Breaking the vicious cycle of poverty through microfinance

Grameen Bank and Ujjivan Financial Services

Mohammad Jasimuddin, Acting Head, Regional Programmes Group and Adviser (Asia)

The Grameen journey

Grameen Bank was born in the village of Jobra, Bangladesh, in 1976. In 1983, it was transformed into a formal bank under a special law passed for its creation. It is owned by the poor borrowers of the bank who are mostly women, and works exclusively for them. At present, Grameen’s borrowers own 95 per cent of the total equity of the bank, with the remaining 5 per cent owned by the government.

In Bangladesh, Grameen also functions as a savings bank, makes college and housing loans, and operates projects in areas such as telecommunications, yogurt production and solar energy.

Genesis of Grameen

In 1974, Professor Muhammad Yunus, a Bangladeshi economist from Chittagong University, led his students on a field trip to a poor village. They interviewed a woman who made bamboo stools, and learnt that she had to borrow the equivalent of 15p to buy raw bamboo for each stool made. After repaying the middleman, sometimes at rates as high as 10 per cent a week, she was left with only 1 pence profit. Had she been able to borrow at a more advantageous rate, she would have been able to amass an economic cushion and raise herself above subsistence level.

Realising that there must be something terribly wrong with the economics he was teaching, Yunus took matters into his own hands, and from his own pocket lent the equivalent of $17 to 42 basket-weavers. He found that this tiny amount not only helped them to survive, but also created the spark of personal initiative and enterprise necessary to pull themselves out of poverty.

Against the advice of banks and the government, Yunus carried on giving out ‘micro-loans’, and in 1983 formed Grameen Bank, meaning ‘village bank’, which he founded on principles of trust and solidarity. In Bangladesh today, Grameen has 1,084 branches, with 12,500 staff serving 2.1 million borrowers in 37,000 villages. On any working day Grameen collects an average of $1.5 million in weekly instalments. Of the borrowers, 94 per cent are women and over 98 per cent of the loans are paid back, a recovery rate higher than any other banking system. Grameen methods are applied in projects in 58 countries, including the USA, Canada, France, The Netherlands and Norway.

Grameen’s ten indicators of poverty

Every year, Grameen Bank staff evaluate their work and check whether the socio-economic situation of bank members is improving. They look closely at the poverty level of the borrowers using ten indicators. A bank member is considered to have moved out of poverty if her family fulfils the following criteria:

1. The family lives in a house worth at least 25,000 Taka (Tk) or a house with a tin roof, and each member of the family is able to sleep on a bed instead of on the floor.
2. Family members drink pure water from tube-wells, boiled water or water purified by using alum, arsenic-free, purifying tablets or pitcher filters.
3. All children in the family over six years of age go to school or have finished primary school.
4. The family can pay the minimum weekly loan instalments of Tk 200 or more.
5. The family uses a sanitary latrine.
6. Family members have adequate clothing for everyday use, warm clothing for winter, such as shawls, sweaters, blankets, etc, and mosquito nets to protect them from mosquitoes.
7. The family has sources of additional income, such as a vegetable garden, fruit-bearing trees, etc, so that they are able to fall back on these sources when they need additional money.
8. The borrower maintains an average annual balance of Tk 5,000 in her savings account.
9. The family is able to have three square meals a day throughout the year, i.e., no member of the family goes hungry any time of the year.
10. The family can take care of its own health needs; for example, if any member of the family falls ill, the family can afford to take all necessary steps to seek adequate healthcare.

Providing micro-credit to the poor

Grameen Bank is based on the voluntary formation of small groups of five people to provide mutual, morally binding group guarantees in lieu of the collateral required by conventional banks. At first only two members of a group are allowed to apply for a loan.
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Depending on their performance in repayment, the next two borrowers can then apply and, subsequently, the fifth member as well.

The assumption is that if individual borrowers are given access to credit, they will be able to identify and engage in viable income-generating activities: simple processing such as paddy husking and lime-making; manufacturing such as pottery, weaving and garment sewing; storage and marketing; and transport services.

Right from the start, women were given equal access to the schemes, and proved not only reliable borrowers but also astute entrepreneurs. As a result, they have raised their status, lessened their dependency on their husbands, and improved their homes and the nutritional standards of their children. Today over 90 per cent of borrowers are women.

Intensive discipline, supervision and servicing characterise the operations of Grameen Bank, which are carried out by ‘Bicycle Bankers’ in branch units with considerable delegated authority. The rigorous selection of borrowers and their projects by these bank workers, the powerful peer pressure exerted on these individuals by the groups, and the repayment scheme based on 50 weekly instalments, contribute to the operational viability to the rural banking system designed for the poor. Savings have also been encouraged. Under the scheme, there is provision for 5 per cent of loans to be credited to a group fund and Tk 5 is credited every week to the fund.

