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Arbeitsstelle für Entwicklungsländerforschung
University of Cologne
Development Research Center

Working Paper No. 1998-8

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**GRAMEEN REPLICATORS:
DO THEY REACH THE POOR, AND ARE THEY SUSTAINABLE?**

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Abstract

The Grameen Bank of Bangladesh is widely considered as one of the world's most successful financial institutions banking with the poor. In an effort to alleviate poverty, donors have supported replication programs in 26 countries. This analysis is based on some case studies from Indonesia, the Philippines and Nepal; no comprehensive evaluation has been available. The biggest obstacle in the development of Grameen-type microfinance institutions (MFIs) was found to be donor support: a powerful incentive to substitute external resources for domestic and local savings. This has undermined the institutions' viability and sustainability. As long as they are not self-reliant, they do not reach the poor in sufficient numbers. The Grameen approach is no magic formula, and no *best practice* or optimal solution that may be applied around the world. However, it incorporates a number of *sound practices* which may explain some of its success:

- high moral commitment of leaders based on values enforced through training;
- peer selection and peer enforcement, which preclude adverse selection and moral hazard;
- rigidly enforced credit discipline.

It further appears that the most promising Grameen-type MFIs are innovators who have modified the classical replication model:

- local bank status (rather than NGO or national bank status)
- deposit mobilization through differentiated products with attractive interest rates
- differentiated loan and insurance products which cover all costs and risks
- client differentiation through larger-size loan and deposit products for non-poor members.

Some of these practices may be recommended for emulation (not replication!), both by Grameen and non-Grameen MFIs. There is no reason why a Grameen-type MFI registered as a bank which mobilizes its own resources through differentiated savings products, offers cost-effective loan and insurance products and provides larger-size loan and deposit products to non-poor members should not become viable and self-reliant, offering sustainable financial services to an ever-growing number of poor, and eventually non-poor, clients.

(revised 3/1999)

"I had the privilege of going to Bangladesh in 1989 to see the Grameen Bank. I was there shortly after a major flood. My hosts showed me the high water line, waa-aay up on telephone poles and trees, and clients talked about how the Grameen Bank agents had come around in canoes to bring them food and water, while they sat stranded for days on the roofs of their houses. I asked what effect the floods had had on repayment, and the answer boiled down to, serious short term problem, but not a long term one. I understood then why the Grameen Bank has unusually loyal clients, and why it has developed non-standard ways of reporting on arrears." (Paul Rippey, Rabat. Development Finance Network, 7.9.1998)

"...my own experience... in Nepal... has shown that women are often... forced into groups whose functions they are not informed of. They are made to give up their two rupees of the month to people they might not know or trust. They might come to meetings, put their thumbprints in the attendance book, and leave - while often it is the men who make the decisions, take the loans, and start the income generating projects. Women are also sometimes forced to take loans for new 'bikase' (development) income generating ideas: with which they buy new cattle which die from the unsuitable altitude or seeds that need pesticides, thereby putting them into debt which need more loans to pay off. Another project ostensibly modelled after the Grameen Bank was trying to get people to sit in lines and chant: "We are good citizens of the Self-Help Nation. We will build toilet and stay clean." Fortunately, most of the people in the area were pretty suspicious of the project, and would not show up for meetings... We need to be more analytical and look more closely at a few star projects that get all the credit for being a 'success' - never forgetting that there are no miracle solutions to poverty... (Sushma Joshi, Kathmandu. Development Finance Network, 3.9.1998)

1. Can miracles be replicated?

The Grameen Bank (GB) of Bangladesh, formally launched in June 1979, is widely considered as one of the world's most successful financial institutions banking with the poor. On its website¹, the Bank reports as of 31/12/95 an outreach to 2.06 million „member/borrowers“, 94% of them poor women, in 36,142 villages of Bangladesh, reached through 1068 branches. Cumulative loan disbursements are given as US\$1.84b; loans outstanding, according to the balance sheet, amount to \$298.8m, total assets to \$474.5m, and “deposits & other funds” to \$127.47m. Many are deeply impressed by these figures and GB's publicity, particularly since the Microcredit Summit of February 1997 in Washington D.C. But opinions differ, and some point to other competitors in the world microfinance championship, such as Bank Rakyat Indonesia (BRI)², with 14.48m current (not cumulative!) savers by end-1995 (now, largely unimpeded by the Asian financial crisis, 18m) and 2.26m borrowers (now 2.6m), savings and time deposits of \$2.55b, outstandings of \$1.38b and total assets of \$2.71b. But GB targets poor women, say its defenders, which is more difficult to accomplish; while BRI, after a disastrous experience with directed group credit, abandoned targeting in 1983 and set out to serve a broad low-income market segment with the individual technology. There are numerous other differences between the two institutions, such as, in the case of GB, a heavy reliance on donor funds, insistence on credit-first, and deferred branch sustainability; compared to self-reliance through savings mobilization, rapid branch profitability, and full-financial self-sufficiency in the case of BRI. GB has a mixed government and member ownership, while BRI is fully government-owned. In GB, members are, on principle, borrowers; while BRI offers unbiased lending and depositing services, which has resulted in a borrower-to-saver ratio of 1:6.5. BRI operates in a deregulated, GB in a repressive policy environment. Differences in mission between the two institutions are less obvious. Both purport to aim at poverty alleviation. GB mobilizes world-wide donor support to provide loanable funds and subsidize services to the poor. BRI, in contrast, believes that only commercially sound banking is good social banking, and sets its incentive signals accordingly. The management of each feels it has a lesson to tell; and therefore both offer international visitor and exposure programs. Yet, only Prof. Yunus, the founder and managing director of GB, has convinced a growing audience of the superiority of the Grameen approach, organizing poor women in solidarity groups of five and centers of six groups, and instituted a world-wide replication program in a total of 26 countries, with Grameen Trust and Cashpor the driving forces.

Despite some criticism, there can be little doubt that Prof. Yunus, though not the only one, has achieved miracles in Bangladesh: providing short-term microcredit and long-term housing loans to large numbers of the poor, making them repay their loans on time, turning some of the poor into telecommunication innovators who offer mobile phone services in remote villages and, last not least, freeing women from some of the fetters of repression. Can this miracle be replicated?

A conclusive answer to that question is hampered by several factors, such as the absence of a comprehensive evaluation of Grameen replications; multiple, and possibly contradictory, assessment criteria, such as poverty alleviation vs. institutional viability; and biased reporting.

¹ <http://www.citechco.net/grameen/bank/stat.htm>: Statistical Update

² H. D. Seibel, Recent Developments in Microfinance. AEF Working Paper 1998-5, <http://www.uni-koeln.de/ew-fak/aef/working.htm>; H.D. Seibel, How an Agricultural Development Bank Revolutionized Agricultural and Rural Finance: The Case of Bank Rakyat Indonesia. Marketing and Rural Finance Service, FAO, Rome, 8/1998; CGAP Working Group, Comparative Analysis of Savings Mobilization Strategies – Case Study Bank Rakyat Indonesia (BRI), Indonesia. GTZ 405, Eschborn.

This paper is based on studies of 27 replicators in the Philippines by ACPC³; six replicators in the Philippines, India and Indonesia by GTZ⁴; a comparison of Grameen and non-Grameen microfinance institutions in Indonesia, Nepal and the Philippines by APDC/UNDP⁵; and two supplementary case studies in the Philippines by the author in August 1998. It is hoped that a final version will benefit from contributions by readers.

