membership and guarantee, which ultimately provides a sense of responsibility and accountability and, more importantly, ownership of one's economic future.

To best exemplify the wonderful results achieved by Grameen while also providing an insight into its programs, a typical story of a young Bangladeshi woman is presented. She is a widowed mother with a young daughter to care for and lives in a small village about twenty miles from Sylhet - a town in north eastern Bangladesh, and the heart of the tea plantations. Before joining Grameen, she lived in a small, dilapidated hut, owned a few cooking utensils, and depended on the good fortune of her husband's family for her meager living. She was - simply put - destitute.

This story began when she watched the first Grameen Bank worker walk into her village. He was met with suspicion by men and women alike. For years, villagers had been borrowing from the money-lenders at outrageous interest rates - 100% or more. But the promise of easy to obtain loans, with no collateral, at affordable interest rates was too good to be true. There had to be a gimmick. As a muslim woman, illiterate and unmarried, with no real skill or experience in handling money, she was even more tentative. But with the bank worker's encouragement and guidance, after several weeks, and against the wishes of many husbands and fathers, she and nineteen other women in similar dire circumstances, formed the first female centre in her village - four groups of five women.

During those first weeks, the new members learned about saving money, group dynamics, and most importantly, the Bank's code of discipline - the Sixteen Decisions. Here are a few examples:¹

We shall not live in dilapidated houses.

We shall grow vegetables all the year round.

We shall plan to keep our families small.

We shall build and use pit latrines.

We shall not take or give dowry and shall not practice child marriage.

¹. The Sixteen Decisions are presented in the attachment to this paper.

They discussed and practiced the Bank's rules, learned to sign their name, and were provided with savings and loan passbooks. Their weekly meetings became a source of strength and motivation for them, as they eagerly waited to deposit the required savings of one taka, or, in today's dollar, about three cents, per member.

In the fourth week, each group of five women elected a leader, and the center then elected a secretary and chairperson. The bank worker declared the centre ready for its first loan - two members of each group were chosen to receive the first loan - TK 1200 - \$30. The purposes of these loans had been carefully determined by the group, with the bank worker's input - goats and rice were purchased. The women walked the several miles to the bank's branch office to receive their funds - an accomplishment in itself for a woman from the village.

The weekly meetings continued, at which the regular loan payments were made. After two months two more members of each group received their first loans, and finally, each group leader, and the centre chairperson were eligible.

During this three month period, the women had watched their centre establish its code of discipline, they had helped each other to identify and select loan activities, make banking decisions, watch savings accumulate, and even, on one occasion, for fear of making another member ineligible for a loan, pressure a group member to make her weekly payment, despite her husband's objections.

At the end of the first year, the centre boasted 100% attendance at weekly meetings and almost 100% repayment of the loans due. Five of the members had participated in a training program at the bank's Zonal Office in Sylhet covering such subjects as maternal health, nutrition and child care, and they received some technical advice on livestock rearing.

Where is she today? She is an active Grameen Bank member - a sixth time loanee - a veteran of the bank's lending program. She has a near perfect repayment record, interrupted only briefly during the devastating floods of 1988 and the horrific 1991 cyclone, and has amassed enough savings to finance improvements to her GB funded home, just last year. She now owns and cultivates an acre of land, has a 15 year lease on another two, and owns some livestock. After attending the Grameen sponsored non-formal centre school her daughter is now attending a regular, government school, a few miles from the village. She is now a shareholder in the bank having purchased a share for one hundred taka - about two and a half dollars.

This story presents the unique features of Grameen's approach which distinguish it from other rural credit programs both in Bangladesh and elsewhere:

- * first, it targets women - studies have shown that Grameen's women members are better credit risks - they pay back their loans; studies have also shown the positive links between provision of credit and empowerment of poor women.
- * second, it promotes financial self-discipline through a mandatory savings program²
- * third, there is group or peer pressure - loan repayment is "guaranteed" via group liability. If a member is unable to meet her weekly payment, the others in her group must provide it, or risk a new loan approval.
- * finally, the code of discipline, or Sixteen decisions, provides a social development forum and agenda that is reinforced at weekly centre meetings.

HOW SUCCESSFUL IS THE BANK?

Following are some of the bank's vital statistics:

Membership has increased from 2200 in 1979 to about 2 million today. Then, less than half were women. Today, 94% are women. In 1979, the bank had seven branches covering 17 villages, 36 centres and 377 groups. Today, there are over 1000 branches and 60,000 centres. Almost half of the country's villages, 35,000, are served by a Grameen Bank branch. Total disbursements in 1979 were just over \$750,000. Disbursements for the year 1992 exceeded \$US 160 million. Savings in 1979 totalled about \$US 6,000. The total balance in savings in 1993 was about \$US 34m.

