



# GUIDELINES FOR ESTABLISHING AND OPERATING GRAMEEN-STYLE MICROCREDIT PROGRAMS

Based on the practices of Grameen Bank  
and the experiences of Grameen Trust  
and Grameen Foundation Partners

M. Nurul Alam and Dr. Mike Getubig



# GUIDELINES

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BASED ON THE PRACTICES OF  
GRAMEEN BANK  
AND THE EXPERIENCES OF  
GRAMEEN TRUST  
AND GRAMEEN FOUNDATION PARTNERS

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*Design by Lloyd Greenberg Design, LLC*



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## LIST OF ACRONYMS

AO AM	Area Office Area Manager
BM	Branch Manager
CASHPOR	Credit and Savings for the Hardcore Poor
CGAP	Consultative Group to Assist the Poor
CHI CM	CASHPOR Housing Index Center Manager
CC FFH	Center Chief Freedom from Hunger
FSMA	Fundación San Miguel Archangel
GB GBA	Grameen Bank Grameen Bank Approach
GB II	Grameen Bank II or Grameen Generalized System
GCS	Grameen Classic System
GF	Grameen Foundation
GC	Group Chair
GPS	Grameen Pension Scheme
GRT	Group Recognition Test
GTC	Grameen Technology Center
MIFOS	Microfinance Open Source
MIS	Management information System
PO	Program Officer
PPI	Progress out of Poverty Index
PWR SEF ZM	Participatory Wealth Ranking Small Enterprise Foundation Zonal Manager
ZO	Zonal Office

# FORWARD

The last 15 or so years have seen phenomenal, worldwide growth in poverty-focused microfinance programs—those that provide credit, savings, insurance and other related services to the poor, especially poor women. The number of

poor clients reached by microfinance institutions was 106,584,679 at the end of 2007, up from 7,600,000 in 1997, according to the *State of the Microcredit Summit Campaign Report 2009*. While much of this growth stemmed from the massive scaling up of Grameen Bank and other large-scale institutions that were established in the 1980s and 1990s, a significant part was due to the establishment of start-up programs that subsequently scaled up to reach significant numbers. More microfinance institutions (MFIs) are expected to be established in the coming years, as the microfinance movement gains ground. They will have a particularly important role to play in reaching people in underserved countries and regions.

Our own experience comes from the Grameen Bank Replication Program (GBRP) of Grameen Trust, which was established in 1989, and Grameen Foundation, established in 1997. Our years of work with both start-up and more established MFIs have shown us that most practitioners hunger for practical guidance. That guidance comes in the form of further training, exposure programs, and established guidelines, which can help those MFIs acquire the knowledge and skills necessary to successfully implement and manage their own programs.

In the past, we would invariably encourage our partners, and any other social entrepreneurs who contacted us, to attend a Grameen Bank dialogue or training program. Such programs provide a first-hand lesson about the Grameen methodology for poverty eradication. Those who attended the programs have usually found the experience to be extremely valuable, inspiring and of practical value.

Despite that, program graduates frequently would let us know they wanted some sort of written guidelines, which could supplement what they had already learned and serve as a reference to every aspect of the Grameen methodology. Their feedback helped us realize that there was a need for written guidelines on the Grameen methodology—despite longstanding reservations that, if used like a chef might use a cookbook, they could be misused by being taken too literally in a way that stifles local adaptation, innovation and fresh thinking.

So we pressed ahead and have now produced written guidelines that go well beyond anything previously published in English. We were lucky that two of the first staff of Grameen Foundation, who both joined us in 1999, came with significant experience in Grameen-style microlending. That experience proved invaluable in writing these guidelines. Muhammad Nurul Alam had worked at Grameen Bank; Dr. Mike Getubig had worked with an international organization that pioneered the replication of the Grameen methodology in many countries across Asia. Alam, the principal author of these guidelines, came to us with more than 16 years of experience managing both Grameen branches and area offices. Meanwhile, Dr. Getubig had managed the first organized attempts at pilot testing the Grameen Bank approach in Malaysia, the Philippines, Indonesia, India, Nepal and Vietnam, from the late 1980s to the mid-1990s, while with the Asian and Pacific Development Centre in Kuala Lumpur. During Grameen Foundation's early years, Mike, the then manager of the newly established Grameen Bank Replication Program of Grameen Foundation, asked Alam to start writing up key aspects of the Grameen methodology, based on his experience at Grameen

and by using documents provided by Grameen Bank. Those aspects included Grameen Bank's methods for targeting and motivating the poor, how it forms groups and centers, its loan processing system, and so forth. Our colleagues at Grameen Trust helped refine the text based on their own deep understanding of the Grameen Bank approach and how it can be applied in other country contexts.

In 2005, as Alam compiled and expanded the guidelines, Grameen Foundation commissioned Andrea Findley, a Grameen Foundation consultant working with two start-up MFIs in the Dominican Republic that were using the Grameen approach, to help edit, add content and shape the material into a more organized and complete set of guidelines. H.A. Shah Newaz, former Deputy General Manager of Grameen Bank and the current General Manager of Grameen America, contributed to writing up of the earlier draft in his capacity as Senior Technical Advisor working with Andrea.

After a review of the guidelines by both the Grameen Bank and Grameen Trust, this effort headed into the home stretch. Mike Getubig was deployed on a full-time basis to manage this initiative and see it through to completion. He spent the next three and a half months working closely with Alam in reviewing, revising, editing and adding content, all while tapping other program staff for their respective areas of expertise. Colleagues from Grameen Bank and Grameen Trust reviewed the drafts in detail in several stages and provided valuable comments, editorial suggestions, and

updates of data and practices. The document you now hold is the product of those efforts. It is not perfect, by any means. But it is a good start. As we receive feedback from those who read and use these guidelines in the field, we will certainly improve upon them in future editions.

These guidelines should be useful to rank-and-file officers and management staff alike in employing or planning to adopt the Grameen philosophy, core values, methodology, policies, practices and systems of providing financial and social development services to the poor. Start-up MFIs should find it especially valuable, but organizations that have been in existence for some time are likely to glean useful ideas and tactics. It should also be of interest to donors, policy makers, academics, board members of MFIs, students and anyone who is interested in understanding a methodology designed for the poor, especially poor women, to help them and their families move out of poverty.

The Grameen Bank approach to microfinance has been successfully tested over the last two decades in more than 100 countries. That experience has demonstrated it to be a robust, flexible and highly empowering system of doing business both with and for the poor in a sustainable way. This manual attempts to make the accumulated learnings more accessible than ever, so as to accelerate progress towards the "poverty-free world" for which Dr. Muhammad Yunus has inspired so many of us to dream and work.



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# PREFACE AND ACKNOWLEDGEMENT

This guideline was developed by the Grameen Foundation and Grameen Trust to fulfill a need to support microcredit programs seeking to learn from the Grameen Bank approach to develop or scale up programs to provide financial services to the poor.

Grameen Foundation is a US-based non-profit organization that provides financial, technical, technological and human resources support to poverty-focused microcredit programs. Grameen Trust is a non-profit, non-governmental organization set up by Professor Muhammad Yunus in 1989, to share the success of the Grameen Bank approach around the world. As of October 2010, Grameen Trust has supported 147 projects in 39 countries in Africa, Asia, the Pacific, Europe and Latin America. These projects have reached almost 9 million poor borrowers and disbursed almost US\$7 billion in micro-loans to their members.

Over the years, we have been asked frequently to provide additional information on the particulars of the Grameen methodology and how it functions in the field. While we are opposed to developing “cookie cutter” microcredit programs, and instead encourage country-specific research and adaptations to the local context, we acknowledge that there is considerable value in providing guidelines on the Grameen methodology and operations to serve as inspiration for thoughtful program development.

This document is intended to provide detailed information on the Grameen methodology and systems, including experiences from Grameen-style programs. It is intended to provide the reader with a greater depth of understanding about how the methodology works in terms of targeting the poor; group and Center formation; staff recruitment, training, and supervision; establishing and managing a branch; and the development of the microfinance institution as a whole. Practitioners, trainers, development workers, donors and academics should find the guidelines helpful in understanding the Grameen approach to microcredit as a tool for poverty reduction.

Information contained in this document has been drawn from a variety of sources, including publications by Grameen Bank, Grameen Trust and CASHPOR, Inc. (a network of Grameen replicators in the Asia-Pacific region), Professor Yunus’ printed speeches and publications, training materials obtained from Grameen Bank Training Institute, forms and formats used by Grameen Bank and experiences of Grameen-style programs in many countries around the world.

We recommend that every effort should be made to visit and receive training at the Grameen Bank in Bangladesh. There is no substitute for on-the-ground training and observation in Grameen Bank branches. For a modest fee, Grameen Trust offers various International Dialogue programs throughout the year, and training sessions for management and staff can often be arranged through the International Training Program. Additional visits to established Grameen-style programs in your particular region are also strongly recommended.

So many people have contributed to the development of these Guidelines over the years. Mohammed Nurul Alam wrote most of the contents of the document, capitalizing on his 16 years of work at Grameen Bank and nine years at the Grameen Foundation as Technical Officer. Mike Getubig, Grameen Foundation Senior Program Advisor, managed and supervised the final stages of the development of the Guidelines, edited the entire manuscript and contributed substantially to the write-up of Sections 2, 5, 7, 9 and 10, drawing on his 23 years of experience working with Grameen-style programs around the world. Joseph Mwangi-Kioi, the Grameen Foundation's Director of Monitoring and Evaluation, contributed Sections 6 and 8 in collaboration with the main author. Andrea Findley, former Grameen Foundation Country Representative in the Dominican Republic, along with H.A. Shah Newaz, former Senior Technical Advisor in the Dominican Republic and current General Manager of Grameen America, contributed to the development of the draft in the early stage. Sharmi Sobhan and Sashi Selvandran edited the initial drafts of the first few sections of the document at the earliest stage of its development.

We are particularly grateful to Dopal Barua, Grameen Bank Deputy Managing Director, and Professor H.I. Latifee, Managing Director of Grameen Trust, for taking the time to review the manuscript, despite their busy schedules, and for providing invaluable comments, corrections and suggestions for improvement. We are grateful to Nurjahan Begum, General Manager of Grameen Bank's Training and International Program, for making available the pictures that appear in this document.

We wish to thank Messrs. Abul Hossain, Senior Principal Officer, and Golok Chandra Roy of Grameen Bank; Messrs. Abdul Hai Khan and Shamsul Alam Khan Chowdhury, General Managers, Grameen Trust; and Messrs. Golok Chandra Roy and Tamim Islam, Assistant General Managers of Grameen Trust, for reviewing the various drafts and providing valuable comments and edits, and for updating the *Guidelines* with the latest documents, circulars, reports, forms and formats in Bangla and English available from Grameen Bank.

Nicole Iden and Michael Eber of Grameen Foundation Technology Center wrote up the section on MIS, while Jeff Toohig of our Social Performance Department wrote up Grameen Foundation's Progress out of Poverty Index™ (PPI). Chandni Ohri, GF Regional Director for South Asia, and Christopher Tan, GF Country Representative for the Philippines, reviewed the manuscript and provided invaluable comments and suggestions for improvement. GF volunteer Pat Saga reviewed the *Guidelines* from a layman's perspective and provided valuable comments and editorial assistance. Mizan Kidane, another GF volunteer, made helpful suggestions, based on his work as a former executive of an MFI in Ethiopia, which we incorporated in the section on Business Planning. Ally Bellage and Arianna Levitus assisted us with the development of some of the diagrams and tables in the document. Angie Sanders provided valuable assistance and advice in securing the services of the cover and layout designer and printer. Andrew Bridges and Todd Bernhardt edited the document.