2. Grameen replicators in the Philippines: struggling for donor funds...

ACPC, a government institution, examined its own experience as program executing agency with the 27 Grameen replicators in the Philippines, reduced by attrition to 23, as per 6/1993. While highlighting some positive aspects, such as a “significant impact on the standard of living of its beneficiaries”, “high repayment rates from 94% to 98% (averaging 96.8%)”,⁶ and “the poor are capable of saving on a regular basis” (p. 85), the facts yielded a rather dismal picture: In a country with a diversified MFI infrastructure of, at present, over 800 rural banks, 3000 credit cooperatives and 600 credit NGOs, 23 Grameen replicators (including banks, co-operatives and NGOs) had a negligible outreach, in 1993, of 4766 individuals (89% of them active borrowers, or 184 on average), even after an expansion to 16,432 participants in 12/1995 (95% of them active borrowers). The program was found to be donor-driven; internal resource mobilization was minimal; interest rates were inadequate; and costs, shared about equally between government and replicators, were exorbitant, amounting to P0.47 per Peso lent and P1.70 per Peso saved, plus the costs of institution-building (p. 77). The operational self-sufficiency ratio was 0.24 or lower.⁷ Noting that “excessive brokering of low-cost funds may discourage savings mobilization”, the authors (pp. 85-88) recommended:

- to offer attractive deposit interest rates and vigorously mobilize savings;
- to charge loan interest rates that cover at least the transaction costs;
- to cancel the program guarantee fund;
- to provide start-up assistance only; and
- to focus government support on “institution-building, training and management rather than on supplying cheap credit.” (p.85-88)

They concluded that “... any attempt... to replicate or expand it (the program) should be carried out with great caution”.

... or struggling for viability?

In 1996, APDC, with UNDP support, carried out an assessment of microfinance institutions (MFIs) in eleven Asian and Pacific countries, including seven MFIs in the Philippines: one cooperative bank and six NGOs. Six of the MFIs in the Philippines use the Grameen technol-

³ Agricultural Credit Policy Council, An Evaluation of the Grameen Bank Replication Project in the Philippines. ACPC, Manila 10/1995

⁴ Dorothee Rojahn & Karl Osner, Report on the Self Evaluation Workshop of the Replications of the Grameen Bank Methodology in Asia. GTZ, Echborn 5/1998

⁵ I. Getubig, J. Remenyi & B. Quinones, eds., Creating the Vision: Microfinancing the Poor in Asia-Pacific. Asian and Pacific Development Centre, Kuala Lumpur, 1997

H.D. Seibel & U. Parhusip, Microfinance in Indonesia. ESOP (Economics and Sociology Occasional Paper) No. 2365, Rural Finance Program, Dept. of Agricultural Economics, OSU, Columbus OH; H. D. Seibel, GI M.

Llanto, E. Garcia & R. Callanta, Microfinance in the Philippines, ESOP No. 2367; H. D. Seibel, H.D. Pant & D. Dhungel, Microfinance in Nepal, ESOP No. 2368 – all Revised Jan. 1998

⁶ As of 12/1995, the repayment dropped to 93%. According to ACPC statistics, the lowest rate was found among cooperative societies (86%) and the highest among cooperative banks (98%), with NGOs in-between (98%).

⁷ Calculated on the basis of Annex 15 of income and expenses in the ACPC report, plus a loan loss provision of 3%. The actual ratio might be lower as it is not clear whether financial costs are included in the expenses. The ratio is 0.29 for cooperative banks, 0.24 for cooperatives and 0.20 for NGOs. No data are provided to calculate the financial self-sufficiency ratio.

ogy, but not all of them exclusively. As of end-1995, outreach ranged from 1,260 to 7,000 clients in the seven MFIs, averaging 3,000: a substantial (almost 15-fold) increase over the average for mid-1993. 90% of them were women; 94% were classified as poor. Average loans outstanding ranged from \$30 to \$467 among the poor and from \$1,500 to \$2,600 among the non-poor. Savings mobilization continued to be weak, with a savings-to-loans outstanding ratio ranging from 0.05 to 0.41 and averaging 0.14.

Table 1: Viability indicators of seven sample MFIs in the Philippines, 1995

<i>MFI</i>	<i>Cost per average Peso of loan outstanding</i>	<i>Degree of operational self-sufficiency in %</i>	<i>Degree of financial self-sufficiency in %</i>
A	1.30	21	19
B	1.00	8	7
C	0.71	51	42
D	0.48	67	48
E	0.19	134	118
F	0.29	113	93
G	0.34	66	.

Another remarkable development had occurred since 1993: a widening of the range between good and poor performance. Transaction costs per average Peso of loan outstanding varied from 0.19 to 1.30; the operational self-sufficiency ratio varied from 0.08 to 1.34; and the financial self-sufficiency ratio (including adjustments for subsidies received and inflation) varied from 0.07 to 1.18. The cooperative bank (E in Table 1) performed best of all seven institutions. Two of the institutions learned a lesson and applied for a rural bank license: CARD (C in Table 1), which since has been transformed into a bank; and TSPI (F in Table 1), which failed to meet recently increased equity capital requirements. Two of the institutions (A and C in Table 1) are the subject of case studies reported below.

Grameen vs. individual technologies: at what costs and benefits?

The Cooperative Rural Bank of Laguna, Inc., the only bank and the only fully viable institution among the 7 MFIs (as of end-1995), has an interesting story to tell. Established in 1977 by farmers' cooperatives, which own the bank, it serves both poor and non-poor clients, with poor women in the majority. Since 1991, it has been one of replicators in ACPC's Grameen program, thus combining regular and Grameen-type („KPP“) operations. Does the Grameen approach enable an MFI to reach out to a poorer clientele? And, in doing so, can it cover its costs or perhaps even make a profit? The answer to the latter question is all the more interesting in face of overwhelming evidence from NGOs in the Philippines that Grameen-type banking is not viable.

In 1995, the Bank served 1,792 borrowers ((74% poor, 90% women) and 2,583 savers (55% poor, 81% women). Unlike non-bank replicators, which are not authorized to mobilize voluntary savings, the Bank offers passbook savings and time deposits. But given the abundance of donor funds, the savings ratio is only 0.14.

In the field of credit, the Grameen program KPP has substantially increased the Bank's outreach: 1,330 or 74% of the Bank's 1,792 borrowers fall under KPP. Under KPP, loans provided through savings groups have been increasing from 1% of total loans granted in 1993 to 15% in 1995. However, in terms of volume, the contribution of KPP borrowers, P3.15 million, to the Bank's total loan portfolio of P28.25 million outstanding is modest, comprising only 11%. Evidently, loans outstanding to poor women averaging P2,367 are far below the Bank's overall average, which is P15,763 per borrower. There are wide discrepancies in terms of average loans outstanding by sex and poverty status in 1995: the average size of loans was P9,987 for women and P66,545 for men; P2,367 for the poor and P54,327 for the non-poor.