From the initial simple sustenance loan in 1976, the bank's lending portfolio now includes seven different types, with the largest being the general loan. At an average of between \$40 and \$80, the general loans (at 20% interest and a one year repayment period) are still being used for primarily the same activities as some years ago - purchase of livestock, paddy cultivation and husking, rickshaw pulling, small trading and peddling. Just over ten percent of members have taken out a housing loans. These loans average about \$280, with a ten year repayment period and 8% interest. Members can now avail themselves of seasonal, family, extended and tubewell loans.³

². Details on the savings program are found in the attachments to this paper.

³. Grameen's loan programs are detailed in the attachments to this paper.

There is no doubt that Grameen has a significant socio-economic impact on members which is sustainable over time. Increased incomes and expenditures, improvements in nutritional status, employment creation, increase in the agricultural wage rate, increased investments and savings, reduction of poverty - are all well researched and documented findings of the numerous studies and reports produced over the years.

In fact, if Grameen had charged the going consultancy rate for every request for information, data, visits and interviews it receives, it would likely no longer need external donor funding.

Throughout its tremendous growth period Grameen has been able to sustain a reported 97% repayment record. This is rather impressive when compared to the commercial bank recovery rate of anywhere between 15 to 45%.

Many have asked that burning question - is the collection rate really 97%. Critics and accounting purists consider Grameen's method of calculating loan repayment rates to be "unacceptable" - not conforming to internationally accepted accounting principles. Although the loan repayment period is 52 weeks, it is not considered overdue until week 104. Grameen does not use ontime repayment calculations. This was addressed during the three evaluation missions associated with our project, as well as by many other researchers. On a representative sample of branch accounts, no significant difference was found using the two calculations.

Back to the question....With an average loan size of about \$70, how is it that the bank has been so successful? The answer would appear to be fairly simple - an intensive client-oriented approach to program delivery.

Some 10,500 committed and highly motivated bank staff can be found in the network of zonal, area and branch offices. Just over 7,000 of these employees serve the day-to-day banking needs of Grameen's members - or, 270 members per branch worker. The strength of Grameen's organizational structure lies in its ability to effectively service its members, supervise their credit operations and respond quickly to their diverse needs, through its decentralized approach to program delivery. The "barefoot banker" as he is referred to by Yunus, spends a great deal of time travelling from one village and centre to another - taking the bank to the members.

This comes with a fairly expensive price tag - about twelve per member - high administrative costs which cannot be covered by its 20% interest rate on loans. Salaries alone account for 64% of the bank's operating costs.

To help Grameen meet these ever-increasing costs, while expanding

rapidly, the international donor community has provided in excess of \$US 150 million since 1981, about three quarters of it on a grant basis. These funds have been used to finance not only the growth in its lending programs, but its institutional development and strengthening as well.

During the past few years, Grameen has instituted a number of policy and program changes, in an effort to improve cost effectiveness and decrease the level of administrative overhead.

- * first, to cover a government mandated increase in staff salaries and benefits, interest rates increased in 1991, from 16% to 20% on general loans, and 5% to 8% for housing loans. The board views this as a temporary measure, with a promise to membership to reduce it as soon as is practical.
- * second, there has been no staff recruitment since 1991. The ratio of staff to members has increased substantially without an apparent effect on member service.
- * third, in 1992, the Bank increased the ceiling on general loans from \$200 to \$250. It increased the maximum number of members per group to ten, and groups per centre to eight.
- * fourth, in the same year Grameen introduced a number of new loan schemes - which allow members to hold two or more loans concurrently. The unprecedented increase in loan activity has astounded even the Bank's management.

IS GRAMEEN BANK A VIABLE INSTITUTION?

The viability question is a bit of an overworked horse these days. Unfortunately, a simple answer is difficult. In fact this question is answered by asking a host of others - financial viability? institutional viability? self - sustainability? Subsidy factors?

For Grameen to be a financially viable and sustainable institution, its membership must be financially viableand this viability has to be sustainable. In reality, members are considered sustainable if they can repay their loans. This means that the loan activities must be profitable. Many studies have concluded this to be the case. The "borrower knows best" philosophy of lending would indicate that the member only chooses activities which are profitable.

The basic, generic concept of a bank is fairly simple - first it solicits deposits from its clients. Then it pools and invests the funds into manageable portfolios of graduated risk and assumes the associated default. Thirdly, it retains sufficient capital to

absorb unanticipated losses and thereby continue as an independent and financially viable institution. It earns a higher rate of interest than it pays to compensate for risk and to cover operating costs.