Last, but not least, we are most grateful to Sal Pappalardo, the Grameen Foundation's former Chief Operating Officer, for his leadership in giving these *Guidelines* high priority, for deploying Mike Getubig to work on this project on a full-time basis for more than three months, and for being relentless in getting everyone involved to stick to the timelines all while providing encouragement and support.

We want to express our most sincere thanks to all the people above and our other colleagues in Grameen Bank, Grameen Trust and Grameen Foundation for their assistance, support and moral encouragement to finally see this publication through.

## Special Acknowledgement

This book would not have been possible without the support of Marshall and Pamela Saunders, who provided the funds for its publication. We are most grateful to them for their generous support to this project and the numerous occasions they have supported Grameen Foundation in the past.

# SECTION 1

# SECTION 1

## Introduction

### I. INTRODUCTION

More than 1.1 billion people live on less than \$1 per day, in conditions of intense hunger, squalor, poor health and hopelessness. Most governments and civil society organizations in developing countries of the world are fighting poverty through a variety of strategies, such as agricultural and rural development, employment promotion, programs in health and education, and social services.

Microcredit has been recognized as one of the most effective strategies in poverty alleviation. It involves the giving of very small loans to poor people, particularly women, without requiring any collateral. The purpose is to enable borrowers to establish individual income-producing enterprises.

Grameen Bank of Bangladesh is a microcredit pioneer. It began as an action research project in 1976 and has since grown into Bangladesh's largest bank, as of October 2010 providing microloans to more than 8.3 million borrowers. Grameen Bank has achieved dramatic success through its carefully crafted methodology and systems, administered with rigorous discipline and anchored in a clear-minded philosophy that understands the plight of the poor and believes in them. One of Grameen Bank's greatest contributions to the worldwide microfinance movement is that it has demonstrated beyond any doubt that the poor are bankable. And by standardizing and simplifying its banking methodology so that it is tailored to the needs of the poor, Grameen Bank has made it possible for thousands of social entrepreneurs in numerous other countries to successfully replicate or adapt the model.

The Grameen Bank together with its founder, Professor Muhammad Yunus, are renowned in the field of microcredit. In 2006, they were jointly awarded the Nobel Peace Prize for their extraordinary contribution to the expansion of the microfinance concept and the alleviation of poverty.

As the recognition grows that microcredit is one of the most powerful and productive tools in the fight against poverty, many organizations across the world have sought to develop their own microfinance programs. Many have sought to use the Grameen Bank approach as a model. They borrow from its methodology, systems and policies while at the same time tailoring their programs to their particular environment.

The *Guidelines for Establishing and Operating Grameen-style Programs* is a work based on the experiences of the Grameen Bank, Grameen Trust and the Grameen Foundation microfinance partners around the world. It offers the reader a how-to guide, from philosophy to strategy and implementation, for the creation—or scaling up—of a Grameen-style microfinance program. It is intended primarily for social entrepreneurs interested in establishing a Grameen-style program and for practitioners desiring to learn more about how Grameen Bank implements its microcredit, savings, insurance and social development programs. The *Guidelines* may also be useful to trainers, academics, donors and general development practitioners interested in better understanding Grameen Bank and the Grameen banking system, as well as the experiences of various microfinance programs that have adopted the model in other countries.

**Section 1** offers an Introduction to Grameen Bank, its philosophy and objectives. It also provides an overview of the evolution over the last 30-plus years of the Grameen approach, from the initial Grameen Classic to the current Generalized System, now known as Grameen Bank II (GB II).

The main focus of this Guideline is discussed in **Section 2**, which presents Grameen's principles of targeting the very poor and promotion of group formation via self-selected groups. It also discusses the motivation, training and formation of centers in order to establish a well-disciplined base of members on which to build a microfinance institution. The loan proposal, issuance, utilization verification and credit discipline processes are described in this section, all within the context of a group's collective identity and responsibility for mutual success, even as it holds each individual member primarily liable.

**Section 3** discusses Grameen Bank's financial products and compares those previously offered under the Classic System to the current offerings under GB II. The section presents the terms and conditions of loans, voluntary and obligatory savings accounts, pension funds and insurance options. The section also explains the rationale behind the evolution of the products so they better meet the current needs of borrowers.

**Section 4** discusses Grameen's Social Development Services, including its programs to promote health, nutrition and education among members, as well as its Destitute Members program. It also discusses the Sixteen Decisions, which are central to the Grameen philosophy that microfinance is only one component of poverty alleviation. All Grameen members must adopt and adhere to the Decisions, which provide the cornerstone of the Grameen social program. The Decisions provide concrete guidance to members, committing them to work toward improving their daily lives as part of the broader, ongoing effort to break the cycle of poverty.

**Section 5** reviews the human resources structure at Grameen Bank and offers insight into its recruitment processes, staff management, training and motivation. Although the presented material describes the functioning of a mature microfinance institution, the basic principles, essential to building a strong foundation of human capital, are applicable to both start-up and established programs.

**Sections 6** (Branch-level Accounting System), **Section 7** (Monitoring and Reporting System), **Section 8** (Internal Control and Audit), and **Section 9** (Planning) discuss the accounting and management systems critical to a microfinance program's success, drawing from the experiences of Grameen Bank and other programs.

The concluding section, **Section 10** (Starting up a Grameen-style Program), discusses the processes involved in establishing a microfinance program, drawing from the contents in the earlier chapters. It provides a practical guide for social entrepreneurs interested in setting up a Grameen-style program.

## II. ABOUT THE GRAMEEN BANK

### A. How Grameen Began

Professor Yunus was teaching economics at the University of Chittagong during the terrible 1974 famine. Yunus quickly grew disheartened at teaching economic theory while people died from hunger. So he ventured into Jobra, a village near Chittagong University to see what he could do to just help one person for one day. There he found a poor woman making bamboo stools. He asked her how much money she earned making the beautiful stools. When the woman told him she earned the equivalent of two cents a stool, he was shocked and asked how that could be. She explained that she did not have the money to buy the bamboo so she had to borrow from a middleman—who provided the money to her on the condition that she sold her finished product to him at the price he dictated: just enough to give her a margin of 2 cents after paying back the amount she borrowed from the middleman. Professor Yunus then asked her how much the bamboo cost to begin with. When the woman replied that it was about 20 cents, he was stunned.



001. Grameen Bank board meeting

Yunus returned to the village with one of his students and went around talking with all of the people. They found 42 people in the village in similar straits as the bamboo stool-maker. The two tallied up the villagers' collective debts and were shocked to learn it was only US\$27! Yunus often explains how he felt ashamed to be part of a society that could not provide \$27 to 42 hard-working people trying to make an honest living. So, he took the money out of his pocket and gave it to the villagers as a loan, to be repaid when they could. In the meantime, they were free to sell their products wherever they could fetch the highest prices. He then went to the local banks to see if they would consider providing loans to these poor "microentrepreneurs." But the banks did not believe that the poor would repay. Yet Yunus soon found that the villagers who took a loan from him were paying back every cent. And so he tried again to convince the commercial banks, but had no luck.

In 1976, he launched "The Grameen Bank Project" (Grameen means 'rural' or 'village' in Bangla). The action research project had the following objectives:<sup>1</sup>

- To extend banking facilities to the poor men and women in the village;
- To eliminate the exploitation of the poor by money lenders;
- To create opportunities for self-employment among the vast number of unemployed people in rural Bangladesh;

<sup>1</sup> From the Grameen Bank website: [www.grameen.com](http://www.grameen.com)

- To bring the disadvantaged, mostly women from the poorest households, within the fold of an organizational format that they can understand and operate; and
- To reverse the age-old vicious cycle of “low income, low savings, low investment, low income” into an expanding and progressive system of “low income, credit, investment, more income, more savings, more investment, more income.”

The project enjoyed its first successes while operating in Jobra and in neighboring villages between 1976 and 1979. The program grew to include additional districts in 1979, with the sponsorship of the Central Bank and support of nationalized commercial banks. In October 1983, the Grameen Bank project became an independent bank, the Grameen Bank (GB), by a special government ordinance.

## B. Grameen’s Achievements to Date

Today, Grameen Bank is the largest bank in Bangladesh. It serves more than 8.3 million members, 98% of them women. All entered the Bank practically landless and asset-less, and with income well below the poverty line. One of the Bank’s most noteworthy aspects is its ownership structure: Borrowers own 95% of the bank, with the government holding the remaining 5%. Each member of Grameen is required to buy at least 1 share. The Bank’s 24,000 employees provide services across more than 95% of the national territory, in about 81,000 villages, through more than 2,500 branch offices.

Since 1982, the Bank has disbursed more than US\$9.7 billion, with a repayment rate of nearly 98%. As of October 2010, the Bank’s loan portfolio was worth more than US\$900 million. The Bank has been completely self-sufficient since 1995 and finances 100% of its operations with savings deposited by its members and the public.

Grameen’s leadership and staff recognize that the delivery of microcredit is not the primary objective. Instead, it is a key tool for confronting and addressing the vicious cycle of poverty. Poverty alleviation and its eventual eradication is the ultimate organizational goal.

Results show Grameen Bank is achieving that goal: 58% of the families of Grameen borrowers cross the poverty line within five years of obtaining their first loan.<sup>2</sup> Grameen’s poverty indicators go beyond just a basic measurement of per capita income. Instead, they outline 10 critical areas of well-being, including access to safe drinking water, proper sanitation facilities, adequate clothing, sufficient food and healthcare, as well as quality of housing, savings and school attendance of members’ children. The Bank’s records show that this last benchmark—school attendance—has already been met by almost all Grameen member families.

Another remarkable and important achievement of the Grameen Bank program is the social empowerment of its members and the cultivation of leadership capacity. The Grameen system helps borrowers become familiar with the election process, as they routinely go through elections for group and Center leadership. They are expected and encouraged to actively participate in dealing with the problems that arise in their groups and centers. This experience has prepared them to run for public office. In the 2003 local government elections, for example, more than 7,000 Grameen members sought seats reserved for women. Of them, more than 3,000 won election.

<sup>2</sup> Section 5, under Measuring Poverty Alleviation, discusses Grameen’s internal process for determining “poverty-free” members.



Last but not least among the Bank's achievements has been its role in broadly proclaiming the value of the microcredit concept and its willingness to educate all who wish to observe and learn more about this important tool in alleviating poverty.

In recognition of their outstanding achievements that benefited millions of people, not only in Bangladesh but in many other countries, Grameen Bank and its founder, Professor Muhammad Yunus, jointly received the Nobel Peace Prize award in 2006.

## III. THE GRAMEEN BANK APPROACH

### A. Philosophy and Objectives

The Grameen Bank's work over the past three decades has been based on a philosophy that holds the following to be true:

The poor have skills that are not utilized or are underutilized. They lack opportunity much more than ability. Providing access to capital—even small sums of less than US\$50—can liberate enough energy and creativity to allow people to work their way toward overcoming poverty.

Poverty is not created by the poor, but by policies and institutions that exclude them from opportunity. Grameen recognizes that in order to generate income, the poor must be able to build their assets. However, formal banking institutions have denied them access both to small amounts of financing as well as a safe place to save their money.