In the field of outreach to savings depositors, the Grameen program KPP has more than doubled the Bank's outreach. All of the KPP's 1,415 participants have deposited savings in the Bank, compared to 1,168 non-KPP depositors. Thus, 55% of all depositors are KPP participants. However, in terms of volume, their share is substantially lower, namely 23% of a total of P3.89 million, yet much higher than their credit share. This shows once again: the poor can save, and, in particular: women are good savers! The average size of savings in the bank was P1,506. Again, discrepancies exist, but they are by far not as wide as in the field of credit: women saved on average P1,192, men saved P2,826. The poor saved an average of P642, the non-poor P2,553.

The total income of the bank per Peso of loan disbursed was an identical P0.26 for both the Grameen and entire bank operations. However, there is a substantial difference in magnitude and trend of net operating income over total performing assets, which is 0.33% for the KPP Grameen scheme (down from 0.46% in 1993) and 0.56% for the entire bank operations (up from 0.39% in 1993). Default rates resulting from bankwide operations appear within manageable limits but could be substantially improved. In the last three years, the ratio of past due loans to total loans outstanding was steady at 17-18%. Collections on matured loans improved slightly from 85% to 89%. The recovery performance of the KPP Grameen scheme was substantially better, with a repayment rate of 97% in 1995 (down from a high of 99% in 1993). The bank's earnings from interest income and fees covers more than its costs, with a degree of operational self-sufficiency (defined as the ratio of said earnings to total costs less depreciation) of 134% of the entire bank operations as well as the KPP Grameen scheme.

Over the three-year period 1993-1995, the Bank has been profitable, and so has its KPP Grameen replication scheme. During that period, the Bank's gross earnings averaged about P5.7 million and its costs P4.2 Million, yielding an annual average net income of over P1.4 million. The Bank makes a profit from its KPP Grameen scheme, but at 6% of gross revenues and 7% of net revenues only on a minimal scale.

Table 2: The Cooperative Rural Bank of Laguna Inc.: Grameen vs. entire bank operations, 1995

	Grameen operations	Entire bank operations
Savers	1,415 (55%)	2,583
Borrowers	1,330 (74%)	1,792
Savings deposits (million P)	0.89 (23%)	3.89
Loan portfolio (million P)	3.15 (11%)	28.25
Loans outstanding per borrower (P)	2,367 (15%)	15,763
Repayment rate, 1993→1995	99%→97%	85%→89%
Total income per Peso disbursed	P0.26	P0.26
Return on performing assets, 1993→1995	0.46→0.33	0.39→0.56

Operational self-sufficiency ratio	1.34	1.34
Net revenues	7%	100%

The Bank has faced three constraints: a limitation in outreach; a not quite satisfactory repayment rate; and a weakness in savings mobilization. It has attempted to solve the first constraint by adopting the KPP Grameen replication scheme which has more than doubled its outreach in terms of numbers of clients. As the repayment rate in the KPP scheme has been far better than that of its cooperative clients, this has also contributed to a solution of its second constraint, but given the small size of the KPP loan portfolio only to an insignificant extent. No solution is in sight for its third constraint, weak savings mobilization. This is due, on the one hand, to zero or negative real returns on savings which could of course be remedied by increasing the rates of interest on both savings and loans which is optional for any institution. On the other hand, there seems to be little pressure on the bank to mobilize more savings as long as it has access to governmental sources of easy money which are liberally replenished by international donors.

The Bank has demonstrated the profitability of microfinance in two respects: both its own original operations with poor and non-poor members and its more recent operations with poor women under a Grameen-type replication scheme have covered their costs and yielded a profit. In terms of most performance indicators, its Grameen-type scheme with poor women organized in groups of five has been a success. Local outreach has surged; repayment rates are high; and the Bank makes a profit from the operation. Yet, the Bank's management is not enthusiastic. In quantitative terms, the volume of savings mobilized and loans disbursed to poor women is only an insignificant share of the bank's overall business, and so is the volume of profit derived from the KPP Grameen replication scheme. The management does not see enough potential in this market segment of poor women to argue that in the long run the Bank may contribute to the growth of their microenterprises and that these in turn will contribute to the growth of Bank. The management therefore considers terminating the KPP scheme which it finds profitable in relative but not in absolute terms.

3. Grameen replication in Indonesia: an exercise in futility?

In Indonesia, Grameen replicator MKEJ is one of 9,362 MFIs (end-1995 data) with a total of 4.60m savers and 2.45m borrowers. In addition, the 3,482 village units of BRI had an outreach of 14.48m savers and 2.26m borrowers. The vast majority of MFIs and BRI units mobilized their own resources locally, covered their costs from the margin, and were profitable. In addition, there are microfinance poverty alleviation projects of gigantic dimensions, among them P4K, with an outreach of hundreds of thousands, and IDT, with an outreach of millions in 20,000 poor villages.

Table 3: Formal and semiformal financial institutions in Indonesia (Dec. 1995)
(Accounts in thousands, amounts in billion Rupiah)

Financial institution	Number	Loans		Deposits	
		Accounts	Amount	Accounts	Amount
Rural banks	1,948	1,232	1,566	2,969	1,226
Semiformal MFIs ¹	7,413	1,216	317	1,632	181
Sub-total MFIs	9,271	2,448	1,883	4,601	1,447
BRI unit desa ²	3,482	2,264	3,194	14,483	6,016
TOTAL MFIs	12,743	4,712	5,077	19,084	7,463
Commercial Banks	240	91,168	234,611	49,904	214,764

¹ LDPKs, BKDs ² Bank Rakyat Indonesia subdistrict (*village*) units

Sources: Bank Indonesia: Annual Report 1995/96, May 1996; Indonesian Statistical Report, March 1996; Statistik Kredit Koperasi dan Kredit Kecil (KUK), Jan. 1996; Bank Rakyat Indonesia

MKEJ started in 1993 with 105 participants (58 active borrowers) organized in 21 small groups in East Java. In 1994 it expanded to 178 groups with 889 members (785 borrowers) and in 1995 to 225 groups with 1,125 members (1,004 borrowers), all of them women. In 1996 and 1997, the number of borrowers was 1,439 and 2,549, respectively. Following the Grameen Bank system, it strictly adheres to a group size of five, a cultural novelty on Java where almost every woman and man belongs to a multitude of groups, including financial self-help groups of a much larger size. Pointing to the restricted outreach of MKEJ does not as such imply any criticism as it is up to each institution to define the area covered and the size of its market - as long as the institution is viable. There is certainly a place for small institutions with a purely local outreach. However, MKEJ might have to measure up to private rural banks such as Bank Shinta Daya in Prambanan, with 30,340 savers (85% poor) and 13,656 borrowers (69% poor), among them 7,400 savers and 6,200 borrowers through the group technology, the rest through the individual technology (end-1995 data).

