

Financial Inclusion Why & How

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As Turkey suffered the most severe economic crisis in 2001, the new program to rebuild the economy was not favorable to the middle and lower income people. Thus the income inequality between the rich and the poor increased during these years. According to an estimate the monthly income of Turkey's richest families is approximately US\$ 6,360 while the poorest families barely earn US\$ 80 a month. It is very shocking to know that almost 48 percent of Turkish population belongs to the low income category.

It is our responsibility to help these people come out of poverty and I am here¹ today to share the experiences of an organization which won Nobel Peace Prize 2006 for its contribution in the field of poverty alleviation through microcredit. Yes, it is Grameen Bank that I am talking about.

Professor Muhammad Yunus, the father of microcredit, 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.

If we are interested to know the key to the tremendous success that Grameen Bank has achieved, we need to learn its philosophy and methodology. There is one single term that the philosophy of Grameen Bank can be broken down into. That is "Financial Inclusion".

Financial inclusion is a matter of great consideration in the world today. It has become a policy priority in many countries including USA, UK, France, China, India, Bangladesh, South Africa, Zambia, Uganda, and Brazil. Given the poverty situation worldwide and the consequences of financial exclusion, the importance of financial inclusion is being realized in every country.

With the belief that "Credit is a human right" and "There is an inbuilt capacity in every person", Professor Muhammad Yunus framed the Grameen Bank model in order to serve the poorest of the poor with microcredit to provide them with opportunities to engage themselves in income generating activities. According to him a financial system for the poor should –

- only serve the poor to help themselves overcome poverty

¹ The paper was presented at the 2nd International Conference on Eradication of Poverty Through Microcredit on November 28, 2008 in Kahramanmaras, Turkey.

- 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 positive impact on the lives of its borrowers.

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. Grameen has a revealed preference for the poorest women. It regards women as the effective agents of greater family welfare and social change.

For Grameen Bank, if one is poor, she is welcome, if one is poorer, she is more welcome and if one is the poorest she is most welcome to Grameen. 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, and 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 of up to 3

years, education loan is provided for the study period. 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 a 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 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 star 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.