Charity is not a solution to poverty; it creates dependence rather than self-reliance. Grameen believes that giving money and goods to poor families perpetuates poverty conditions. It signals that the poor have no ability to provide for themselves. For this reason, Grameen does not provide handouts to members, even during natural disasters. Instead it will offer members subsidized support and accompany them through difficult times.

Self-employment is the quickest and easiest way to create employment for the poor. Credit can create self-employment almost instantaneously.

Women have the highest incidence of poverty and suffer from its consequences the most, but they also have the most direct impact on their families. Grameen's experience has illustrated that poor women can better fight poverty than men—if they are given a chance to fight on their own. Empowering women through microcredit can have the most meaningful impact on the quality of life of poor households, as can the program's social integration and consciousness-raising aspects.

## B. An Overview of the Grameen Bank System<sup>3</sup>

The Grameen Bank system focuses on providing financial and other services, predominantly to the rural poor, with priority given to women. Borrowers are landless (or near landless) women and men who form groups of five in order to qualify for loans. No collateral is required. Efforts are made to ensure that group members are like-minded and share a similar economic and social background. Any person in a group whose family owns less than half an acre of cultivable land and whose total family assets do not exceed the market value of one acre of medium-quality land in the surrounding area may become a group member and borrow from the bank for any income-generating activity of his or her choice.

Before receiving a loan, eligible borrowers must undergo intensive, one- to two-week training in the philosophy, rules and procedures of the Bank. Each member must pass an oral test before the overall group is “recognized” by higher authorities within the organization. During the test, potential members must satisfy the Bank staff of their integrity and seriousness, show their understanding of the principles and procedures of the Bank and demonstrate the ability to write their own name.

Each group elects its own chair and secretary. Several same-sex groups (currently eight to 10 groups on average) in any one village are federated into a “Center.” From among the chairs of these groups, a “Center Chief” and a “Deputy Center Chief” are elected. They conduct the weekly meetings of the Center, recommend loan proposals to Grameen Bank staff, supervise the loan activities and assist Center Managers in their work.

When Grameen first began operations, members created two savings accounts: a) Group Fund Accounts (including individual savings, group tax and others), and b) the Emergency Fund. Each borrower paid more than five taka (less than US\$.07) per week into the Group Fund. In addition, at the time of taking a loan, 5% of the amount was automatically deducted and deposited into the Group Fund. Furthermore, each borrower paid an amount equivalent to one-fourth of the total interest paid to the Bank, which was also deposited in the Emergency Fund. In that way, the Emergency Fund served as a kind of insurance fund. Since the introduction of the Grameen Bank Generalized System (GB II), which will be discussed in an upcoming section, these group savings accounts have been replaced with personal savings accounts. In both versions of the Bank’s program, savings by participants were an essential step toward establishing member financial responsibility and the eventual independence of Grameen from donor and commercial sources of funds.

A Grameen Bank branch usually employs nine staff members: a Branch Manager, a Senior Assistant, six Center Managers (of whom three are ideally women) and a guard. Following the GB principle that the bank should go to the people rather than requiring the people to go to the bank, most banking transactions (except loan disbursements) are done at the Center meetings attended by the Center Managers. The branch borrows funds from the head office, whenever it requires them, at the rate of 12%. It lends that money on to members at a rate of 20%. Under the new Generalized System, all new branches must fully fund their operations with the deposits they mobilize from members and the public. They do this successfully, usually breaking even within the first year of operation.

Grameen Bank now has more than 2,517 branch offices; each reports to an area office, which oversees 8 to 10 branches. Area offices handle all of the accounting and direct supervision of branches. Grameen’s 39 zonal offices in turn supervise 8 to 10 area offices each.

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<sup>3</sup> Details about the Grameen basic concepts and methodology, products and services provided, human resources and other key areas of interest are discussed in detail in subsequent Sections. This section comprises excerpts from the by-laws of Grameen Bank.

GB members have taken loans for hundreds of different income-generating activities. Examples include: chicken and/or goat rearing; basket weaving; silk weaving; food vending; retail sale of rice, oil and other essentials; and cellular phone service. The average loan size is about Tk. 3,000 (roughly US\$75).

GB also offers housing loans for the poor, as adequate shelter is one of the basic requirements in order for people to organize their lives, achieve mental stability and undertake plans and programs for doing something meaningful. Home ownership instills very poor members with a sense of confidence and dignity. That in turn allows them to start dreaming of a better and fuller life. Since group members use their houses as their place of work, that helped prompt the Grameen Bank to offer them housing loans.

GB also encourages its members to pay attention to their social and health wellbeing. This includes sanitation, healthcare, nutrition, education, family planning, dowry-less weddings, mutual help, etc. A list popularly known among GB members as the “Sixteen Decisions” lays out these issues. Many GB members can reel off the Sixteen Decisions with little effort.

## C. The Evolution of Grameen: from the Classic to the Generalized System

Through its nearly two decades of experience providing microcredit services to the poor, Grameen Bank saw the need to make some major improvements to various aspects of the program. Beginning in early 2000, Grameen management and staff crafted the new Grameen Generalized System (referred to as Grameen Bank II). Grameen II retains the basic concepts of its methodology, as well as its delivery, branch and staffing systems, all of which *Section 3: Basic Concepts and Processes of the Grameen Methodology* discusses in detail. The main changes came in the variety of products offered, benefits and repayment flexibility for members. Some of the most noticeable changes in Grameen Bank II follow. The Section that discusses each item in more detail is noted parenthetically.

- Previously, Grameen Bank offered many different loan types. Grameen II offers one main loan product: the Basic Loan, which may be customized to serve the needs of all borrowers. A “Flexible Loan” is linked to a Basic Loan for members who encounter difficulties in maintaining their original loan agreement. (*Section 3*)
- Previously, Grameen Bank highly standardized its loan products. Under Grameen II, the Bank offers greater flexibility in loan terms, installment size and repayment schedule. Borrower loan ceilings are no longer standard for all members. The Bank has also created individualized ceilings that can grow (or shrink) based on performance. (*Section 3*)
- Grameen Bank replaced the Group Fund with individual savings products, including pension funds to help the poor build their assets and self-reliance. (*Section 3*)
- Grameen Bank has developed a special program for destitute members (beggars), where it has relaxed the basic rules of the program in order to prepare them for its regular Bank products and services. (*Section 4*)
- Outstanding members who have maintained 100% on-time repayment for seven or more years receive special recognition as “Gold Members,” with special privileges.
- Grameen developed the Star system, which awards individual staff and whole branch offices with color-coded stars for particular achievements. Those begin with 100% repayment, followed by profitability (coverage of all costs), savings mobilization, percentage of children of borrowers attending school and whether all borrowers have achieved “poverty free” status. (*Section 5*)
- The Bank has introduced higher education loans for all students from Grameen families able to enter institutions of higher education (university, medical, engineering or other professional school, etc.). (*Section 3*)

- Grameen Bank has also introduced stricter loan-loss provisioning and write-off policies. The Bank had been subjected to frequent and sharp criticism for its provisioning and write-off policies, even though those standards were stricter than those set by the central bank. In response, GB II has moved to tighten its policies even more.
- And finally, GB II emphasizes receiving deposits from both borrowers and non-borrowers. A variety of savings products has been introduced under this system. (*Section 3*)

Throughout this manual, we provide information relating to the newer Grameen Generalized System. But we also highlight where changes have evolved from the older Classic System. The reader may want to refer to the book, *The Poor Always Pay Back: The Grameen II Story*<sup>4</sup> and the original writings of Professor Yunus for a general overview of Grameen’s “evolution” from the Classic System to the new Generalized System. More information is available through the Grameen Bank website, [www.grameen.com](http://www.grameen.com), among the “Grameen Bank II” articles by Muhammad Yunus, found in the “About Us” section.

## IV. WORLDWIDE REPLICATION EXPERIENCE

From the first replication of a Grameen-style program in Malaysia in the mid 1980s, there are now well more than 175 others active in more than 100 countries. Local social entrepreneurs initiated all but a few of them, inspired by the Grameen Bank experience to build programs of their own based on similar underlying philosophy, values and methodology. Grameen Bank does not actively replicate or franchise its model of operation outside of Bangladesh. However, through its affiliate organization, the Grameen Trust, it does offer BOT (Build, Operate and Transfer), BOM (Build, Operate and Manage) and BOO (Build, Operate and Own) services. It also offers exposure visits, training and technical assistance to individuals and institutions interested in initiating, developing or supporting microcredit programs that focus on the poor.

### What do Grameen-style Programs have in Common?

Although they are often referred to as “Grameen replications,” most programs are more accurately described as “Grameen-style” or “Grameen-inspired.” They adopt key program aspects from Grameen Bank and adapt them to fit local conditions. Overall, we find that Grameen-inspired programs share the following essential elements:

- **Focus on serving very poor, marginalized people, with particular focus on women and rural areas.** Most Grameen-inspired programs use some form of a cost-effective targeting tool to ensure that they reach the poorest community members. Organizations focus their resources primarily or exclusively on serving the poorest, most vulnerable people.
- **Collateral-free loans to be used for self-employment.** Grameen-style programs do not require collateral for access to micro loans. Loans are given for existing or new income-generating activities. As programs develop, many begin to offer additional loan products, such as housing loan, education loans, etc.

<sup>4</sup> *The Poor Always Pay Back: The Grameen II Story*, Asif Dowla and Dipal Barua, Kumarian Press Inc., 2006.

- **Small loans with frequent repayment of principal, plus interest.** Loan sizes start small and repayments are frequent (weekly or bi-weekly) in order to make it easy for members to succeed in paying off their loans.
- **Savings component built into the program.** Grameen-style programs recognize that in order to break the vicious cycle of poverty, the poor must begin to build their assets. One of the most important assets is savings. The best way to accumulate savings is through a safe and easy way to save that also pays interest. Although many programs are not legally permitted to manage member savings, many at the very least link with formal institutions to make savings part of their program.
- **Grameen-style programs generally utilize Grameen Bank's group and Center structure.** Solidarity groups are formed of roughly five individuals (anywhere from three to eight), and a number of groups (generally five to eight) form a Center where all transactions take place. Borrowers themselves ensure the proper utilization of loan money through mutual support and cooperation. They also ensure repayment through peer pressure and support.
- **Broader development agenda.** Grameen-style programs are not just focused on providing loans, savings and related services in a financially sustainable way. They have the clear organizational goal of empowering families to cross the poverty line. Most organizations work to incorporate broader development components, like literacy, into their programs or forge links with health clinics and training organizations.

## V. CONCLUSION

Grameen-style programs around the world work to provide collateral-free microcredit services to poor families and help them get out of poverty. Each differs somewhat in program design and administration. But as the Grameen approach is adapted and tailored to the specific needs of diverse communities and environments, they all share an unshakeable belief in the ability of the poor, if only given the opportunity through microcredit, to successfully engage in income-generating activities. That in turn allows the poor to improve their condition through their own ingenuity and hard work. Grameen-style programs also share the belief that it is their responsibility to organize and administer their own organizations wisely, and with discipline and efficiency, so that they can provide microcredit services to more low-income families on an extended and sustainable basis.

These guidelines are dedicated to supporting and furthering the interest and efforts of poverty-focused programs around the world by setting forth the Grameen Bank's approach to microcredit.