MKEJ reports liabilities in the form of soft loans received (outstanding as of 12/1995) to the amount of Rp 107.2 million (about half from government-owned Bank Negara Indonesia and half from Grameen Trust Fund) compared to loans outstanding amounting to a mere Rp 74.0 million. With an interest rate of 10% on savings deposits and 3.5% on soft loans, a lending interest rate of 30% and an on-time repayment rate of 98%, its spread should be sufficient to cover its costs. This is indeed the case as indicated by an operational self-sufficiency ratio of around 0.5 (1995; 1997: 0.9) if all operational costs are included, and 1.1 (1995) if head office costs are excluded. Given its dependency on donor funds, its financial self-sufficiency ratio is presumably around 0.2 if all costs are included; and 0.39 if head office costs are excluded (1995). The respective ratios for benchmark Bank Shinta Daya ratios (including all costs!) are 1.11 and 0.96, respectively (end-1995 data). Including all costs, Rojahn & Osner (p.11) calculated MKEJ's operational self-sufficiency ratio for 1997 as 0.9. MKEJ is a young institution with a relatively costly delivery system using the Grameen Bank's small group approach. During its third year, 1995, MKEJ showed its first profits (amounting to Rp 11.7 million) This, however, excludes the honoraria paid to the university advisory team of three and ignores the market value of the soft loan (on which MKEJ pays only 3.5% interest), containing a subsidy element of Rp 7.0 million if we use the rate of interest paid by MKEJ to its depositors (10%), or Rp 11.8 million if we use the average savings deposit rate paid by BPR-type rural banks (14.5%) as a calculatory basis. Moreover, all these calculations ignore the value of the time spent by the group members on their weekly meetings which substantially add to client transaction costs. With total assets amounting to Rp 127 million, loans outstanding of Rp 74 million and a deposit base of Rp 12.3 million and virtually no equity base, MKEJ would have to come a long way to grow into a formal village bank, BPR, which would require a minimum paid-in equity capital of Rp 50 million. So far MKEJ has not been able to demonstrate that the replication of the Grameen Bank approach in Indonesia may improve the poor's access to financial services. The efforts of well-meaning donors and local volunteers might be better spent on assisting the poor to avail of widely existing microfinance services.

Table 4: MKEJ, a Grameen replicator, and Bank Shinta Daya, a private rural bank in Indonesia, 1995

	MKEJ	Bank Shinta Daya
Number of savers (% poor)	1,125 (100%)	30,340 (85%)
Number of borrowers (% poor)	1,004 (100%)	13,656 (69%)

Repayment rate	98%	98%
Total assets (million Rupiah)	127	6,418
Loans outstanding (million Rupiah)	74	4,830
Savings deposits (million Rupiah)	12	5,050
Operational self-sufficiency ratio	1.1/0.5 ¹	1.1
Financial Self-sufficiency ratio	0.39/0.2 ¹	0.96

¹ The ratios of 1.1 and 0.39, respectively, for MKEJ were calculated for the field offices only, excluding head office costs at Brawijaya University, Malang. It is tentatively estimated that the true ratios, including head office costs, are around 0.5 and 0.2, respectively.

4. Grameen replication in Nepal: a Government's good intentions

In 1992 the Government of Nepal embarked on a Grameen Bank replication program, with plans for five Grameen-type rural development banks, one in each of the regions of the country. In 1996 the Development Banking Act was passed under which the five Grameen Bikas Banks have been registered. In addition there are two NGO replicators existing side by side, testing the appropriateness of a bank vs. NGO approach, one of which, Nirdhan (8,987 borrowers as of 7/1998), is now in the process of transformation into a bank. The main resource base of the Grameen Bikas banks has been their share capital, amounting to Rs 60 million each. The Government, which contributed two-thirds, considers itself the owner. In addition, commercial banks lent Rs 148.7 million to the Grameen Bikas banks and Rs 31.6 million to the two NGOs under the compulsory deprived sector credit program, totaling Rs 180.3 million which is close to the total volume of Grameen loans outstanding. Like the commercial banks in Nepal, the Grameen replicators are excessively liquid. Government vs. private ownership of the Grameen-type development banks has been an issue of critical debate, reflecting the fear that government intervention might interfere with sound banking practices and keep the banks from attaining resource self-reliance and financial viability.

The Grameen replicators target exclusively poor women. Starting in 1993, outreach has grown rapidly from about 12,500 in mid-1994 to over 50,000 in mid-1996. With a repayment rate of 100% loan recovery so far has been perfect. Members' savings constitute 20% of loans outstanding. Compulsory savings in the group fund are the chief instrument of internal resource mobilization, with personal voluntary savings amounting to a mere 12% of total savings. Transaction costs of the Grameen type group approach have been substantial and are a big threat to the viability of the institutions. If this issue could be resolved and if self-reliance would replace their donor-dependency, they could continue to widen their outreach and greatly enrich the financial infrastructure accessible to the poor.

Table 5: Performance of 7 Grameen replicators within their first three years
(amounts in Rs. million)

	July 1994	July 1995	July 1996
No. of group members	12,561	34,910	51,437
No. of borrowers	10,839	32,119	48,392
Loans disbursed cumulative	49.2	222.3	542.6
Loans outstanding	28.6	105.2	188.3
Overdue loan	NIL	NIL	NIL
Compulsory group fund savings	2.9	12.9	32.5
Voluntary personal savings	1.7	3.0	4.8
Loans from group fund saving	0.409	3.4	14.3

Purbanchal Grameen Bikas Bank: outreach grows...

The biggest of the Grameen replicators in Nepal is Purbanchal Grameen Bikas Bank⁸ in the eastern plains. Its objective is the provision of financial services, particularly access to credit, to all women in the eastern region that fall under the poverty line.⁹ The Bank has a dual delivery structure, comprising a bank structure and a member structure. As of 1995/96, the Bank consisted of a head office, six area offices and 29 branches. On average there are five branches per area office. Each branch has a staff of 6-10. The total number of staff is 256 of which 35 (14%) are in the head office. 127, or 50%, are field assistants who work directly with the women's groups in the field. Incentive schemes have not been introduced.

During its first fiscal year, 1993/94, the Bank enrolled 8,294 women; in 1994/95 14,992; and in 1995/96 another 5,667, bringing the total to 28,953. The members are organized in about 5,800 groups of five women which in turn form 827 centers of seven groups each. The Bank's growth projection until the year 1998/99 is about 81,500 members in 2,000 centers.

Prospective members are attracted through public meetings and house-to-house visits. Groups of five women each are formed, and the members of three groups jointly receive one or two weeks of training, one hour per day, in the Grameen technology - reportedly with little adjustment to the Nepali context. Five of the fifteen participants usually drop out, and the remaining ten form two solidarity groups. Reasons given for dropping out include fear of losing property, ignorance, husband's interference and discouragement from landlords, money-lenders or politicians. As in Bangladesh, Grameen banking seems to be perceived by local authorities and leaders not just as a financial business but as a type of social revolution centering on the role of women in society.

The Bank is credit-driven, with virtually every group member becoming a borrower. There are three loan products: general loans with a one-year maturity and weekly installments accounting for 98% of all loans outstanding (1995/96), six-months seasonal loans due upon maturity, and irrigation loans. In addition, 50% of the compulsory group savings may be lent by the groups to their members at interest rates fixed by the group for emergency and consumption purposes. The percentage of borrowers during the three years was 83%, 92.5% and 98%, respectively. During the same time average loan size (disbursed) grew from Rs 4,400 to Rs 7,100 (\$125) and average savings from Rs 378 to Rs 787 (\$14). The demand for loans of larger sizes outstrips the supply by far. The bank practices a system of incremental repeat loans, with a ceiling of Rs 15,000 for third-term borrowers. The total volume of loans outstanding grew from Rs 18.8 million in 1993/94 to Rs 119.3 million in 1995/96, total savings from Rs 3.1 million (16.5% of loans outstanding) to Rs 22.8 million (19.1% of loans outstanding) in 1995/96. With 92.5% of the savings accumulated through regular compulsory group savings in 1995/96, the mobilization of irregular voluntary savings of varying sizes is of negligible importance.