This was to be the prescribed Grameen Bank route to independence and sustainability, at least according to the donors that financed the last expansion phase. However, Grameen rejects the use of member deposits for its lending program, choosing rather to invest group funds into fixed rate deposits at commercial banks. Interest income, borrowings from Bangladesh Bank and other commercial banks to the tune of \$US 86M in 1993, and donor funds finance Grameen's lending program.

After reporting minor losses in 1990 and 91, with the increased volume of loans and higher interest rates, it returned to profit in 1992 and 93.⁴

In 1993, the donors engaged Chicago's Shorebank financial consultants to determine the financial viability of GB without reliance on major external grant, concessional or commercial funding. Their findings are available from either Grameen or any of the donor members of the consortium.

In terms of institutional sustainability, Grameen has not significantly diverged from its basic formula. It met the tremendous challenges posed by the rapid growth and expansion, and continues to maintain high quality and commitment at all staff levels. As the Bank ages, all the players, staff and members, are getting better at delivering and utilizing credit. Over time, Grameen has developed a comprehensive management information system producing over 80 weekly, monthly and quarterly reports. This allows management to keep on top of operations, identify problems and deal with them quickly.

But, with the recent increase in branch level workload which came with the introduction of the new loan schemes and changes to group and centre size, the Bank faces some challenges: rapid internal growth, informal refinancing of existing loans and government dependency to name a few.

Grameen could have chosen the route of slower growth, smaller size fewer loanable resources, and...independence. It chose not to - it continues to be an example of the social entrepreneur, playing by its own rules and not easily accepting advice or criticism. It guards its secrets of success and chooses the items it wishes to be transparent. However, Grameen has proven, in the past, to be able to identify and manage risk to its advantage.

⁴. The Bank's financial statements for 1993 are found in the attachments to this paper.

In doing so, it continues to intrigue and...frustrate those of us who would deal with its replication potential.

This points to a catch 22 - politically donors want to be seen as backing a winner - the reality of today's development politics. Donors want to support Grameen's growth efforts and some, support its wholesale replication in the developing world.

Although willing to accept grant funds, Grameen is wary of borrowing from donors and multilateral development banks - subjecting itself to scrutiny and to what it considers to be a sometimes interventionist and meddling attitude.

While attacking a country's macro economic and financial problems is no doubt necessary, as are large investments in infrastructure, if the objective is to reach the poorest of the poor, that Grameen is one of the best examples of success. In the past eight years its approach has been successfully replicated on a small scale in several Asian and African countries. In Asia alone, there are over fifteen such projects reaching the poor; eg. Malaysia's Amanah Ikhtiar, Sri Lanka's Savecred, and five small programs in the Philippines. To grow and expand their coverage, what they, and others lack is access to sources of funds.

Grameen's growing pains and efforts to assert its international independence are testament to its success. Its sheer size distinguishes it from any other similar organization elsewhere. Its unique organizational culture and approach have proven to be effective. But the question of whether it can be replicated hinges to some extent on the availability of grant funds and equally on the zeal of its advocates.

ATTACHMENTS

**LOAN PROGRAM DESCRIPTIONS
TEN MOST POPULAR LOAN ACTIVITIES
SAVINGS MOBILIZATION PROGRAM
SIXTEEN DECISIONS
GRAMEEN BANK BALANCE SHEETS
GRAMEEN BANK PROFIT AND LOSS STATEMENTS
GRAMEEN BANK - KEY FINANCIAL RATIOS
STATEMENT OF SOURCES AND APPLICATION OF FUNDS**