# SECTION 2

# SECTION 2

## BASIC CONCEPTS AND PROCESSES OF THE GRAMEEN METHODOLOGY

### I. INTRODUCTION

This Section contains the primary focus of this document. Drawing from Grameen Bank materials and training courses, this Section explains the basic concepts and processes of the Grameen Bank Approach (GBA) to poverty lending. The following key elements of the approach will be discussed in detail:

- Targeting
- Group formation and training
- Group “recognition”
- Establishing and managing a Center
- Creating and maintaining credit discipline
- Loan proposals and disbursements
- Loan use verification
- Supervision of field operations
- Delinquency management

Grameen-style programs around the globe have implemented these aspects of the Grameen methodology to varying degrees. It is important to understand how these elements are carried out and why they have been important to the success of the Grameen financial system. The greater your understanding, the better equipped you will be to make decisions about your own program.

### II. TARGETING

This section on Targeting includes excerpts from the Grameen Trust and CASHPOR operational manual, *Cost-effective Targeting Based on Guidelines Developed by Grameen Bank*. Those interested in developing microcredit programs focused on the poor are highly encouraged to read the complete manual (available in English, Chinese, Vietnamese and Tamil through the Grameen Trust, and in Spanish and English through the Grameen Foundation).

#### A. Basic Principles

##### WHY TARGET THE POOR?

Experience has shown that credit programs meant for the poor that do not exclusively target the poor increase the likelihood that the original target population will neither participate in nor benefit from the program. The Grameen Bank, Grameen Trust, the Grameen Global Network (GGN) coordinated

by GT, CASHPOR network member organizations<sup>1</sup> and other Grameen-inspired programs generally believe that a primary mission to serve the poor requires the poor to be targeted exclusively. The scarcity of resources requires us to make the most efficient use of them and ensure that they are not used for unintended beneficiaries, i.e., the non-poor. Institutions that share the goal of poverty reduction should not work to expand the microenterprises of households already above the poverty line when they first join the program. While it is important to provide financial services to households living above the poverty line, which otherwise would have limited or no access to these services, this is a task best left to other institutions, whose mission does include reaching non-poor clients.

### WHY TARGET WOMEN?

Poverty-focused microcredit institutions are advised to prioritize assistance to poor women as the representatives of poor households. There are several reasons for this:

- Poor women have much more limited access to financial and other services than do men
- Poor women's earnings have a greater impact on family welfare
- Women are likely to be empowered through their greater economic contribution to the household
- Poor women have proven to be better loan clients than have poor men

Grameen-style programs are motivated to target the poorest of the poor—and more than 70% of the world's poor are women. Across the developing world, women have less access to land ownership, education and credit. They also face constant discrimination. Reaching the poor in general has traditionally been a very difficult task as it is; reaching poor women in particular, especially in countries like Bangladesh, has been almost impossible. That is because cultural norms simply were not conducive to women's participation. However, Grameen Bank has worked since its beginning to reach poor women, as management quickly realized that improvements in the economic and social conditions of poor households came much more quickly if initiated through women.

“Women experience hunger and poverty in much more intense ways than they are experienced by men. Women have to stay home and manage the family with virtually nothing to manage with. When there is nothing to eat, the husband doesn't come home. The mother is left with the children to feed. Given some opportunity to fight against poverty and hunger, women turn out to be natural and better fighters than men. They want to get a firm grip on any little thing which will help them out of the terrible situation they are in. Poor women in Bangladesh (possibly in other countries also) have more of those positive qualities which sustain and strengthen the development process. They have the intense drive to move up, they are extremely hardworking, concerned about their children's present and future, willing to make any sacrifice for the well-being of the children and they proceed in a systematic manner to reach their objectives.”<sup>2</sup> It is important to note, however, that Grameen Bank and most other replication programs, although they target women, do not exclude men. Grameen Bank's policy is that men can join the program, but must form their own all-male groups. Some replication programs cap the participation of men at a small percentage (10% to 15%) of the overall program, and only then in mixed groups. Since groups chose their own members, it follows that some groups chose to include men. However, in these mixed groups, policies usually discourage men to take on leadership responsibilities in their groups and centers.

<sup>1</sup> CASHPOR Inc. (Credit and Savings for the Hardcore Poor) was a network of 22 microfinance institutions in eight countries in Asia that followed adaptations to the Grameen Bank methodology. The network ceased operations in early 2000 when it was felt that member institutions were mature enough to be able to meet their own training and fund mobilization needs. Grameen Trust has 144 partner MFIs in 38 countries around the world.

<sup>2</sup> David Gibbons, “Cost-effective Targeting,” CASHPOR, Inc., 1999, published by Grameen Trust.



If the goal is poverty reduction, then resources meant for the poor should not be allowed to “leak” to the non-poor. This is essential for the transparent use of funds, as well as to remain true to the institution’s mandate. Funds earmarked for the poor are always in short supply. Excluding the non-poor from them is necessary for their efficient and effective use.

Once the non-poor enter a program, they tend to dominate the groups and centers and appropriate most of the benefits for themselves. It is the experience of GT microfinance partners worldwide and CASHPOR members that the inclusion of the non-poor keeps out, or drives out, the poor. That discourages the poor from participating due to their sense of social inferiority and fear of not meeting financial demands, like savings minima, set by the non-poor. We must not forget the lack of access to credit inspired the provision of microcredit exclusively for the poor.

Experience has also shown that non-poor women are less likely to maintain credit discipline. Once they receive their loans, they may rebel against attending center meetings, the weekly repaying of loans, and the taking of responsibility for fellow members who fall into repayment trouble. They have other opportunities for raising capital and are more likely to develop “repayment fatigue” and default. That undermines the credit discipline of the whole center. Paradoxically, repayment rates among non-poor women tend to be lower than among poor women. The poor have few alternatives—even their access to moneylenders is limited—and they usually hold on firmly to the opportunity to earn and increase their cash income.

There are some, however, who do not agree with the practice of exclusive targeting.<sup>3</sup> Some Microfinance Institutions (MFIs) do not use specific yardsticks to identify the poor and exclude the non-poor. They argue that exclusive targeting is difficult and expensive. These MFIs use alternative methods of reaching the poor, such as:

- *Self-selection*—the program is designed to attract the poor but dissuade the non-poor, so those among the latter group select themselves out of it.
- *Massive outreach*—very large, non-targeted outreach efforts drew in more poor than did small MFIs that practiced costly targeting.

Some MFIs rely on loans especially suited to the poor, to ensure that they participate. Self-selection uses very general proxies, such as working in a poor area or working with women. It assumes that most clients in a poor area will be poor and that most women are disadvantaged. Some MFIs combine this geographic or gender focus with a product offer that is attractive to the poor—such as savings schemes and consumption loans. But the major self-selection tool consists of offering small loans. The supporters of this targeting approach argue that non-poor women will choose not to participate in a program where they must associate with the poor, attend regular meetings, obey the rules and gain access to only US\$100 or less in loans in the first year.

SEF began its operations in one of the poorest provinces of South Africa. It targeted women with small loans and had simple, accessible procedures. It found, however, that the demand for credit was so strong that non-poor women joined the program and stayed in it, hoping to obtain larger loans later. That discouraged the poorest from joining; some of the poor were even pushed out of the program. It was because of this experience that SEF began its Tshomisano Program exclusively for the poorest.

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<sup>3</sup> David Gibbons, “Cost-effective Targeting,” CASHPOR, Inc., 1999, published by Grameen Trust.

Another argument against exclusive targeting is that “it is scale, not exclusive focus, that determines whether significant outreach to the poor is achieved.” Programs that serve a variety of clients, both poor and non-poor, may be able to expand faster and reach larger numbers than can a more focused and smaller program.

Most poor-focused microcredit institutions began with a mission to bring credit services to the poor and will be reluctant to divert resources to serve a different clientele. For MFIs focused on the poor, then, it is necessary to identify the poor individually. But how to do this accurately—and in a cost-effective way?

## B. Examples of Cost-Effective Targeting Systems

Grameen-style programs generally do not conduct comprehensive and scientific in-depth surveys of communities and households to identify poor households. The key to designing a cost-effective targeting system is to create a tool that can quickly identify the target population with adequate accuracy (between 80% and 90%) and:

- Require the least amount of time to train field workers;
- Rapidly eliminate the majority of non-poor; and
- Maintain a minimum number of indicators (if indicators are included).

Grameen-style programs have developed various systems to ensure the relatively accurate targeting of the poor. This chapter briefly describes four of these systems. They are:

- Grameen Bank’s “*means test*,” which focuses primarily on ownership of land and assets, based on certain criteria.
- “*Housing index*,” developed by CASHPOR<sup>4</sup>, which involves a quick visual poverty assessment of each potential community based on local housing conditions, followed by a more detailed but simple asset test.
- SEF’s “*Participatory Wealth Ranking*,” which involves a participatory process, with various community members assisting in the identification of the poorest households.
- The Grameen Foundation’s “*Progress out of Poverty Index™*,” an innovative tool developed in a number of countries where partner MFIs work.

### 1. GRAMEEN BANK’S “MEANS TEST”

By considering the socio-economical, cultural and geographical context of Bangladesh, GB uses two poverty-measuring indices to appropriately identify the target group of the program (the format is attached in *Appendix A*). In short, group members must be landless and asset-less poor. To Grameen Bank, the poor are welcome, the poorer are more welcome and the poorest are most welcome. Grameen starts with the bottom poor.

- *Landless*: A family owning no more than a half-acre of land is considered landless.
- *Assetless*: A family whose material possessions are worth less than the market value of an average acre of local land is considered asset-less.

This is the basic poverty measuring index provided in Grameen Bank’s by-laws. To enforce this poverty measurement index, GB staff physically verifies the following items, which easily show the economic condition of a proposed group member:

<sup>4</sup> The CASHPOR (Credit and Savings for the Hard-Core Poor) Network, an organization of 22 Grameen replications in Asia, uses the CASH-POR housing index to ensure effective targeting.

- Existing housing condition of a group member, and an assessment of its approximate market value
- Household furniture and its approximate market value
- Jewelry (gold or silver) and its approximate market value
- Domestic animals and their approximate market value
- Approximate amount of capital invested in a current business (if applicable)
- Current monthly earnings of family members
- Properties mortgaged by the household
- Quality of cultivable, uncultivable, government-donated and share-cropped land

A Bank official may decide to include someone as a group member if, through the verification of the above items, the official determines that the value of the proposed member's assets does not exceed the local market value of one acre of cultivable land. Otherwise, the application for membership will not be accepted.

## 2. THE CASHPOR HOUSING INDEX AND ASSET TEST

The CASHPOR Housing Index (CHI) is a proxy measurement of poverty. It is a simple one-page scorecard, which allocates points for each main component of the house, e.g., size, roofing material, height, wall construction and so on. Field staff conducts a CHI from the roadside, without interviewing, or even meeting, members of the household. It takes about five minutes to index a house. Houses that obviously do not qualify are ignored. This means field staff can index a village of around 100 households, of which perhaps 40 can be eliminated as clearly not poor, in five hours.

Field staff map the village to identify houses that qualify on the Housing Index (those below a specified number of points). Those that score below the lowest cutoff point are marked as “very poor.” Those between that and the second cutoff point are marked as “moderately poor.” And houses that score above the second cut-off point are not considered eligible. They are neither mapped nor visited during subsequent motivation work.