⁸ Reported figures usually pertain to one of two reporting dates, the end of the fiscal year, July 16, and the end of the calendar year, December 31. Due to differences in reporting time, there may thus be wide divergences between figures for the same year.

⁹ A household of five with land holdings not exceeding 0.68 ha (1.0 bigha) is officially defined as poor. Participants are mainly identified on the basis of land ownership and the quality of their housing. According to a housing indexation test in one of the poorest areas of the bank, Jhumka, 84% in a sample of 50 households were poor, 12% not so poor and 4% non-poor. Outreach to the non-poor is usually defined as *leakage* (supposedly of scarce government or donor funds earmarked for poverty lending) by Grameen replicators.

Table 6: Outreach of Purbanchal Grameen Bikas Bank, 1993/94-1995/96 (July)

	<i>1993/94</i>	<i>1994/95</i>	<i>1995/96</i>
Number of members	8,294	23,286	28,953
Number of borrowers	6,890	21,538	28,271
Percentage of borrowers	83.1%	92.5%	97.6%
Av. loan disbursed (Rs)	4,400	5,594	7,100
Av. loan outstanding (Rs)	2,735	3,318	4,284
Average savings (Rs)	378	462	787
Loans outstanding (Rs million)	18.8	71.5	119.3
Savings deposits (Rs million)	3.1	10.8	22.8
Savings/loans outstanding	16.5%	15.1%	19.1%

... but internal resource mobilization does not

Of six sample MFIs studied in Nepal in the context of the APDC/UNDP study, the two Grameen replicators were among the weakest in terms of internal resource base. With savings constituting only 16% and 18%, respectively, of loans outstanding, they largely depend on donor funding. In case of withdrawal of external funds, they would not be sustainable.

Purbanchal Grameen Bikas Bank has been remarkably successful in mobilizing external resources. For its start it obtained Rs 24 million in equity capital from government sources which were augmented to Rs 60 million after two years. The central bank, NRB, with two thirds of the paid-in capital, is the major equity holder. The state-owned commercial banks and the government contributed the rest. In addition, the Bank has borrowed Rs 10 million in 1993/94, Rs 36.1 million in 1994/95 and Rs. 49.4 million in 1995/96. The amount of borrowings outstanding as of July 1996 was Rs 85.5 million. In the framework of the compulsory deprived sector lending program, government-owned banks supplied 46.5% of the borrowings and private banks another 50.8%. The remaining 2.6% came from the Grameen Trust in Bangladesh for the scaling-up for one of the branches.

Despite the fact that development banks are authorized by the banking law to mobilize savings from the general public, the Bank has restricted its internal resource mobilization to the group members. It offers two types of savings products: compulsory group savings amounting to a 5% deduction from every loan and voluntary savings. Little effort is being made by the bank to tap the savings potential of its members. In 1994/95 compulsory group savings accounted for 85% and individual voluntary savings for 15%. In the following year, 1995/96, the share of compulsory increased to 94% while voluntary savings fell to 6%. The future of voluntary savings in Purbanchal Grameen Bikas Bank appears bleak, with projections of the share of voluntary savings of 1.7% for 1996/97, 1.4% for 1997/98 and 1.3% for 1998/99.

During the preceding three years there was no clear trend concerning the proportion of savings deposits in terms of loans outstanding. Their share was 16.5% in 1993/94, 15.1% in 1994/95 and 19.1% in 1995/96. There does not seem to be a policy within the Bank to step up its internal resource mobilization. To the contrary, the Bank's projections until 1999 show proportions of 10.4% for each one of the next three fiscal years.

The Bank's resource mobilization policy seems to be geared to external resources rather than internal savings. During the three preceding years, new borrowings from commercial sources amounted to 53.1%, 50.5% and 41.4%, respectively, of loans outstanding; while borrowings outstanding amounted to 53.1%, 50.5% and 71.7% of loans outstanding. For each one of the next three years the Bank has projected the share of borrowings at 93% of loans outstanding.

Table 7: Resource mobilization by Purbanchal Grameen Bikas Bank, July 1993/94 - 1995/96 (amounts in Rs million)

	1993/94	1994/95	1995/96
Paid-up capital	24.0	60.0	60.0
New commercial borrowing	10.0	36.1	49.4
New borrowings/Loans outstanding in percent	53.1%	50.5%	41.4%
Borrowings outstanding	10.0	36.1	85.5*
Borrowings outst'g/Loans outst'g in percent	53.1%	50.5%	71.7%
Compulsory savings/Total savings in percent	.	85.0%	94.0%
Savings deposits/Loans outstanding	16.5%	15.1%	18.8%

* Incl. Rs 83.26 million from commercial banks and Rs 2.27 million from Grameen Trust.

Some observers have concluded that there is only one way of reversing the Bank's trend towards increased external resource dependency: privatization. While this may appear as an ideological issue to some, others have pointed out that, time and again, governments have been generous in supporting new poverty-lending initiatives, but sooner or later, under budgetary constraints and concerns for macroeconomic stability, have retracted their support. This has usually led to the collapse of those institutions which did not possess the foresight of preparing for the day of enforced self-reliance. The Bank's government owners seem to realize this: partial privatization is now (mid-1998) under preparation.

Easy money doesn't make it easy

After three years of operation, the bank is still far from breaking even. In absolute terms its net loss was Rs 4.86 million (78% of total expenditure) in 1993/94; Rs 12.98 million (78% of total expenditure) in 1994/95 and Rs 10.96 million (46% of total expenditure) in 1995/96.

Table 7: Performance indicators for Purbanchal Grameen Bikas Bank, July 1993/94 - 1995/96 (Rupie amounts in thousands)

	1993/94	1994/95	1995/96
Operating expenditure	6,077	14,940	19,399
Interest paid on deposits	112	404	1,057
Interest paid on soft loans:			
Amount actually paid	35	1,031	3,456
Value of payments at market rate	700	3,804	10,643
Loan loss provision:			
Actual amount	0	175	117
Value of 2% of loans outstanding	377	1,429	2,385
Total cost:			
Actual cost	6,224	16,550	24,028

Subsidy element	1,042	4,027	9,455
Adjusted cost	7,266	20,577	33,483
<i>Subsidy element/actual cost (in percent)*</i>	<i>16.7%</i>	<i>24.3%</i>	<i>39.3%</i>
Groups per branch	638	803	998
Groups per FA (field assistant)	82	185	233
Loan amount per FA	187	567	962
Savings per FA	31	85	188
Average salary of FA in percent of GDP/p.c.	256%	363%	440%
Loanable savings deposits	3,012	10,218	21,648
Soft loans and grants	10,000	36,111	85,518
Loans outstanding	18,846	71,459	119,262
Loss/Total expenditure	78%	78%	46%
Loss/Loans outstanding	25.8%	18.2%	9.2%
Loss/Total assets	6.8%	11.0%	5.9%
<i>Operational self-sufficiency:</i>	<i>0%</i>	<i>18%</i>	<i>47%</i>
<i>Financial self-sufficiency:</i>	<i>0%</i>	<i>15%</i>	<i>34%</i>

* The subsidy element is calculated as the total of the value of payments on borrowings at the market rate minus actual soft loan interest payments plus loan loss provisions of 2% of loans outstanding minus the actual loan loss provision.