The success of this approach shows that a number of objections to lending to the poor can be overcome if careful supervision and management are provided. For example:

- It had earlier been thought that the poor would not be able to find remunerative occupations; in fact, Grameen borrowers have successfully done so.
- It was thought that the poor would not be able to repay; in fact, repayment rates have reached 97 per cent.
- It was thought that poor rural women in particular were not bankable; in fact, they accounted for 94 per cent of borrowers in early 1992.
- It was thought that the poor could not save; in fact, group savings have proven as successful as group lending.
- It was thought that rural power structures would make sure that such a bank failed; in fact, Grameen Bank has been able to expand rapidly. Indeed, from fewer than 15,000 borrowers in 1980, the membership had grown to nearly 100,000 by mid-1984. By the end of 1998, the number of branches in operation was 1,128, with 2.34 million members (2.24 million of them women) in 38,957 villages. There are 66,581 centres of groups, of which 33,126 are women. Group savings have reached Tk 7,853 million (approximately US$162 million), out of which Tk 7,300 million (approximately US$152 million) are saved by women.

It is estimated that the average household income of Grameen Bank members is about 50 per cent higher than the target group in the control village, and 25 per cent higher than the target group non-members in Grameen Bank villages. The landless have benefited most, followed by marginal landowners. This has resulted in a sharp reduction in the number of Grameen Bank members living below the poverty line – 20 per cent compared to 56 per cent for comparable non-Grameen Bank members. There has also been a shift from agricultural wage labour (considered to be socially inferior) to self-employment in petty trading. Such a shift in occupational patterns has an indirect positive effect on the employment and wages of other agricultural waged labourers. What started as an innovative local initiative, ‘a small bubble of hope’, has grown to the point where it has made an impact on poverty alleviation at the national level.

Grameen’s method of action

Grameen Bank’s action methods can be illustrated by the following principles:

- Start with the problem rather than the solution: a credit system must be based on a survey of the social background rather than on a pre-established banking technique.
- Adopt a progressive attitude: development is a long-term process that depends on the aspirations and commitment of the economic operators.
- Make sure that the credit system serves the poor, and not vice-versa: credit officers visit the villages, enabling them to get to know the borrowers.
- Establish priorities for action with regards to the target population: serve the most poverty-stricken people needing investment resources, who have no access to credit.
- At first, restrict credit to income-generating production operations, freely selected by the borrower. Make it possible for the borrower to be able to repay the loan.
- Lean on solidarity groups: small informal groups consisting of co-opted members coming from the same background and trusting each other.
- Associate savings with credit without it being necessarily a prerequisite.
- Combine close monitoring of borrowers with procedures that are simple and as standardised as possible.
- Do everything possible to ensure the system’s financial balance.
- Invest in human resources: training leaders will provide them with real development ethics based on rigour, creativity, understanding and respect for the rural environment.

How Grameen Bank is different from conventional banks

Grameen Bank methodology is almost the reverse of the conventional banking methodology. Conventional banking is based on the principle that the more you have, the more you can get. In other words, if you have little or nothing, you get nothing. As a result, more than half the population of the world is deprived of the financial services of the conventional banks. Conventional banking is based on collateral, while Grameen system is collateral-free.

Grameen Bank starts with the belief that credit should be accepted as a human right, and builds a system where one who does not possess anything gets the highest priority in getting a loan. Grameen methodology is not based on assessing the material possession of a person; it is based on the potential of a person.
Grameen believes that all human beings, including the poorest, are endowed with endless potential.

Conventional banks look at what has already been acquired by a person. Grameen looks at the potential that is waiting to be unleashed in a person.

Conventional banks are owned by the rich, generally men. Grameen Bank is owned by poor women.

The overarching objective of the conventional banks is to maximise profit. Grameen Bank’s objective is to bring financial services to the poor, particularly women and the poorest, to help them fight poverty, stay profitable and become financially sound. It is a composite objective, coming out of social and economic visions.

Conventional banks focus on men, Grameen gives high priority to women – 97 per cent of Grameen Bank’s borrowers are women. Grameen Bank works to raise the status of poor women in their families by giving them ownership of assets. It makes sure that the ownership of the houses built with Grameen Bank loans remains with the borrowers, i.e., the women.