Amanah Ikhtiar Malaysia (AIM), the first Grameen replication program, developed the Housing Index as a low-cost, first-step method of identifying potential clients. Houses were chosen as the most powerful proxy for poverty because of the observed tendency of Malays to improve their houses as soon as they obtained any surplus income. Subsequently, this has proved to be true for most rural households in all Asian countries in which CASHPOR operates.<sup>5</sup> Overall, 22 CASHPOR members in eight countries use local adaptations of the CHI to identify the poor. The following points about the CASHPOR Housing Index should be clearly understood:

- It is a quick but crude measure of poverty;
- It requires a follow-on check of the poverty status of those initially deemed eligible;
- It includes an appeals procedure for those who fail to qualify as poor; and
- It is adaptable to the housing style of each region or country.

Based on experience, the CHI accurately identifies between 70% and 80% of the eligible poor, depending on the specific country context. It is therefore only the first step in targeting on the ground. Its value is that it represents a simple, low-cost and rapid method that can be applied by field staff with minimal training. This tool can eliminate the great majority of the non-poor, ineligible to become clients of the microcredit program, from the time-consuming consideration of staff.

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<sup>5</sup> The main exception has been tribal groups that periodically move for purposes of income earning and who do not spend much on their housing. There will be individual exceptions as well.

Once a village has been indexed using the CHI, staff concentrates their efforts on those residents who “passed.” Each potential client is visited and given a survey that registers all members of a household, their ages, education level and occupation. It also contains questions on a household’s assets. This is a measurement of *wealth*, rather than *income*, and is used for the following reasons:

- Assets result from longer-term income flows, and act as a protection against seasonal risk and other crises. Therefore, a lack of assets is a key measure of vulnerability and indicates very low levels of income.
- Assets are visible and are usually easy to capture in a brief interview. Calculating a net annual or even monthly figure for rural incomes—which are irregular, sometimes paid in kind and can derive from several sources—is difficult and time-consuming.

### 3. SEF’S PARTICIPATORY WEALTH RANKING

In this method, members of a community rank themselves, based on their own concepts of wealth and poverty. This involves the following steps:

- Introducing the process to village leaders and setting up a meeting;
- Villagers mapping their village in sections and creating a card for each household;
- Smaller reference groups sorting cards into piles according to wealth;
- Cross-checking results for consistency and awarding an average score to each household; and
- Deciding a cut-off point for eligibility to join the program.

Participatory Wealth Ranking (PWR) relies on the fact that residents of rural communities know one another well. It relies on local knowledge to identify the poor according to their *own* definitions of poverty. As a result, when well facilitated, it produces very accurate results. Because at least three reference groups sort the same cards, which are then cross-checked by staff, it is easy to spot errors or fraud. PWR is a participatory process. Beyond just identifying the poor, it also serves to both introduce the program to the whole village and begin the motivation of potential clients. Because it is transparent and done by the villagers themselves, it is seen to be legitimate and tends to mute antagonism to the program by local elites. However, PWR requires a well-trained staff to implement. If PWR does not go well, and too many inconsistent rankings are made, then the reference groups have to be repeated. (For operational details about PWR, the CASHPOR Housing Index and other targeting tools, please visit The Microfinance Gateway website at [www.microfinancegateway.org](http://www.microfinancegateway.org).)

### 4. GRAMEEN FOUNDATION’S PROGRESS OUT OF POVERTY INDEX™

Since 2005, Grameen Foundation has worked to develop the Progress Out of Poverty Index™ (PPI™), a tool designed to assess a client’s poverty profile, as well as measure the rate at which clients cross the poverty line over time.

The PPI uses a scorecard with a composite of simple, non-income indicators that relies on focus group data and recent national-level household surveys in a given country. It is inexpensive to implement, customized to local conditions and easy to use.

Indicators are selected to be:

- Inexpensive to collect, easy to answer and simple to verify;
- Strongly correlated with poverty; and
- Liable to change as poverty status changes over time.

Details of the PPI will be discussed under “Poverty Alleviation Measurement” in *Section 4*.

### III. GROUP FORMATION

#### A. Concept of Group and its Importance

Under the Grameen Bank and replication programs, groups perform various essential functions. The group members provide each other a strong support network and a forum for exchanging ideas. Members can seek out the group for help and advice. And for the institution, the group is very important in reducing operating costs and minimizing loan risks.

#### B. Criteria for Group Formation

Grameen Bank places significant importance on the group and its proper formation. The following criteria have been established by Grameen Bank for the formation of its groups. Most Grameen-style programs have also adopted them:

- a) A group must consist of five self-selected and like-minded people of the same gender. Self-selection means that the group members themselves choose who joins the group—not the staff.
- b) Group members should come from poor households when joining the program.
- c) Group members all should live in the same community, and share a similar age, socioeconomic and educational background.
- d) There shall not be more than one member from the same household in a group. Nor should close relatives be in the same group.
- e) Group members should know each other and have mutual confidence in one another.
- f) A group shall have a chairperson and a secretary, each elected by the members.
- g) Group members must undergo a minimum of seven days of continuous training and pass a group recognition test. Only then can they be recognized by the assigned senior level staff.
- h) Group members must be 18 years and older. Each should be able to sign his or her name.

#### C. Process of Group Formation: The “Mini Meeting” Before Group Training

Before starting group training, a brief meeting should be arranged with the target group in their community. This ensures that potential members are well informed of the rules and policies of the program from the beginning. That avoids delays in group formation. During this meeting, the following topics should be discussed at length:

- Objectives of the program
- Merits/demerits of taking loans
- Group formation criteria
- Mandatory attendance at Center meetings
- Loan proposal, disbursement and repayment processes
- Obligation of loan utilization
- Responsibilities of group members
- Interest rate
- Savings-related issues



002. Grameen's five-member group

Once potential borrowers learn this essential information, those who are still interested in joining the program can begin the group training process. It is recommended that Center Managers (loan officers) conduct the poverty assessment of the individual members before initiating the group training. This ensures that the whole group is eligible to participate in the program. During group training some potential members may withdraw or new members may enter. Initially such events occur quite frequently, and staff should be patient, despite the disruption. Forming new groups to set up the first few centers in a new area can be quite difficult. Once one to two groups have been recognized in a center, the group formation process generally becomes easier. That is because other community members tend to gain confidence in a program once they see it working.

Ideally in the initial stage, the first Center should be launched with 10 members in two groups. If there are more than 10 interested people, the rest should wait for the next round of group formation. Some replication programs have indicated that it is much easier to form centers with four groups (or 20 members) at a time, so that they establish a sense of unity and solidarity from the beginning. However, slower group formation in the initial stage will help ensure that groups are adequately trained and managed.

New field staff members tend to have a much more difficult time training large number of groups and conducting organized and effective Center meetings. The first three to six months of a program should be considered an initial trial period. Center Managers should be provided with extra guidance and support in learning how to work most effectively. Rapid group formation—whether to form a few large centers or many smaller centers within a short time—should be avoided, until management has the utmost confidence that the field staff has sufficiently developed their own skills and confidence. The formation of two to four groups per month per Center Manager is considered reasonable for a beginning program.

## D. Special Note on the Issue of Group Joint Liability

The concept of joint liability is often misunderstood within the context of the Grameen methodology. It deserves some attention. In Grameen, the group is meant to provide a support system for its members. Group members are trained to accept the responsibility of caring for their group and working to ensure that all members prosper. If a member has trouble coming up with her weekly installment, the rest of the group is encouraged to support her. This is especially true when the member faces temporary cash-flow problems and not a longer-term problem that will prevent her from continuing to pay down her debt. Group members are sensitized to recognize that there are frequent challenges and emergencies in each of their lives, and that a strong support group will help them all get through any hard times. The group, however, should not be made responsible to pay on behalf of a defaulting member. Instead, it should be encouraged to help in a responsible way, out of a spirit of solidarity.

“Grameen Bank does not require any collateral against its micro-loans. Since the bank does not wish to take any borrower to the court of law in case of non-repayment, it does not require the borrowers to sign any legal instrument. Although each borrower must belong to a five-member group, the group is not required to give any guarantee for a loan to its member. Repayment responsibility solely rests on the individual borrower, while the group and the Center oversee that everyone behaves in a responsible way and no one gets into repayment problem. There is no form of joint liability—i.e., group members are not responsible to pay on behalf of a defaulting member.”<sup>6</sup>

<sup>6</sup> From “Grameen at a Glance,” available on the Grameen Bank website

A Grameen-style microcredit program must create an institutional culture of peer support and pressure to ensure on-time repayment, while at the same time ensuring an effective and fair policy consistent with the overall organizational goals. Grameen Bank's new Generalized System, since its implementation in mid-2000, has introduced a new product called the "Flexible Loan" for members who experience difficulty in making their payments. That minimizes the pressure on other members to support a member in default. *Section 3: Grameen's Financial Products and Services* discusses this in greater detail.

## E. A Word of Caution in Group Formation

### SOME KEY LIMITATIONS OF MICROCREDIT IN REACHING THE POOR<sup>7</sup>

It tends to be easier to form groups and provide loans to the moderately well-off or non-poor members of a community. It is the experience of both Grameen Bank and Grameen-style programs in various countries that the first people who come forward to join a program include a community's not-so-poor members. Sometimes to the surprise of management, its own staff and policies contribute to this. The following four points should be considered when implementing a program. Management and field staff should take special care to ensure that the very poor are not being excluded from the program.

- **Self-exclusion:** A lack of confidence generally keeps the poorest people from coming forward to apply for financial services, as they usually feel borrowing would be too risky.

*It is the responsibility of the field staff to motivate prospective clients. As the poorest will not come forward unbidden to receive financial services, the field staff must take the time to motivate them in the communities. It is not unusual for a field staff member to approach the same woman several times before she is ready to consider attending a mini meeting to learn more. Field staff must understand that this is a normal and important part of the process and essential for enabling the poorest to take advantage of the services designed for them.*

- **Exclusion by the group:** When group members gradually improve their own economic situation they often avoid including the poorest of the poor in their own group or Center, in the name of maintaining group discipline.

*Field workers must pay special attention to this and work to motivate the members of the groups and centers to align with the broader goal of alleviating extreme poverty in their community.*

- **Exclusion by the staff:** If staff is not effectively motivated and trained, its members may avoid the poorest people as well. In the name of sustainability they may prefer the moderately poor to the poorest. Seeking out and motivating the poorest takes more time, and often they believe that the poorest represent more risk to maintaining high repayment rates.

*Staff should undergo a long, rigorous training program where they internalize the objectives of the Grameen-style program and can understand, feel and touch poverty. Requiring field staff to undertake extensive case studies of very poor women and their families as part of their training can help (see Annex 2.2: Guidelines for Case Studies of Members for details).*

<sup>7</sup> Based on a Grameen Bank Training Center presentation on targeting the poor by its General Manager, Nurjahan Begum.

- **Exclusion by design:** Sometimes the rules and regulations of the program may act to exclude the poorest or compel them to leave the group. Unaffordable compulsory savings or inflexible loan terms are examples of such rules.