In terms of the volume of loans outstanding, the losses amount to 25.8%, 18.2% and 9.2%, respectively. In terms of total assets, the losses are 6.8%, 11.0% and 5.9%, respectively. The Bank's degree of operational self-sufficiency has jumped from 0% in 1993/94 to 47% in 1995/96. Its financial self-sufficiency ratio has increased from 0% in 1993/94 to 15% in 1994/95 and 34% in 1995/96.

The Bank projects to become financially fully self-sufficient within three years, i.e. until 1998/99. However, the Bank ignores the fact that the value of the subsidy element has been increasing rapidly in terms of actual costs, namely from 17% in 1993/94 to 39% in 1995/96, making the bank donor-dependent and vulnerable. If the opportunity costs of the Bank's equity capital contributed by the government are taken into consideration, the dependency (and, concomitantly, lack of autonomy in decision-making) is even more pronounced. While some consider these projections as overly optimistic, other derive hope from the fact that eight of the 29 branches have reported operational profits within three years (excluding the value of grants and soft loans). (Table 7)

There is a host of factors militating against viability in Purbanchal Grameen Bikas Bank, among which one is notably absent: defaulting: the women repay their loans on time! The first factor which militates against viability lies in the bank's governance structure. Being owned by government institutions, there is no vested interest in profitability. To the contrary, the bank finds itself under political pressure to lend to the poor at low interest rates at which it cannot cover its costs. This lack of interest in the bank's viability relates not only to its owners but also to its management and staff. The branches are not run as profit centers; nor are there any employee incentive schemes. While access to cheap central and commercial bank funds

may be considered an asset as it lowers the costs of loanable funds, its actual impact is the opposite, leading to a distortion of the cost structure and, presumably, a general lack of cost awareness among the bank's management and staff.

The bank's delivery system is expensive - a second factor impeding viability. Salaries alone accounted for 57% to 58% of total expenditures in each of the last three years of operation; while salaries and office expenses together accounted for 98% in 1993/94, 90% in 1994/95 and 81% in 1995/96. During the three years interest expenses on savings deposits were 1.8%, 2.4% and 4.4%, respectively, of total costs; while interest expenses on borrowings grew from 0.6% to 6.2% and 14.4%, respectively. In terms of loans outstanding as recorded in the balance sheet, expenditures for salaries and office expenses were 32%, 21% and 16% during the three respective years - a declining trend. There are already signs of a decline in the dynamics of expansion indicated by the number of groups formed on average by field staff: 82 groups during the first year, 119 during the second year and only 45 during the third year, while the number of field staff grew only slightly, namely from 101 in 1993/94 to 126 in 1994/95 and 127 in 1995/96. Political interference is cited as one of the background factors, which includes changes in bank leadership parallel to changes in the political system of the country. Another factor is of course that field staff reach the limits of their capacity as they are obligated to participate in group and center meetings.

A third factor lies in the interest rate of loans which is below a genuine rural market rate. The Bank pays 7.5% on savings deposits (close to the commercial bank savings deposit rate of 8% - slightly below the inflation rate), 6% on old soft loans (Rs 63.7 million) and 8% on its most recent soft loan (Rs 20.4 million). Under political pressure to approximate poverty lending standards, the bank charges 20% on its loans to the groups, which is only slightly higher than the commercial bank rate and a fraction of informal lending rates. Interest rates are not differentiated according to loan product, which makes it unattractive for the bank to offer products with customer-friendly services, such as doorstep collection of instalments or savings. This would lower borrower transaction costs substantially while increasing those of the lender, but with a net decrease in overall transaction costs! Under political pressure, the Banks finds itself unable to raise interest rates sufficiently to cover its costs, leading to loan rationing, curtailing loan sizes as well as the overall lending volume. This limits the women's access to credit and thus restricts their ability to invest in high-yielding activities. The low interest rates may be beneficial to politicians; but they do not benefit the poor women. Small is not beautiful! To the contrary, inadequate loan sizes keep the women in poverty.

The groups and centers are not considered as financial intermediaries - a fourth factor. Serving only as credit channels with joint liability functions, they cannot set their own interest rates on loans received from the Bank; nor can they add a margin. Given the standardization of loan sizes and compulsory savings deductions, individual transactions are all reduced to the lowest level affordable by each group member. However, there is a 5% compulsory savings deduction from every loan disbursed 50% of which the groups can lend on their own terms. This might eventually open the door to the proper pricing of loan products.

Another factor lies in the bank's exclusive targeting of poor women who accept the solidarity group approach. This leaves out some wealthier community members and their deposits and those with a demand for larger loan sizes which would improve the bank's economies of scale.

Closely related to this is a sixth factor: the bank's sole reliance on the group approach. This may save transaction costs when banking with the poor. But it excludes bigger customers

with widely diverging savings potentials and credit demands who might be better served with an individual technology.

The Bank faces a great challenge. According to the NRB/ADB Rural Credit Survey of 1991/92 only 6% of the landless and 12% of marginal farmers have access to institutional credit. The percentage of the poor with access to savings deposit facilities (not to mention collection services) is close to zero. The fact that vast numbers of the poor need savings deposit services much more than access to credit is widely ignored. Yet it is the accumulation of savings which would strengthen the self-financing capacity of the poor. The Bank would have to undergo a major transformation in order to effectively meet the challenge of serving a substantial portion of its potential market. Ultimately, its outreach will depend on its viability.

5. Postscript: The Philippines revisited

Ahon Sa Hirap Inc. (ASHI): repayment through Grameen discipline

ASHI, the first Grameen replicator in the Philippines, started in 1989 as a social science research project of the University of the Philippines in Los Baños, with a grant of \$50,000 from Cashpor, the regional network of Grameen replicators. In 9/1991, ASHI was registered as a non-profit, non-stock corporation, serving 100 beneficiaries in Laguna Province. At the same time, it provided Grameen consultancy services to various parishes. In 1992, the founder left the Philippines. By 1993, ASHI ran out of resources, depleted by administrative expenses and a drop of the repayment rate of its 1329 borrowers to 58%. For every Peso lent, ASHI spent P1.23; its operating and financial self-sufficiency ratios stood at 0.16 and 0.14, respectively. A crisis of policy and management ensued.

ASHI first decided to fully concentrate on Grameen banking and gave up its consultancy services. For reasons of economies of scale, it increased its branch network to five by taking over the Grameen activities of parishes it has previously assisted. As ASHI was not the only Grameen replicator in jeopardy, Cashpor organized a conference in the Philippines in 1994; GTZ of Germany and ACT of Belgium got involved; a *Moment of Truth* was defined; and a rehabilitation project was decided for three replicators. For six months, ASHI was practically run by a Cashpor consultant, who revamped the organization branch-by-branch and center-by-center, while the number of borrowers was allowed to drop to 1,226. He retrained all staff and rigidly restored the essentials of Grameen Banking, including regular attendance of weekly meetings, punctuality, pledge, seating arrangement and - absolute insistence on on-time repayment! In 1995, the headoffice moved to a more central location, Quezon City, from where it runs an excellent up-to-day MIS. The number of branches grew to seven, with a growth in all-female membership to 3,521 (3,210 or 91% of them borrowers) in 1996; 4,698 (4,447 or 93% borrowers) in 1997 and 5,955 (5,717 or 96% borrowers) in 7/1998.