**GRAMEEN BANK
LOAN PROGRAMS**

LOAN TYPE	ELIGIBILITY	PURPOSE	LOAN CEILING	INTEREST RATE	REPAYMENT SCHEDULE	HEAD OFFICE FUND TRANSFER RATE
1 GENERAL & COLLECTIVE	FIRST TYPE OF AVAILABLE LOAN	ANY INCOME GENERATING ACTIVITY	TK 10,000	20%	REPAYMENT OVER 50 WKS. AT 2% OF LOAN VALUE WITH INT. DUE FINAL 2 WKS. *OVERDUE AT WK 104	12%
2 HOUSING	UPON COMPLETION OF 2 FULLY REPAID GENERAL LOANS	FOR CONSTRUCTION OF BASIC AND LARGER HOUSES	BASIC: TK 10,000 LARGER: TK 25,000	8%	10 YRS. AT 1% WEEKLY PAYMENTS	6%
3 SANITATION LOANS (INTRODUCED - '90)	ANY MEMBER WITH 100% REPAYMENT ON PREVIOUS LOAN	IMPROVEMENT OF SANITATION FACILITY	TK 500 - 1,500	8%	104 WK. REPAYMENT PERIOD	6%
4 SEASONAL LOAN (JULY, 1992)	ANY MEMBER HOLDING GENERAL LOAN. CAN BE INDIV. JOINT OR CENTRE LOAN.	TO PROVIDE CAPITAL FOR AGRIC. INPUTS	TK 3,000 BUT CAN BE INCREASED TO VALUE OF OUTSTANDING GENERAL LOAN	20%	6 - 12 MNTHS. AT 1 TO 2% OF LOAN AS WKLY. PAYMENT OR LUMP SUM AT END OF LOAN PERIOD	12%
5 FAMILY LOAN (SEPTEMBER, 1992)	4TH TIME LOANEE WITH 100% REPAYMENT RECORD. TOTAL OUTSTANDING IN OTHER LOANS CANNOT EXCEED TK 30,000	FAMILY INCOME GENERATING ACTIVITY	TK 10,000	20%	52 WKLY. PAYMENTS OF 2% OF LOAN AMNT.	12%
6 EXTENDED LOAN (SEPTEMBER, 1992)	3RD TIME LOANEE WITH 100% REPAYMENT RECORD. TOTAL OUTSTANDING IN OTHER LOANS CANNOT EXCEED TK 8,000	ON BEHALF OF FAMILY MEMBER, FOR BUSINESS RELATED INCOME GENERATING ACTIVITY. (EG. FEMALE MEMBER ON BEHALF OF HUSBAND).	TK 5,000	20%	52 WKLY. PAYMENTS OF 2% OF LOAN AMNT.	12%
7 TUBEWELL LOAN (JANUARY, 1992)	ANY ACTIVE GB MEMBER	FOR PURPOSE OF SHALLOW TUBEWELL	TK 3,000/INDIV. TK 2,500/MEMBER FOR JOINT LOAN TO MAX. OF TK 10,000	20%	104 WKLY. PAYMENTS AT 1% OF LOAN AMNT.	12%

1/ SOURCE: J. HUBBARD - MEETING WITH MASUD ISA (GB), 16.3.93
PHASE III PROJECT COMPLETION REPORT, WORKING PAPER #4, 1993

**The Disbursement Percentages and Average Loan Sizes
Ten Most Popular Activities in 1989 - 1992**

Activity	% of Individual Disbursements				Average Loan Size Tk.			
	1989	1990	1991	1992	1989	1990	1991	1992
Rabi Crop Cultiv.	-	-	-	14.8	-	-	-	11,671
Milk Cow	22.1	20.1	18.8	14.8	3,309	3,522	3,529	3,737
Cow Fattening	12.1	12.4	14.1	11.0	2,047	2,137	2,181	2,452
Paddy Husking	14.9	16.3	15.1	9.8	1,770	1,961	2,046	2,207
Paddy Cultiv.	-	-	-	4.7	-	-	-	1,309
Rice/Paddy Trading	5.7	5.3	5.6	4.3	2,463	2,467	2,412	2,772
Tubewell Veg. Cult.	-	-	-	3.9	-	-	-	47,654
Grocery Shop	2.4	2.0	2.1	2.8	2,728	2,374	2,380	3,230
Goat	2.4	2.8	3.1	2.0	965	972	1,015	1,069
Stationary Shop	1.5	1.6	1.6	1.7	2,619	2,783	2,778	3,879
TOTAL TOP TEN %	68.4	69.4	69.3	69.8				
Av. Loan Tk.					2,246	2,323	2,253	2,845
Av. Loan 1989 Tk.					2,246	2,044	1,751	2,068

Source: Grameen Bank Annual Reports 1989-1992

Central Bank of Bangladesh inflation figures: 1989-90, 12.0%, 1990-91 10.3%, 1991-92, 5.0% and 1992-93, 4.1%

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**GRAMEEN BANK
SAVINGS MOBILIZATION PROGRAM**

MANDATORY

1. MEMBER SAVINGS: 1 TAKA PER WEEK, DEPOSITED AT WEEKLY MEETING.
2. GROUP TAX: CONTRIBUTION TO GROUP FUND EQUAL TO 5% OF THE LOAN AMOUNT.