*Management should take extra precaution to not design incentive programs that inadvertently motivate staff away from serving the poor, or policies on products and services that would discourage participation by the very poor.*

## F. Techniques for Motivating Poor Women to Join or Form a Group<sup>8</sup>

Grameen Bank and many replication programs around the globe face the challenge of motivating truly poor women to form a group. Generally, those women are afraid of taking a loan in the first instance. This is especially true for women who have never borrowed from a program or even the local moneylender. They worry about weekly repayment and about what may happen if they fail to pay. Motivation can open their eyes and show them how credit represents an opportunity that can better their condition. Once those women are exposed to the benefits of the program by field staff, peers or self investigation, they will grow interested. The best way to develop a relationship with a potential member who is very poor is to follow some basic behavioral guidelines. These include:

- Appear in simple dress.
- Do not use an expensive vehicle to travel to a community. It is better to come on foot, bicycle or motorcycle.
- Make several visits to her home. Take one or more good members with you if possible.
- Address the person directly and talk to her respectfully.
- Respect family members.
- Sit on a mat if necessary; do not ask for a chair if they do not have any.
- Minimize any disturbance your visit may cause. Take care that their working time is not lost and they are not harmed financially by your visit.
- Try to convince her that you want to do good for her and her family.
- Show sympathy where necessary but do not say or comment abusively about their poverty.
- Do not take too much time at a time. It is wise not to visit more than once a day.
- Visiting during cooking hours should be avoided. In most cultures, the ideal time for a visit is between 8 and 11 a.m. and 3 and 5 p.m.
- Initiate the talk gradually. Start by discussing children or petty family matters. Always show interest in and concern for children and everything in the family—except overly personal matters or family affairs.
- Answer questions eagerly, politely and fully.
- Inquire about their problems regarding food, clothing, housing, disease, social and political problems, etc.
- Try to remove any of her fears of being involved with the microcredit program.
- Try to convince her of the good things a loan could do for her and her family.
- Compare the program loan with local moneylender interest rates and terms.
- Present examples of stories of other successful poor women who have done well with a loan.
- If necessary, give examples of income-generating activities that other women have done or are doing today.
- Try to encourage the woman to utilize the loan money herself, and not give it to another family member.
- Assure her that no legal or coercive measure will be taken in case of failure to repay.

<sup>8</sup> This information was taken from Grameen Bank Basic Training Course material provided by the Grameen Bank Training Center.



## IV. CONTINUOUS GROUP TRAINING

### A. Objective of the Training

Continuous group training is very important because it enables group members to become well informed about the program. Training should ensure that group members fully understand, willingly accept and comply with the rules and regulations of the program.

### B. Duration and Place

Grameen Bank recommends that this “pre-credit” training be conducted for a minimum of seven continuous days, one to two hours a day, at a set time. It should take place in the community where the potential members live. Training can take much longer than seven days, depending on the educational level of the potential members as well as the skill of the Center Manager. Just remember that the goal is to ensure that potential members fully understand the program and their responsibilities within their group, Center and the broader organization. Grameen-style programs must develop their own training programs by taking into consideration the educational level, cultural context, and skill and experience of the individual trainers.

### C. Special Considerations

#### 1. PUNCTUALITY AND ATTENDANCE RECORD

One of the critical aspects to credit discipline is the timely attendance at Center meetings. It is also one of the most difficult goals to achieve, especially if not enforced strongly and consistently from the beginning. Grameen Bank and successful replication programs stress the importance of punctuality. They start developing this institutional culture during the first meetings with potential clients. The reason for this is two-fold. Once the groups are federated into “centers” (see discussion below) and start holding weekly Center meetings, it becomes very difficult to enforce a culture of strict discipline among the 25 to 50 women in the Center should a significant percentage of them arrive late. This causes discontent among the members who have taken valuable time away from their businesses to attend the meeting on time. It is the organization’s responsibility to provide an efficient and effective service to its members. This is obviously hampered by permitting a lax attitude about punctuality. It also presents a challenging operational issue for an organization that strives to optimize the time Center Managers spend in the field, so they can attend the optimum number of Center meetings in a day and still tend to other aspects of their work—like office tasks and frequent visits to borrowers’ homes and businesses. Everyone loses by failing to instill a culture of punctuality.

Therefore, from the start, training sessions must start punctually at an agreed-upon time. To stress punctuality and attendance, Center Managers should formally take role call at the beginning of training meetings. Until all members are present, the training session should not begin. Center Managers will wait up to 10 minutes for members to arrive. If some members have not arrived by that time, Center Managers often tell those members in attendance that the training session is rescheduled to the following day, when everybody is in attendance on time. Some organizations worry about the community cost of this “lost time,” but all should recognize the process of group formation is important. If the investment in instilling group discipline is done right from the beginning, it will pay off in terms of stronger Center discipline and lower default rates.

## 2. COMPULSORY SAVINGS

Grameen believes that the weekly compulsory savings represent an important aspect of the training because it fosters a culture of savings and strict discipline. It requires potential members to bring a small amount of money to each training session. Each individual member should be entrusted to keep this collective money for one night and to then bring it to the next session. Upon the successful completion of the training period, members can then deposit this money into their new savings accounts.<sup>9</sup>

## 3. SELECTION OF LEADERSHIP

Every group in the Grameen system has a Group Chairman and a Secretary. The positions are selected through a formal election process, initially at the end of the continuous group training and then every year thereafter, during the general elections for all Grameen Center and group leadership positions. The Chairman and Secretary have their own set of responsibilities (explained later). During the Continuous Group Training sessions, Grameen begins to introduce the concept of group leadership through the daily election of a Group Chairman. During each day of training, the group selects someone to act as Group Chairman. At the end of the training period, the group formally elects a Chairman and Secretary.

## 4. VERIFICATION OF POVERTY STATUS

Poverty assessment should be conducted by the Center Manager using the appropriate poverty-assessment tools before initiating group training. During the training period, it is good practice for the Branch Manager to verify the correct completion of the poverty assessment tool on a spot-check basis. Before formal group recognition by a supervisory officer, the Branch Manager should have verified the poverty status of the majority of the potential members, as determined by the poverty assessment tool.

## D. Core Contents of Group Training

Continuous Group Training should systematically review all of the key concepts and rules of the program as well as the responsibilities of group members. The potential members should understand that this represents their opportunity to fully learn about the program before obtaining a loan and assuming any obligation. They should be made aware that there is a test (the “Group Recognition” test) at the end of the continuous training, so they should pay special attention to what they are taught.

Many Grameen-style programs and other group-based lending programs have developed training guides for the group training sessions. These serve as useful tools for Center Managers. The following is an example of the core contents discussed during the seven-day training sessions within Grameen Bank. These examples should be adjusted to fit your own program goals, methodology and procedures. (Note: *Annex 5.1: Training Questions for Field Staff Used by Grameen Bank* provides key questions and answers on basic information that a member should know.)

### DAY 1: TRAINING SESSION NO. 1

*Note: The Branch Manager and Center Manager should visit the homes of prospective members to check eligibility at this stage or earlier.*

- Session opens and Center Manager helps to properly organize seating of members
- Attendance book entries (begin to teach those who can't write to sign their names)

<sup>9</sup> Savings will be discussed in more detail in *Section 4: Financial Products and Services*.

- Explain vision, mission and objectives of the program
- Quick review of the basic products and services that the program offers
- Criteria for program and group membership
- Understanding why group training is essential for a GB-style program
- Why groups and centers are required for a GB-style program
- Why weekly (or biweekly) Center meetings are conducted
- Why loan installments are collected
- Why the borrower should attend the Center meeting
- Discussion on savings and collection of savings, if applicable (entrust one member to hold savings collected during the day)
- Introduction of the verbal contract and program slogan (this is discussed in detail under the topic “Creating and Maintaining Credit Discipline,” later in this Section)
- Close session with the program slogan

## **DAY 2: TRAINING SESSION NO. 2**

- Session opens formally (members should be seated properly)
- Attendance book entries (continue to teach those who can’t write to sign their names)
- Review of session No. 1
- Meaning of discipline and why it is so important to a GB-style program
- Responsibilities of group members, Group Secretary and Chairperson
- First election of Group Chairperson and Secretary
- Collection of savings, if applicable (entrust one member to hold savings collection)
- Close session with the program slogan

## **DAY 3: TRAINING SESSION NO. 3**

- Attendance book entries (continue to teach those who can’t write to sign their names)
- New election of Group Chairperson and Secretary
- Review of session No. 2
- The Center and its socioeconomic role
- Responsibilities of Center Chief and Secretary and how they are elected
- Loan products and terms
- What is a loan proposal?
- How is a loan proposal made?
- How is a loan amount determined in respect of the loan purpose?
- What roles are played by Center Manager, Group Chairperson, Center Chief and members in making a loan proposal?
- How is a loan proposal approved?
- What is the loan disbursement system?
- Collection of savings, if applicable (entrust one member to hold savings collection)
- Close session with the program slogan

## **DAY 4: TRAINING SESSION NO. 4**

- Attendance book entries (continue to teach those who can’t write to sign their names)
- New election of Group Chairperson and Secretary
- Review of session No. 3
- What is loan utilization?
- Why is loan utilization important?

- What is the group's role in loan utilization, and when should the Center Manager and Group Chairperson check loan utilization?
- Repayment procedures, calculation of amount due, effective interest rates and discussion of proper receipts (passbooks or paper receipts)
- When and how is group membership cancelled?
- Collection of savings, if applicable (entrust one member to hold savings collection)
- Close session with the program slogan

#### **DAY 5: TRAINING SESSION NO. 5**

*Note: Branch Manager should attend Session No. 5 to assess the quality of training provided.*

- Attendance book entries (continue to teach those who can't write to sign their names)
- New election of Group Chairperson and Secretary
- Review of sessions No. 3 and 4
- Details on the savings aspect of the program (obligatory and voluntary), system of withdrawal, interest earned, etc.
- Details on other products and services of the program (e.g., loan insurance, etc.)
- Collection of savings, if applicable (entrust one member to hold savings collection)
- Close session with the program slogan

#### **DAY 6: TRAINING SESSION NO. 6**

- Attendance book entries (continue to teach those who can't write to sign their names)
- New election of Group Chairperson and Secretary
- Review of session No. 5
- Why is a Center house required in a GB-style program? When should a Center house be built by borrowers themselves?
- What is the ideal seating arrangement in a Center meeting? Why?
- What are the "Sixteen Decisions" (the number could be greater or smaller, depending on local context of the GB-style program) and why are they essential?
- Collection of savings, if applicable (entrust one member to hold savings collection)
- Close session with the program slogan

#### **DAY 7: TRAINING SESSION NO. 7**

*Note: The Branch Manager should attend this session to verify the results of the training and ensure that she or he can recommend the group(s) for recognition by a higher authority*

- Attendance book entries (continue to teach those who can't write to sign their names)
- New election of Group Chairperson and Secretary
- Review of sessions No. 1 through 6
- How do borrowers keep accounts for loan (and savings, if applicable) transactions?
- When and how often should the borrower's passbook be checked with the official record?
- Collection of savings, if applicable (entrust one member to hold savings collection)
- Close session with the program slogan

## V. GROUP RECOGNITION

### A. What is the Group Recognition Test?

The Group Recognition Test (GRT) is the final stage in controlling the quality of a proposed group. Quality control means ensuring that all members meet the eligibility criteria; have a good understanding of the program’s objectives and procedures; and understand and agree to carry out their obligations. The group recognition test should assess the group members’ understanding of their responsibilities and the program rules. The emphasis should be on asking the “*why*” questions, more than the “*what*,” as this is more than a memory test.