As a result of the restored Grameen discipline, the repayment rate soared from 64.4% in 1994 to 99.0% in 1995, hovering around 97-98% thereafter (1996: 96.6%; 1997: 97.9%; 7/1998: 97.9%). Transaction costs were drastically lowered: from P1.23 per Peso lent in 1993 to P0.25 in 1997. Accordingly, the operational self-sufficiency ratio steadily increased from 0.16 in 1993 to 0.58 in 1997, paralleled by an increase in the financial self-sufficiency ratio from 0.14 to 0.54 – still far from satisfactory, but on a promising course. With 60% of its loanable funds from grants and soft loans, financial self-sufficiency is not in sight.

Table 8: ASHI performance data, 1993-7/1998

Year	No. of	Borrowers	Repayment	Cost per	Operating self-	Financial self-
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	borrowers	per field staff	rate	Peso lent	sufficiency ratio	sufficiency ratio
1993	1329	87	58.0	1.23	0.16	0.14
1994	1226	120	64.9	0.91	0.19	0.15
1995	2437	140	99.0	0.77	0.29	0.22
1996	3210	153	96.6	0.52	0.42	0.41
1997	4447	156	97.9	0.25	0.57	0.54
7/98	5717	.	97.9	.	.	.

Source: ASHI Annual Report 1997; Monthly Statement, 7/1998

ASHI, though barred by law from mobilizing savings, is now trying to strengthen its deposit base. In addition to the usual compulsory savings and loan deductions, it has introduced a two-year children's savings scheme, with weekly deposits of P50 or P100 at 4% interest p.a.¹⁰ Loans of 6-12 months start with P2,000 (\$46 by the 8/1998 exchange rate) and increase up to P10,000 in the fifth cycle. To increase its profitability, ASHI has added loans ranging from P15,000 to P50,000 (\$345-\$1150); and it is increasing its interest rate from 20% flat (approx. 37% effective) to 25% flat (approx. 46% effective) p.a.¹¹ Another new product is a one-month loan of P3-5000 with weekly instalments, at a flat interest rate of 6%. With viability and sustainability its future goal, ASHI considers to convert the compulsory 5% capital build-up deduction from all loans into shares and, within five years, transform the NGO into a cooperative bank owned by ASHI members and staff.¹²

CARD: a viable Grameen Rural Bank in the Philippines

Inspired by the onset of a new era after the downfall of the Marcos regime, the Center for Agriculture and Rural Development (CARD) was one of numerous new NGOs established in 1986 and thereafter. With two grants of P150,000 each, CARD, as of 1/1988, organized the poor in mixed groups of 15-45 members, registered them as associations (including some spouses to reach the required minimum number of 21 members) and channeled short-term loans (3-6 months) of P1,000 to each member. With negotiable repayment schedules, this turned out to be a false start. After eight months, only the two groups which had opted for monthly instalments had repaid their loan. The remaining five, with lump sum repayment upon maturity, defaulted. The overall repayment rate during that year was 68%. Under donor pressure, CARD was either to close or revamp its operations.

In late 1988, the president of CARD visited the Grameen Bank in Bangladesh. Deeply impressed by the ability of the poor to engage in income-generating activities and repay their loans on time, he decided, upon his return, to adopt the Grameen approach, organizing poor women in groups of 5 and centers of 30. This, however, met with considerable opposition. The complex Grameen discipline, including weekly meetings and weekly instalments, were greatly disliked, particularly by the men. Four of the associations left the project; 89 poor women agreed to participate in a pilot test, from January to December 1989. Credit discipline, which is one of the most outstanding achievements of the Grameen approach, produced repayment rates of 98.0%-100.0% between 1994 and 6/1998 (end-of-year figures; annual averages 96.9-99.7%). This impressed BSP, the central bank, so much that it consented to fully non-collateralized lending when CARD later established itself as a rural bank

¹⁰ At an inflation rate of 7.4%, this is equivalent to negative real returns of 3.4%

¹¹ For the larger loans, ASHI carries out creditworthiness examinations. At the time of the field visit, Mrs. D., after having received and repaid a number of loans from ASHI totaling P87,000, had submitted a new application for a livestock loan of P50,000, for which ASHI calculated a profit rate of 158%.

¹² Special microfinance training courses, including the preparation of custom-made training materials and operational manuals, may be arranged by ASHI through INSOL (ahon@i-manila.com.ph).

But active membership grew only slowly: to 307 in 1990, 468 in 1991, 949 in 1992 and 1,711 in 1993. 1990-96 were years of experimentation to modify the Grameen technology. CARD developed its own training system and operations manual; substituted 6-months first-loans for one-year loans; required a minimum self-financing ratio of 25% from repeat borrowers; introduced a mutual life and accident insurance fund; replaced group funds by center funds; offered multipurpose loans for prime borrowers; added voluntary withdrawable savings (ignoring the law which bars NGOs from deposit taking); and, finally, provided a staff incentive scheme. Active membership soared from 1,711 in 1993 to 6,844 in 1996. By 1996, non-withdrawable compulsory savings stood at P12m, voluntary savings at P1m. Operational self-sufficiency, which had declined from 0.31 in 1993 to 0.25 in 1994, went up to 0.46 in 1996 and 0.77 in 1996.

In May 1996, CARD submitted its application to establish a rural bank, which was approved in December. After having deposited P5m as paid-up capital with Landbank, CARD Rural Bank (RB) formally opened on 1 September 1997. There are now two institutions: CARD RB for financial intermediation, with 5 branches, and CARD NGO for group formation and guidance including financial intermediation in areas not covered by a CARD RB branch, with 16 branches in the island provinces of Masbate, Marinduque and Mindoro. An application for branching-out has been submitted to the central bank, in order to bring all financial activities under the roof of CARD RB. Due to legal restrictions, CARD NGO owns only 25% of CARD RB; the rest is owned by five board members and staff, who have entered into a trust agreement with the NGO.

Transformation into a bank appears to have greatly facilitated the growth of group membership, which soared to 10,868 in 1997, 16,589 as of July 1998, and 20,880 as of December 1998. CARD RB has ambitious goals: 50,000 active members by 2000 and 150,000 by 2002.

Table 9: CARD performance data, 1988-12/1998

Year	No. of borrowers	Repayment rate	Portfolio at risk	No. of deposit accounts	Operational self-sufficiency ratio	Fin. self-sufficiency ratio
1988	150	68.0				
1989	89					
1990	307					
1991	468				0.31	
1992	949				0.25	
1993	1,711				0.46	
1994	3,547	98.0			0.77	
1995	4,240	98.8	0.17		0.46	0.38
1996	6,844	99.2	0.12		0.77	0.52
1997	10,868	100.0	0.00		1.22	0.70
1998	20,617	99.9	0.06	20,880	1.03	0.90

Source: Dolores M. Torres, Managing Delinquency and Quality Portfolio, 8/1998; Annual Statement, 12/1998

The Bank offers passbook savings at 5% and fixed deposits, ranging from a minimum of P10,000 for one month at 7% interest to P500,000 for 12 months at 15%: all above the usual commercial bank rates. As of July 1998, the savings deposit balance was P14m. There are five loan products, all with weekly instalments: regular loans increasing from a first loan of P2,000 to a fourth loan of P10,000; asset acquisition loans up to P50,000; housing loans up to P20,000; short-term multipurpose loans up P5,000; and prime-borrower loans up to P100,000. Maturities range from 12-75 weeks; but most are 50 weeks. Interest rates are 20% flat, plus an upfront service fee of 4%; effective annual interest rates are 45.6%-53.8%.

