MicroSave Briefing Notes on Grameen II # 5

Grameen II's Membership

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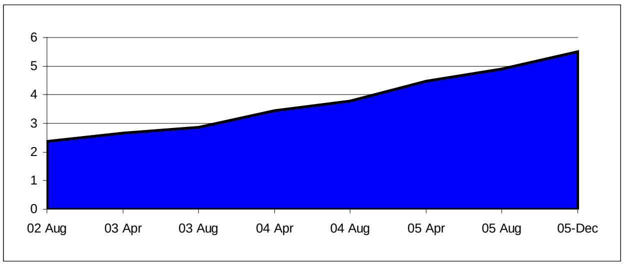
For an introduction to Grameen II, please see the first Note in this series, 'What is Grameen II?'[1]

Many more members

Grameen's 'members' are its clients, who own a share of the bank and gather in small groups to receive its services. The most startling fact about membership since the launch of Grameen II has been its rapid and accelerating growth.

Membership (millions) August 2002 – December 2005



This Note looks briefly at the reasons for this growth, reviews Grameen's membership policies, and then offers some observations on the composition of the membership.

Why such rapid growth?

There are three main contributing factors:

1. Grameen II's success with its new range of deposit services for both members and the general public (see Note 2) has provided it with both the cash resources and the incentives for growth in its loan portfolio and its membership.
2. Grameen II's changes to its products (see Note 1) have made them much more attractive, causing many new households to seek membership.
3. Microcredit services in Bangladesh are now reaping economies of scale and becoming highly profitable, sparking a new round of competition between the MFIs. Grameen's renewed self confidence, a result of its recovery from problems in the late 1990s, has helped it to take part in this new growth spurt.

'Classic' Grameen's original membership policies

Grameen's goal has always been the elimination of poverty, and its staff have always believed that to achieve it they should work directly with poor people. Its membership recruitment is *targeted* at women from poor rural households. Classic Grameen used three tools to that end:

1. It submitted candidates for membership to a *means test* (candidates had to come from a household with less than half an acre of farmland, and with other assets and income at a commensurate level).
2. It painstakingly trained its workers to identify the poor, including the *very* poor, and to *motivate* them to join.
3. It designed products and services to be very attractive to the poor but less so to the non-poor (who may not wish to sit in meetings with women poorer than themselves to get relatively high-priced loans of modest value).

Pursuing this policy has not been without difficulties. The means test is not without loopholes. Offering products that are not particularly attractive to the better-off worked well in the early days of microcredit when poorer borrowers had few options, but as the market matures and competition begins to bite, they have become increasingly sensitive to unattractive aspects of the products, forcing product enhancements that may also appeal to the non-poor.

Even the seemingly virtuous pursuit of the *very* poor has not been without booby traps. Observers at first praised Grameen's supposed system of 'joint liability' (under which members guarantee each other's loans) precisely because it was thought that this led groups to exclude those unable to repay the loan on time - including many of the very poorest. Ironically, Grameen was later criticised for not reaching enough very poor people[2].

Grameen II: same policies, harder to practise

Despite a trend in many countries for MFIs to abandon strict targeting in favour of offering products with a broad appeal to all kinds of clients including the poor and very poor, Grameen has remained committed to its policies. In one way it has strengthened them: the means test has been updated with a new checklist specifying the precise indices of wealth that bar a candidate from membership, and internal auditors have been instructed to cancel the membership of any nonconforming members they find. In another way it has supplemented them, by creating a special service for 'struggling members' (a euphemism for beggars) that features interest-free loans and ultra flexible repayment schedules (see Note 3 in this series). But in a third way it has made the policy harder to comply with. This is because many of Grameen II's product changes are proving very attractive to people not poor enough to qualify for membership under the means test. Chief among these are the much bigger special investment loans; loans for higher education; and the new commitment savings product, the Grameen Pension Savings or GPS (see Note 2 in this series). Paying a higher rate of interest than similar products at other banks (many of whom are in any case withdrawing the scheme) the GPS is a powerful magnet to households who enjoy regular income or remittances.

Taking a closer look at the members

The bank is now almost 30 years old and there are still many members who joined before the start of Grameen II (launched in 2000 and largely in place by late 2002). They include a few who dropped out during the difficulties of the late 1990s but have been attracted back. But many are ageing, and they make up the bulk of the 40,000 or so members who leave each month.

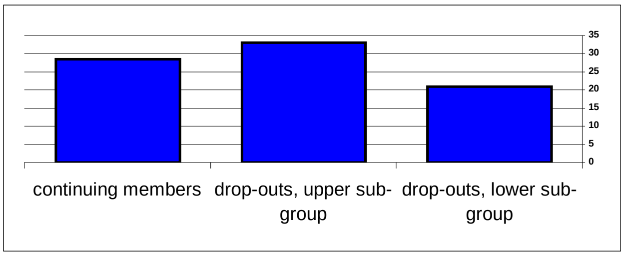
In 2003 we interviewed 32 of these 'continuing' and 31 of the 'drop-out' ex-members. Using a dozen indicators, we

[1] All Notes in this series are based upon the research project 'Grameen II: A Grounded View' commissioned in 2002 by *MicroSave* from a team led by Stuart Rutherford. We are grateful to the bank for the support it is lending to the research team.