The GRT is the last stage of group formation and is done orally. It should be conducted by a senior-level staff member, such as a Program Officer, Area Manager or higher up, if necessary. It should be conducted in the presence of the relevant Branch Manager, Center Manager and Center Chief, and in the location where future Center meetings are to be held.

The GRT should include visits to the homes of all prospective group members to physically verify they are eligible to participate in the program, and include verbal testing of all information supplied previously through discussions with family members.

### B. Objectives of the Group Recognition Test

- a) Verify the poverty status—does the prospective member belong to the bottom poor, moderately poor or non-poor category? Those falling in the non-poor category must be excluded.
- b) Determine if the potential members satisfy the requirements for group formation and ask them questions to determine whether they know each other.
- c) Determine the knowledge and the understanding of, and their agreement with, the objectives and rules of GB.
- d) Obtain reactions from potential group members on what attracts them to the GB program and how it could be made more attractive.
- e) Verify the attendance record during CGT by checking their signatures in the attendance register.

### C. Result of the Group Recognition Test

A supervising officer—either the Program Officer or Area Manager—should announce the results of the GRT immediately after the test. There shouldn’t be a delay, as potential members eagerly await the results. Groups that do not pass the recognition test should undergo further training as prescribed by the senior staff member who conducted the test. The staff must explain why a group was not recognized and encourage the group to resume further training until it does pass. The supervising officer should make it clear to the Branch Manager and Center Manager what weaknesses exist in the training or member-selection process and how they can be addressed.

Once a group passes the Group Recognition Test it may be considered “recognized” by the program. This clears the way for its members to receive their first loans. In the case of Grameen Bank, this also means that the members may qualify to buy Grameen Bank shares.

## D. Limits to the Number of Groups Taking a Group Recognition Test

Grameen Bank's experience has shown that it is advisable to limit the number of groups in a single recognition session to no more than three. That way, each individual member can be adequately tested in a reasonable amount of time.

## VI. ESTABLISHING AND MANAGING A CENTER

Grameen Centers have the following broad goals:<sup>10</sup>

- To create social strength among members
- To provide GB a mechanism for adequate control over Center meetings
- To create a sense of discipline, proper attitude and a spirit of cooperation (among each other and within GB) that enables members to take full advantage of the opportunities created by Grameen to bring change to their socioeconomic conditions
- To create a sense of responsibility among the members and the groups so that they do not violate bank rules and regulations
- To motivate and create new opportunities to train members, identify joint initiatives, and help increase skill and efficiency in different trades
- To contribute to the efficiency of the operations of the program so that costs are kept down.
- To serve as a place to resolve social problems locally
- To serve as a forum for the empowerment of the members through opportunities for leadership roles, as well as joint decision-making
- To serve as an accountability filter for loan disbursement to members and for the collection of repayments and savings from members



003. Meeting of Grameen members

### A. The Center and Its Importance in the Grameen System

The Center is the main operational unit of Grameen Bank. It is generally initially formed with a minimum of two groups of five members. Depending on demand and available space, over time it may even include up to 10 or even 12 groups. The most established centers in Grameen now host 10 to 12 groups (with 50 to 60 members), although most replication programs have capped the number of groups at six to eight (30 to 40 members). That ensures that meetings are efficient and manageable.

<sup>10</sup> Drawn from Grameen Bank Basics training materials provided by the Grameen Bank Training Center.

The Center is where most of Grameen Bank's transactions take place, including the collection of weekly repayments of loan principal and interest, savings, loan proposals and the discussion of social topics. In the Grameen system, the Center meeting plays a critical role in the success of the program. During Center meetings, borrowers not only carry out scheduled financial transactions with program staff, but also interact with each other, exchanging ideas and finding solutions for personal, community and institutional problems.

## **B. Duties of a Center**

Grameen Bank creates an opportunity for its members to enjoy a financially secure future. The Center's main responsibility is to ensure that its members secure this opportunity by instilling in them the proper vision of this goal, respect for discipline and creation of an environment of compliance within the rules of the bank.

The Center must be alert to cases in which members are unmindful of bank transactions, break the rules or forego their group duties. Grameen Bank administration considers it their duty to demonstrate to Center members the proper use of loan funds and the method of loan repayment. All disagreements and misunderstandings between Center members will be settled within the Center. It shall establish a stable working environment through the fair judgment of disputes arising in the Center.

All group chairpersons in a Center shall maintain regular communication with bank staff and shall enlist the bank's help in keeping the loan processes running smoothly.

## **C. Factors to Consider in Forming a Center**

There are various factors that Grameen Bank considers when choosing to form a Center in a given community. These include:

- The percentage of landless people in the area
- The lifestyle and occupation of those people
- The activities of other development-oriented NGOs and financial institutions
- Distance from the nearest branch office and communication system
- Eagerness of the local landless people to participate in the program
- Economic and social conditions of the proposed area
- Marketing facility for the goods produced by the landless people in the area
- Political environment and religious attitudes of the people in the area, as well as overall security

## **D. Fixing the Time and Location**

Members should choose a fixed day, time and place suitable for their weekly Center meetings. The location and time should be such that all members find it easily accessible and convenient to attend.

In Grameen Bank, a Center Manager generally oversees two Center meetings a day, with both starting before 10 a.m. (the most typical starting times are 7 a.m. and 9 a.m.). In replication programs, the time varies but generally it is important for Center meetings to take place in the morning hours. That is

because cash in hand represents a security risk; it is important that collected money be deposited in a commercial bank that same day. Although typical meetings should not last longer than an hour, an equal amount of time should be set aside between the end of one meeting and the beginning of the next. That gives Center Managers time to deal with any problems that arose in their first meeting, without being late for the second. It also provides time to make regular visits to member businesses. Many Grameen-style programs have streamlined their Center meeting activities so that they are able to complete the meeting in 30 to 45 minutes. This also makes it possible for the Center Managers to

conduct more than two Center meetings a day, if necessary, thus increasing their caseload, productivity and program efficiency. Care must be taken, however, to ensure that Center quality, in particular Center discipline, does not suffer when the meeting duration is shortened.



004. Women at a meeting center

### **E. The Place of the Center Meeting: The *Center House* Concept**

A Center House plays a critical role in a microcredit program as it is used for a variety of activities. A permanent Center House fosters sound discipline, unity, integrity and member solidarity. Finding an appropriate place to hold Center meetings can be a challenge. It is very important that there be enough room for all members to sit comfortably and in proper order within their groups. If not, it can be very difficult to maintain good attendance and member participation. In addition, it is important that

Center meetings be held in a safe and quiet place—and not in public places, such as an open field, stall or alongside a road. We want for all members to be as comfortable as possible. As their sense of security grows, so does their potential for empowerment.

Many replication programs hold Center meetings at a member's house or in a community center. Initially this may be considered as a temporary option, as long as there is sufficient space. Within Grameen Bank, Center meetings eventually take place in a “Center House,” a permanent structure built by members themselves using inexpensive materials they purchase themselves.

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*The Center House concept is an aspect of Grameen's program that most replication programs have not yet been able to implement, despite recognizing its importance. It is strongly recommended that this topic be discussed during the group training and frequently at each Center meeting, to motivate and encourage the members to take this step toward formalizing their Center in the community.*

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The independence and impartiality of the Center can be hampered if meetings occur at a borrower's house or in an open place. Thus, Grameen encourages members to build a Center within one year of a



Center’s formation. To raise the necessary funding required for such a project, the members deposit savings in a collective account. The location of the Center House should be close to the majority of member homes, to ensure accessibility.

## F. Frequency of Center Meetings

In Grameen Bank, more than 7 million borrowers currently attend weekly Center meetings. Most other Grameen-style programs around the world also report holding meetings with that frequency. There are a few replication programs, however, that have opted for Center meetings every two weeks. The decision to do so mostly has to do with the institution and its concerns with high operating costs. For example, in areas of low population density the distances separating branch offices from the field are greater, so transportation costs and travel times are higher. Smaller meetings every two weeks (with 20 to 25 members), instead of larger weekly meetings (with 40 to 50), mean that one Center Manager can handle more centers (two per day for 10 work days every two weeks, or 20 centers in total, instead of two per day for five work days each week, or 10 centers in total, when meetings are held weekly). They also can carry a total client workload comparable to the workload of Center Managers handling larger Center sizes that meet weekly (400 to 500 clients per Center Manager).<sup>11</sup>

However, this issue requires careful consideration. In market surveys of product designs under new or existing programs, many potential members indicate they would prefer more time to pay—for example, bi-weekly or even monthly repayment schemes. However, weekly meetings mean that members have smaller, easier installments to make (that is, half of what a once-every-two-weeks installment would be). For a very poor person with limited experience in managing money, smaller installments foster success and build confidence. In addition, more frequent meetings ensure that the Center Managers stay more closely connected to the members and their communities. As opposed to seeing and interacting with clients every 14 days, weekly meetings ensure that there is an organized engagement every seven days.

Strict credit discipline and close supervision are essential factors in the success of Grameen Bank and Grameen-style programs. Less frequent contact may work for more established businesses and less poor or non-poor clients, but for the target population of Grameen-style programs, it represents a greater risk. Some programs, however, have tried a compromise: They opt to initiate the program with weekly Center meetings to help in establishing discipline from the beginning. Later, after a few successful cycles, they give members the option to meet only once every two weeks.

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*A few replication programs, like Haiti’s Fonkoze, had tried monthly Center meetings for loan repayments and savings installments. However, they have found that this is difficult and goes against the goal of creating a more permanent and close-knit associations for women who support their own development as well as that of the community. For this reason, they have moved to conduct weekly meetings to encourage the developmental aspect of the program (and take advantage of their literacy and education programs, for example) while maintaining monthly loan payments.*

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<sup>11</sup> A more detailed discussion of Center Manager workloads is provided in *Section 10*, under the heading “Center Manager Workload.”

## **G. Center Meeting Procedure and Agenda**

All activities of the Grameen credit program occur at the Center meeting. Every week, on a set day and at a set time, all recognized group members must attend the Center meeting. The Center meeting should be conducted in a business-like manner and should follow a set agenda. Remember that the duration of the Center meeting should not exceed one hour; longer meetings strain the patience of members and may even precipitate their withdrawal from the program. Therefore, the Center Manager and Center Leader must be well organized and efficient in managing meetings.

The following are the key components of a Center meeting within the Grameen Bank program. Replication programs design their own agenda consistent with a given socio-cultural and geographical context, but should be careful to include discipline and order in the proceedings. Rules of conduct and the responsibilities of each member should be clear and consistently encouraged.

### **1. TIMELY ATTENDANCE**

Group Chairpersons, Group Secretaries, the Center Leader and Deputy Center Leader must consciously take steps before the start of every Center meeting to ensure full attendance. At least five minutes before the meeting is to start, the Center Manager should arrive at the Center. She should then begin the meeting promptly, as punctual attendance is expected.

The key to maintaining good credit discipline lies in the insistence upon regular attendance at the weekly Center meeting. Attendance should be recorded in the Center Attendance Register. The attendance record of a member should be considered when she seeks a new loan. A reward program can recognize those members who attend weekly Center meetings regularly and in a timely manner.

While it is a good practice to insist on regular attendance, that is especially true for members who are having difficulty repaying a loan. More often than not, members who do not have the full installment due will simply avoid the meeting. This practice only exacerbates the problem, as the group and Center members are unable to know her situation and assist with a solution. It is highly recommended that Center Managers and members work together to establish a mandatory attendance policy for Center meetings.