In 7/1998, the loan portfolio of CARD Rural Bank amounted to P32m, that of CARD NGO to P38m. By December 1998, the portfolio had increased to P39.0m (6,530 borrowers) and P44.3m (14,087 borrowers), respectively: a total of P83.3m (20,617 borrowers). Deposits in 12/1998 amounted to P14.8m (38.0% of loans outstanding) in CARD RB and P10.9m (24.7% of loans outstanding) in CARD NGO: totaling P25.8m (30.9% of loans outstanding). Together, equity and deposits account for 37.0% of loans outstanding. Each of the two entities recently obtained a loan of P15m from the People's Credit and Finance Corporation, PCFC, which is funded by ADB and IFAD, at 12% interest p.a. and a 1% annual service fee on the outstanding balance. Other donors include CGAP and Grameen Trust.

Transformation into a rural bank, which included a preparatory phase in 1996-97, seems to have brought CARD closer to its desired sustainability goals: the cost efficiency ratio (cost per Peso lent) improved from 0.69 in 1995 to 0.33 in 1997; the operational self-sufficiency ratio climbed from 0.46 in 1995 to 0.77 in 1996, 1.22 in 1997 and 1.31 in 7/1998 (with 234 borrowers per field staff), falling to 1.03 in 12/1998; financial self-sufficiency (adjusted for subsidies and inflation) grew from 38% in 1995 to 52% in 1996, 70% in 1997, and 90% in 12/1998. CARD branch viability (*operational self-sufficiency ratio of at least 1.0*) increased rapidly: from none out of eight branches in 1995 to four out of ten in 1996 and eight out of 13 in 1997.

Card Rural Bank has proven that outreach to the poor and operational viability are not only compatible: they are mutually reinforcing.¹³ As to financial self-reliance and full financial self-sufficiency, the Bank has made great progress in recent years. However, continued access to easy donor money may hamper the bank's effort to vigorously mobilize deposits and, in the case of devaluations, inordinately augment the country's external indebtedness in Peso terms.¹⁴

6. *Best vs. sound Grameen practices*¹⁵

Is there a set of best Grameen practices which can be replicated world-wide, with a success similar to that of the Grameen Bank in Bangladesh? Does the Grameen approach provide the optimal solution to the problem of how to provide financial services to the poor?

We have looked at two criteria, outreach and institutional viability (ignoring a third, namely impact). In the three countries examined, outreach is quite limited; in two of them, Indonesia and the Philippines, it is negligible compared to the totality of financial services provided by other microfinance institutions. Only the government-owned Grameen Bikas Banks in Nepal have a good chance of extending their coverage to a substantial portion of the poor. But even

¹³ This is also confirmed by Rojahn & Osner (p. 12) who observed that Grameen replicators which are low in operational viability are also low in outreach, while replicators high in viability are also high in outreach.

¹⁴ CARD (card@msc.net.ph) is prepared to share its experience. Since 1996, it has trained 2,500 people in courses of one to two weeks length. Training is conducted in English, at P500 (\$11.50) per day.

¹⁵ *Best practices* run the risk of the World Bank's TSP of the 1970s: a Technical Services Package of improved varieties planted in rows plowed by a tractor, with adequate irrigation or rainfall and exactly prescribed applications of fertilizers and chemicals - a set of best practices replicated in integrated rural development projects world-wide, regardless of local conditions. The result, in many cases, was a gigantic waste of resources, as one or several of the essential ingredients of the formula were frequently missing, and the improved seeds or seedlings lacked the resistance of the local varieties. In reality, there are therefore only *sound practices*, which are useful or satisfactory under given circumstances, but cannot be mechanically replicated.

in Nepal they have no monopoly over banking with the poor: savings and credit cooperatives, which are owned by the poor, are promising contenders.

All replications are donor-driven; in Nepal, and to some extent in the Philippines, they are also Government-driven. Donor-dependency has undermined their viability. Only few of the institutions are *operationally self-sufficient*, covering their costs from their income. In some cases, even effective annual interest rates around 50% (or real rates, adjusted for inflation, around 40%) were not sufficient to cover the costs of the Grameen technology. But all of the institutions examined, which are of course only those who have survived, have progressed in this respect and might, eventually, be operationally fully viable.

Sustainability, however, is not in sight in any of the replicating institutions (unless Grameen replication is a side activity). None even remotely approaches an adequate level of internal resource mobilization; nor does anyone earn enough revenues to cover all operating, financial and loan loss expenses and the value of adjustments for subsidies and inflation. The biggest obstacle in the development of the Grameen replicators has been donor support: a powerful incentive to substitute external resources for local savings. Only domestic savings have a chance to grow dynamically; government and donor dole-outs do not. It seems speculative at this point to predict if financial self-sufficiency might ever be reached by any of the institutions. However, those who adhere to the pure and unadjusted Grameen technology and insist on banking with the poor only are unlikely to withstand the growing competition of other MFIs in the long run.

Our initial question was: do the Grameen replicators reach the poor, and are they sustainable? According to the limited evidence presented in this paper, the answer is: They are not sustainable; and therefore, they do not reach the poor in sufficient numbers. It appears that the Grameen approach is no magic formula, and no *best practice* or unique and optimal solution that may be applied around the world to alleviate poverty. I am not aware that any such optimal solution or best practice ever existed, or may ever be found. However, there may be *sound practices*, which work for a certain time under certain conditions and may compete with other *sound practices*.

There are a number of sound practices which may explain some of the success of some of the replicators. It appears that successful replicators share a least the following three sound practices:

- high moral commitment of leaders based on values enforced through training
- peer selection and peer enforcement, precluding adverse selection and moral hazard
- credit discipline, including weekly instalments; rigid insistence on timely repayment; and repeat loans of growing sizes contingent upon repayment performance.

It further appears that the most promising replicators are the innovators who have experimented with modifications to the classical replication model, among them in particular:

- local bank status (rather than NGO or national bank status)
- deposit mobilization through differentiated products with attractive interest rates
- differentiated loan and insurance products which cover all costs and risks
- client differentiation through larger-size loan and deposit products for non-poor members.

Depending on the policy environment, the legal framework, the microfinance infrastructure, and particular circumstances (such as natural disasters, which may preclude timely repayment), some of these practices may be recommended for emulation, both by Grameen and non-Grameen MFIs, but not for replication. There is no reason why a Grameen-type MFI, which registers as a bank, mobilizes its own resources through differentiated savings products, offers differentiated loan and insurance products which cover all costs and risks, and provides larger-size loan and deposit products to its non-poor members, should not become viable and financially self-sufficient and offer sustainable financial services to an ever-growing number of poor, and eventually non-poor, clients.¹⁶

¹⁶ Among the historical precursors of MFIs who have successfully done so are the savings banks (*Sparkassen*) and cooperative banks (*Raiffeisenbanken, Volksbanken*), which started from small informal beginnings in the mid-19th century. In terms of volume of financial intermediation and numbers of depositors and borrowers, they have outperformed the commercial and private banks in Germany by a wide margin. They, too, have shown that there is no single best approach to banking and microfinance. There are sound practices, some of which have changed profoundly over time.