GROUP FUND MANAGED BY THE GROUP FOR THEIR OWN PURPOSES, UPON MUTUAL CONSENT.
3. EMERGENCY FUND: 25% OF THE TOTAL INTEREST DUE ON THE PRINCIPAL, DEPOSITED INTO EMERGENCY FUND. FUND IS MANAGED BY GRAMEEN BANK AND IS USED AS INSURANCE AGAINST POTENTIAL DEFAULT DUE TO DEATH, DISABILITY OR OTHER.

(ALSO USED AS LIFE AND ACCIDENT INSURANCE FUND AVAILABLE TO ALL MEMBERS, AS WELL AS GENERAL SOCIAL DEVELOPMENT ACTIVITIES FOR THE WELFARE OF GROUP MEMBERS.)
4. CHILDREN'S WELFARE FUND: ONE TAKA PER WEEK - NON REFUNDABLE. PROVIDES EDUCATION FOR MEMBERS' CHILDREN AT CENTRE SCHOOLS RUN BY MEMBERS.

VOLUNTARY

1. PURCHASE OF EQUITY SHARES OF GB: EACH SHARE IS 100 TAKA. NO MEMBER CAN PURCHASE MORE THAN ONE SHARE. (AS OF 1991, 80% OF GB'S PAID UP CAPITAL WAS HELD BY MEMBERS).
2. SPECIAL SAVINGS SCHEME: MANAGED BY THE CENTRE TO FINANCE JOINT ACTIVITIES.
2. DEPOSIT BANKING: AVAILABLE TO MEMBERS AND NONMEMBERS.

GRAMEEN BANK

SIXTEEN DECISIONS⁵

1. THE FOUR PRINCIPLES OF GRAMEEN BANK - DISCIPLINE, UNITY, COURAGE AND HARD WORK - WE SHALL FOLLOW AND ADVANCE IN ALL WALKS OF OUR LIVES.
2. PROSPERITY WE SHALL BRING TO OUR FAMILIES.
3. WE SHALL NOT LIVE IN DILAPIDATED HOUSES. WE SHALL REPAIR OUR HOUSES AND WORK TOWARDS CONSTRUCTING NEW HOUSES AT THE EARLIEST.
4. WE SHALL GROW VEGETABLES ALL THE YEAR ROUND. WE SHALL EAT PLENTY OF IT AND SELL THE SURPLUS.
5. DURING THE PLANTATION SEASONS, WE SHALL PLANT AS MANY SEEDLINGS AS POSSIBLE.
6. WE SHALL PLAN TO KEEP OUR FAMILIES SMALL. WE SHALL MINIMIZE OUR EXPENDITURES. WE SHALL LOOK AFTER OUR HEALTH.
7. WE SHALL EDUCATE OUR CHILDREN AND ENSURE THAT THEY CAN EARN TO PAY FOR THEIR EDUCATION.
8. WE SHALL ALWAYS KEEP OUR CHILDREN AND THE ENVIRONMENT CLEAN.
9. WE SHALL BUILD AND USE PIT-LATRINES.
10. WE SHALL DRINK TUBEWELL WATER. IF IT IS NOT AVAILABLE, WE SHALL BOIL WATER OR USE ALUM.
11. WE SHALL NOT TAKE ANY DOWRY IN OUR SONS' WEDDING, NEITHER SHALL WE GIVE DOWRY IN OUR DAUGHTERS' WEDDING. WE SHALL KEEP THE CENTRE FREE FROM THE CURSE OF DOWRY. WE SHALL NOT PRACTICE CHILD MARRIAGE.
12. WE SHALL NOT INFLICT ANY INJUSTICE ON ANYONE, NEITHER SHALL WE ALLOW ANYONE TO DO SO.
13. FOR HIGHER INCOME WE SHALL COLLECTIVELY UNDERTAKE BIGGER INVESTMENTS.
14. WE SHALL ALWAYS BE READY TO HELP EACH OTHER. IF ANYONE IS IN DIFFICULTY, WE SHALL ALL HELP HIM.
15. IF WE COME TO KNOW OF ANY BREACH OF DISCIPLINE IN ANY CENTRE, WE SHALL ALL GO THERE AND HELP RESTORE DISCIPLINE.
16. WE SHALL INTRODUCE PHYSICAL EXERCISE IN ALL OUR CENTRES. WE SHALL TAKE PART IN ALL SOCIAL ACTIVITIES COLLECTIVELY.

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These sixteen decisions were developed by a group of 100 women centre chiefs, during a National Workshop held in March, 1984. They are the foundation of the Bank's social development constitution and form the basis of Grameen centre life and discipline.

⁵. FROM PARTICIPATION AS A PROCESS, FUGLESANG AND CHANDLER NORAD, 1986.