[2] Grameen denies that it ever used any strict form of joint liability: members were merely urged to help each other. But the bank's insistence on timely repayment led many workers and group leaders to refuse membership to people with unreliable or irregular incomes.

constructed a 'score' for each interviewee which allowed us to rank them according to their economic status[3].

Average economic 'scores' by sample group



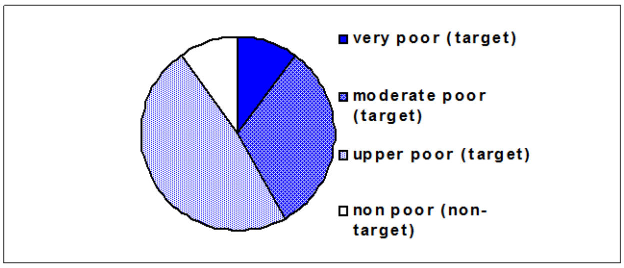
As the chart shows, we found that the drop-outs fell into two distinct sub-groups. The upper sub-group had a relatively high average score, and was composed largely of older women who had done well in Grameen. Some had closed their accounts because they felt they no longer needed the services. In several cases husbands or sons had advised them to leave: men who, having successfully used Grameen loans, now felt that their wife or mother should no longer go to the trouble, nor suffer the indignity, of attending the weekly meeting. The other sub-group of drop-outs had a much lower average score, and their reasons for leaving the bank were quite different. They were from poor households unable to manage the strict fixed weekly repayment regime that 'classic Grameen' required. Usually their incomes were small, irregular and unreliable.

There is nothing in the results of this small survey that contradicts the findings of many researchers who have looked at the membership of classic Grameen. Typically researchers found that the great majority of new entrants to Grameen fell within the means test limit. Most were from the middle or upper part of this range, with relatively few from the very poor households at the lower end. The economic fortunes of most members improved during their time in the bank. But some of the poorest members had difficulty with the strict weekly repayment regime, and many of these dropped out or were gently pushed out.

New members

For almost 3 years we have been closely observing a small number of Grameen II 'centres' in our three research areas, and we have kept notes on the new members as they join. We estimate their economic status as shown in the chart:

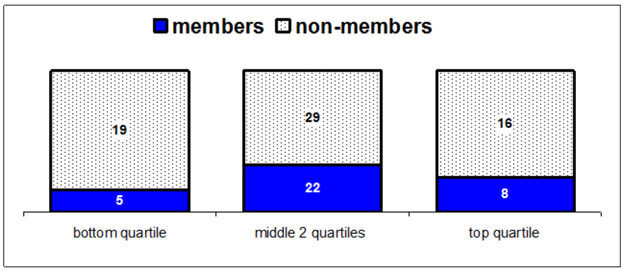
Sample of post GBII new joiners by economic status (%)



It is highly admirable that nine out of ten of the new joiners comply with the means test, which is tougher now than it was during classic Grameen, and in a situation when poverty is lower and it is more difficult now to find target households not yet reached by one or other competing MFIs. Further, one in ten of them are drawn from the very poor. Interviews reveal that it is now easier for the very poor to join Grameen than it was before. A few non-poor are also joining who are attracted by the GPS, or the bigger loans, or both (Large loans are not, however, immediately available to new joiners).

In yet another exercise, done in early 2005, we looked at the total population of a small number of neighbourhoods close to Grameen centres. This time we used 'wealth ranking'[4] to determine the economic status of 99 households. We divided the sample into quartiles, and found the 35 households with Grameen members to be concentrated in the middle quartiles. More members were found in the wealthiest quartile than in the poorest.

Quartiles showing Grameen membership



Interviews revealed that the eight members in the richest quartile included older members who had done well in Grameen or had always been well-off and new members attracted by the 'big ticket' items now on offer at Grameen - the GPS, the bigger loans, and the loans for setting up a mobile phone shop. The small number of members in the poorest quartile included some new members, and the quartile as a whole also contained some poor ex-members.

Three clear trends

These small studies describe a mere fraction of Grameen's vast membership. But they illustrate observable trends:

1. The more flexible features of Grameen II undoubtedly help it to attract and retain very poor members.
2. Members who leave fall into two groups: successful members who no longer need the services, and members from very poor households who have difficulty with the weekly repayment schedules. Drop-outs from this second group may decline as the more flexible aspects of Grameen II become more available.
3. Workers are under pressure to recruit new members, making it even harder for them to exclude the non-poor, especially since some features of Grameen II attract the non-poor. With growing competition among MFIs, we can expect this pressure to continue.

Commenting on these observations, management tells us it is considering strategies to further discourage the non-poor, such as greater insistence on attendance at weekly meetings, discouraging loans that are 'too large' or 'too small', and discouraging very large denomination GPSs.

Grameen's membership policies are being challenged, but will probably survive: the great majority of new members comply with the means test and this is likely to continue.

[3] With zero as the score for the poorest and 60 for the richest. In our sample, the lowest actual score was 13 and the highest 47.

[4] Wealth ranking enables local people to use their own criteria to assess the economic status of households in their neighbourhood. For information on wealth ranking, see the 'Toolkits' available on www.*MicroSave*.net.