Grameen Bank branches are located in rural areas, unlike the branches of conventional banks, which try to locate themselves as near as possible to the business districts and urban centres. The first principle of Grameen banking is that the clients should not go to the bank; it is the bank that should go to the people. Grameen Bank’s 23,338 staff meets 7.93 million borrowers at their doorstep in 84,573 villages spread out all over Bangladesh, every week to deliver the bank’s service. Repayment of Grameen loans is also made very easy by splitting the loan amount in small weekly instalments. Doing business this way means a lot of work for the bank, but it is a lot more convenient for the borrowers.

There is no legal instrument between the lender and the borrower in the Grameen methodology. There is no stipulation that a client will be taken to court to recover the loan, unlike in the conventional system. There is no provision in the methodology to enforce a contract by any external intervention.

Conventional banks go into ‘punishment’ mode when a borrower takes longer to repay the loan than was agreed. They call these borrowers ‘defaulters’. Grameen methodology allows such borrowers to reschedule their loans without making them feel that they have done anything wrong (indeed, they have not done anything wrong.)

When a client gets into difficulty, conventional banks start to worry about their money, and make every effort to recover the money, including taking over the client’s collateral. The Grameen system, in such cases, works extra hard to assist the borrower in difficulty, and makes every effort to help her regain her strength and overcome her difficulties.

In conventional banks, charging interest does not stop unless specific exception is made to a particular defaulted loan. Interest charged on a loan can be multiple of the original loan amount, depending on the length of the loan period. With Grameen Bank, however, under no circumstances will total interest on a loan exceed the amount of the loan, no matter how long the loan remains unpaid. No interest is charged after the interest amount equals the original loan.

Conventional banks do not pay attention to what happens to borrowers’ families as a result of taking out a loan from the bank. The Grameen system pays a lot of attention to monitoring the children’s education (Grameen Bank routinely provides scholarships and student loans), housing, sanitation, access to clean drinking water, and their coping capacity for dealing with disaster and emergency situations. The Grameen system helps borrowers to build their own pension funds, and other types of savings.

Interest on conventional bank loans are generally compounded quarterly, while all interests are simple interests in Grameen Bank.

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### The ‘Sixteen Decisions’ of Grameen Borrowers

1. We shall follow and advance the four principles of Grameen Bank – Discipline, Unity, Courage and Hard work – in all walks of our lives.
2. We shall bring prosperity to our families.
3. We shall not live in dilapidated houses. We shall repair our homes and work towards constructing new houses at the earliest.
4. We shall grow vegetables all year round. We shall eat plenty of them 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 minimise 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 water from tube wells. If it is not available, we shall boil water or use alum.
11. We shall not take any dowry at our sons’ weddings; neither shall we give any dowry at our daughters’ weddings. We shall keep our centre free from the curse of dowry. We shall not practise child marriage.
12. We shall not inflict any injustice on anyone; neither shall we allow anyone to do so.
13. We shall collectively undertake bigger investments for higher incomes.
14. We shall always be ready to help each other. If anyone is in difficulty, we shall help him or her.
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 take part in all social activities collectively.
In case of death of a borrower, the Grameen system does not require the family of the deceased to pay back the loan. There is a built-in insurance programme that pays off the entire outstanding amount with interest. No liability is transferred to the family.

With Grameen Bank, even a beggar gets special attention. A beggar comes under a special Grameen Bank campaign that is designed to persuade him/her to join the Grameen programme. The bank explains to her how she can carry some merchandise with her when she goes out to beg from door to door and earn money, or she can display some merchandise by her side when she is begging in a fixed place. Grameen’s idea is to elevate her to a dignified livelihood rather than have her continue to beg. Such a programme would not be a part of a conventional bank’s work.

The Grameen system encourages its borrowers to adopt some goals in social, educational and health areas. These are known as the ‘Sixteen Decisions’ (see box). Conventional banks do not see this as their business.

In Grameen, we see the poor people as human ‘bonsai’. If a healthy seed of a giant tree is planted in a flower pot, the tree that will grow will be a miniature version of the giant tree. It is not because of any fault in the seed, because there is no fault in the seed. It is only because the seed has been denied the right base in which to grow. People are poor because society has denied them the right social and economic base in which to grow and develop. They are given only the ‘flower pot’ in which to grow. Grameen’s effort is to move them from the small ‘flower pot’ to the real ‘base’ of society.

If we can succeed in doing this, there will be no human ‘bonsai’ and we will have a poverty-free world.

The Ujjivan journey

Ujjivan Financial Services is a microfinance institution (MFI) that currently serves over 535,000 poor women through its 216-branch network, spread across 12 states in India. Ujjivan’s journey began with the 5th Grameen Commonwealth Poverty Dialogue Programme in July 2003, which took place in Dhaka, Bangladesh. Ujjivan’s founder, Samit Ghosh, attended the programme to learn and replicate microfinance in India. On his return, Ujjivan was conceived in Bangalore in 2004 and commenced operations on 1 November 2005.

Ujjivan’s origins

Ujjivan was set up with the objective of providing financial services to the 100 million urban and semi-urban poor in India, who are largely ignored in most development or microfinance programmes. An 18-month pilot was undertaken in Bangalore to adapt the Grameen Bank methodology to the urban Indian setting. The Grameen Model was integrated into the processes and technology of modern retail banking, with the aim of centralising and developing efficient banking processes, taking advantage of the economies of scale. Ujjivan’s operational model has received awards for excellence in the industry, and was the first MFI to receive the Unitus Accelerator Award in 2007 and the Microfinance Process Excellence Award in 2008.

Ujjivan’s expansion phase began in early 2008. Its hub-and-spoke branch network was gradually rolled out across India, with

Case study

Customer Name: Mani Meghalai
Location: Bangalore (Jakkasandra)

Mani Meghalai is a woman constantly on the move – she works four jobs and runs two businesses. When she joined Ujjivan four years ago, she was the sole bread winner of her family, with two young children, an aged mother and a disabled alcoholic husband to support. She was working as a maid and just making ends meet. With her first loan (5,000 rupees [Rs]), she bought two grinders to start a business grinding idli and dosa batter, which supplemented her income as a maid. Sadly, two years later, Mani lost her husband to kidney failure. She recalls that the branch manager came to her house to provide her with an Emergency Loan (Rs 1,500) that helped pay for immediate expenses. Later that year, she took out an Education Loan (Rs 5,500) so that both her children could complete their schooling.

In her time with Ujjivan, Mani has taken out nine loans, including Top-Ups and a Festival Loan. She used her third Business Loan (Rs 8,000) to start a sari grinding business. She has also managed to pay off the debts incurred by her husband and get her daughter married. She is even enrolled in a long-term savings plan and has convinced her group members to do the same. Reflecting on her time as a customer, she says, ‘I have been with this centre since it started, and whatever my needs, Ujjivan has had a loan to help me. Whether it was my children’s education, family expenses, starting a business or the emergency when my husband died.’ Mani plans to take out a Housing Loan so that she can make improvements on her home before she gets her son married.

Bangalore, Delhi, Kolkata and Pune as regional hubs in the South, North, East and West respectively. Ujjivan’s rapid expansion caught the attention of industry and investors, and Ujjivan’s investor list is now a perfect mix of social and financial investors. This has enabled Ujjivan to remain true to its social mission while being able to scale up and maximise outreach in terms of geography and customers.

Ujjivan has put great emphasis on Social Performance Management (SPM), while continuing to deliver business results. Ujjivan
conducted a social performance study in 2009 among customers who had been with Ujjivan for over two years. While two years is too short a period to measure the impact of microfinance, the study was still able to throw up many positives. Ujjivan was also selected as the first participant of the Unitus Dell Grameen Foundation SPM Implementation Project and began tracking social indicators as part of its Management Information System (MIS). Ujjivan is one of only two Indian MFIs to win the Social Performance Reporting Award, picking up the Gold Award.

**Ujjivan’s success**

Ujjivan believes that a holistic approach is necessary to address the problem of poverty alleviation – through joint interventions of financial services and microfinance programmes. Ujjivan has entered into a strategic partnership with the Parinaam Foundation, a non-profit organisation, to provide customers with services such as healthcare, community development, education and vocational training.

Ujjivan has a professional and experienced Board of Directors and management team. The emphasis has been on corporate governance and transparency since inception. Ujjivan is the only Indian MFI on the international Consultative Group to Assist the Poor (CGAP)’s ACCION Committee on Client Protection – the Smart Committee.

One of the key reasons for Ujjivan’s success remains its focus on employees. Ujjivan’s people-oriented human resources (HR) policy was recognised when the organisation was presented with the 2009 ‘Best Place to Work’ award in the microfinance industry.

Ujjivan is today regarded as a leader of MFIs in India. The Ujjivan journey, which began with the 5th Grameen Commonwealth Poverty Dialogue Programme in 2003, has the goal of reaching 2 million customers through 500 branches by 2012.

**Endnote**

1 ACCION International is a private, non-profit organisation committed to fighting poverty through the provision of financial tools. It offers micro loans, business training and other financial services to poor men and women who wish to start their own business.