### **2. SITTING ARRANGEMENTS AT A CENTER MEETING**

Grameen Bank and other replication programs believe that proper seating is also an important element of creating Center discipline. Members acquire discipline by sitting in the same place at every meeting. Ideally, members should sit in a U-shape formation inside the Center house, with the group Chairperson, the group Secretary and the remaining members, respectively, seated from right to left. The Center Manager should sit facing the members. Although it may seem tedious at first, establishing this kind of order from the start can greatly contribute to overall Center discipline.

### **3. FORMAL START OF THE MEETING AND ATTENDANCE**

In Grameen Bank, the Center Chief requests permission from the Center Manager to begin the meeting. Some Grameen-style programs have adopted their own slogans they feel appropriate to their own context. In many replication programs, they begin with a prayer in lieu of a slogan. The important aspect of this ritual is that there is a formal and meaningful way to start and close every meeting, under the leadership and responsibility of the Center Chief.

The Center Manager then checks member attendance on the register. The strict control of attendance and note of tardiness is an important aspect of credit discipline. Lack of control in these areas can waste time and break down Center discipline.

#### **4. LOAN, INTEREST AND SAVINGS COLLECTION**

After checking attendance, the “weekly collection” is the first thing on the agenda. Groups are called by number. The group Chairperson collects all passbooks, and installments, from her fellow group members and brings them to the Center Chief. The Chief then hands them over to the Center Manager, one group at a time. The Center Manager (CM) tallies the installments, enters that total on a Collection Sheet and makes corresponding entries in the individual passbook of each borrower and signs the passbook<sup>12</sup>. Finally, the Center Manager hands the passbooks back to the Center Chief. The CM then closes the collection sheet once all dues from the groups have been received. The Center Chief should help the CM in this process.

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*In many replication programs, there are unfortunately serious problems with robbery and delinquency. To overcome them, some programs have taken a variety of approaches. In Honduras, for example, Fundacion Adelante moved to a completely cashless collection and disbursement system. Under this system, group chairpersons deposit in a bank the installments of individual group members before the meeting. Then, at the Center meeting, they present the deposit slip in lieu of cash. Most programs also have moved to disbursement in check form, to avoid the handling of large amounts of cash at the branch office. CASHPOR in India follows such a practice.*

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#### **5. LOAN PROPOSAL PROCESS**

After the collection, the CM asks the Center Chief whether any members have pending loan proposals. If any do, the Center Chief writes a draft loan proposal (following a prescribed form). After discussions with the concerned member, overall group and Chairperson, she then recommends a loan amount, taking into consideration the proposed activity to be funded. The CM may ask questions of the borrower regarding the purpose of the current loan, the previous loan’s purpose and loan amount, and check her record of attendance at Center meetings. The CM can accept the Center Chief’s recommendation, if convinced of the soundness of the loan proposal, or choose to reduce the proposed loan amount. The CM cannot increase the amount recommended by the Center Chief. If necessary, the CM may visit the borrower’s house to view the microenterprise financed under a previous loan.

#### **6. DISCUSSION ON DEVELOPMENT ISSUES**

The Center Manager should discuss with members any issues, including loan activities, credit discipline, Center discipline and their children’s education. Doing so can identify for the CM a set of issues that may require more focus during detailed discussions over the year. Every week, at least one issue should be discussed by the CM for five to 10 minutes.

#### **7. FORMAL MEETING CONCLUSION**

With permission from the Center Manager, the Center Chief concludes the Center meeting by leading the members and staff in the recital of the Grameen slogan: “Unity, hard work and discipline—in all walks of our lives.”

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<sup>12</sup> Member passbooks are the “receipts” that the Bank provides with every transaction—both savings and loans.

## H. Election of Members to Leadership Positions in their Groups and Centers

Each member in the Grameen system has duties and responsibilities. The importance of these responsibilities is two-fold: to empower and encourage the women to be active leaders in their development, and to support the efficient and proper functioning of the program.

Within Grameen Bank, each group of five members elects one Group Chairperson and one Group Secretary. Every Center (made up of as many as 10 to 12 groups) elects one Center Chief or leader, as well as a Deputy Center Chief. These leaders are generally elected for a one-year term. Group members elect a new Chairperson and Secretary from the members of the group, with the exception of the existing Group Chairperson, who may not serve more than one term in a row. Following Group leadership elections, the Center Chief and Deputy Center Chief are elected from among the newly elected Group Chairpersons. Ideally, the election of Center Chiefs and Deputy Center Chiefs should take place within a few weeks after the election of Group Chairpersons.

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*Most replication programs also work to empower this leadership aspect of their programs. The terms used for the leaders vary, as sometimes do the number of positions. Latin American organizations that have been exposed to the village banking methodology often choose to elect a whole “board of directors,” including a Center Chief, Vice Center Chief, Secretary and Treasurer. Whatever the composition, these leaders share a key function: to help establish member ownership in the Center and provide opportunities for leadership development.*

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Shortly after the election process, ideally within a month, a workshop or special meeting should be arranged to teach the new officers their duties and responsibilities. It is most effective when these special workshops are led by both the Branch Manager and Center Manager, in forums of no more than 50 officers.

## I. Duties and Responsibilities of the Leadership of Centers and Groups

Every member of Grameen Bank—the group and Center officers, as well as ordinary members—has specific responsibilities. These duties and responsibilities should be fully reviewed during the Continuous Group Training, and should be followed up and enforced at every juncture.

### 1) GROUP MEMBERS

Every member has the following responsibilities that they agree to before committing to become members of the Bank:

- a) Attend weekly Center meeting regularly and on-time.
- b) Participate in all formal activities during weekly Center meeting.
- c) Pay weekly installments of principal plus interest, as well as contribute to savings.
- d) Utilize loan money as stated in the loan proposal within a certain time frame.
- e) Look after respective group members and help them if they are in difficulty.
- f) Comply with all rules and regulations of the organization and the center.

### 2) FUNCTIONS OF THE GROUP CHAIRPERSON

- a) Arrive at weekly meetings on time with other four members of own group.
- b) Sign the Center member attendance register and sit in proper row with other group members at Center meeting.

- c) Collect member loan and savings passbooks, with their respective installments, and present them to the Center Manager through the Center Chief. Later, return passbooks to group members.
- d) Verbally present all loan proposals from fellow group members.
- e) Check the utilization of newly received loans by group members within a week of loan disbursement. Also support the organization in creating a culture of effective loan utilization in funding productive activities, as indicated in the approved loan proposal.
- f) Check the group member businesses on a regular basis for potential problems.
- g) Visit respective group members occasionally.
- h) Represent the group in workshops or other special meetings when necessary.

### **3) FUNCTIONS OF THE GROUP SECRETARY**

- a) Arrive at weekly meetings on time and sign attendance register.
- b) Give support to the group leader in organizing one's own group.
- c) Serve as Acting Group Chairperson when she is absent from the meeting.
- d) Present the verbal loan proposal for the Group Chairperson.
- e) Check the utilization of the loan received by the Group Chairperson.

### **4) FUNCTIONS OF THE CENTER CHIEF (CENTER LEADER)**

- a) Arrive on time with other four members of own group.
- b) Encourage other group leaders to arrive on time with all members of their groups.
- c) Formally open and close Center meetings after seeking permission from Center Manager.
- d) Sign Center attendance register and instruct other members to do so as well.
- e) Sit with own group and request other group leaders to sit in rows according to group number/order of formation (the first group formed within a Center is "1," the second group is "2," etc.).
- f) Collect passbooks with installments from each Group Chairperson (including one's own group) and deliver them to the Center Manager. Later return them to the Group Chairpersons.
- g) Formally propose the approval of new loans for Center members to the Center Manager. If possible, help write the loan proposals for the members of the center.
- h) Check the loan utilization of one's own group.
- i) Take steps to resolve all social problems among members and between members and others.
- j) Inspire all members to construct their own Center House, follow proper seating arrangements, and maintain proper Center upkeep.
- k) Attend workshops and special meetings arranged by the organization and relay all decisions/discussions to Center members. Help members fulfill obligations under these decisions.
- l) Maintain regular contact with the organization and extend help and cooperation to the Center Manager and other program authorities.
- m) Help the Center members to apply the Sixteen Decisions in all areas of their lives.
- n) Recommend new members to the branch manager and help certify them.

### **5) FUNCTIONS OF THE DEPUTY CENTER CHIEF**

- a) Serve as Acting Center Chief in case of her absence.
- b) Help Center Chief properly fulfill her responsibilities.
- c) Provide necessary suggestions to Center Chief in time of need.
- d) Formally present loan proposals to the Center Chief.
- e) Check loan utilization of Center Chief.

## J. Role of the Center Manager in Ensuring the Smooth Functioning of Both Group and Center<sup>13</sup>

It is critical that the Center Manager follow a strict code of conduct when managing the Centers. The Center Manager's role is to motivate and empower the members to take responsibility for their Center and the wellbeing of other members. The most effective centers are those that have developed strict but fair discipline from the beginning—starting with the initial training sessions and continuing throughout all Center meetings. The following elements are crucial to the Center Manager's work in creating and supporting the smooth functioning of groups and centers:

- a) Ensures punctual attendance at all Center meetings.
- b) Ensures the presence and punctuality of all Center members.
- c) Ensures that all Center members sign the attendance register before the start of the meeting.
- d) Starts and ends Center meetings with the permission of the current Center Chief, as per rule.
- e) Takes loan proposals from the Center on time and as per rule.
- f) Extends all sorts of cooperation and gives proper advice on the utilization of new loans.
- g) Properly checks the use of loans provided to Center members.
- h) Does not give any false hope nor lies to members.
- i) Strictly keeps any word given to a loanee.
- j) Works with honesty and dignity.
- k) Treats all members equally.
- l) Openly discusses everything with members to avoid any misunderstanding about the bank.
- m) Always behaves with decorum to keep any social issues from clouding business relations with loanees.
- n) Strictly applies client eligibility criteria when forming a group.
- o) Attempts to avoid overlapping with other social-development institutions working in the same area. Works to rectify any identified case of overlap.
- p) Maintains good relations with local residents.
- q) Helps all members realize the Sixteen Decisions in their lives.

## K. Role of the Branch Manager in Ensuring the Smooth Functioning of Both Group and Center

The Branch Manager also plays an important role in the smooth functioning of a branch's groups and centers. The Branch Manager:

- a) Maintains good relations with various government and non-government institutions working in the same area, as well as with local residents.
- b) Regularly makes scheduled and surprise visits to centers.
- c) Ensures that Center Managers attend Center meetings on time.
- d) Maintains good relations with all branch staff.
- e) Motivates branch staff to maintain team spirit, mutual support and cooperation.
- f) Ensures that branch staff properly perform all duties during Center meetings.
- g) Motivates staff to execute all decisions and instructions handed down by higher authorities.

<sup>13</sup> This information was drawn from Grameen Bank Basics training course, provided by the Grameen Bank Training Center.

## VII. CREATING AND MAINTAINING CREDIT DISCIPLINE<sup>14</sup>

### A. What is Credit Discipline?

Using an analogy helps to understand the concept of credit discipline. If we think of a credit institution as a human body, credit discipline would represent its health. If anybody's process ceases to function normally, their overall health will deteriorate. Similarly, any failure to properly execute the processes that create and maintain strict credit discipline will cause credit to deteriorate. As a result, the credit institution will become "seriously ill."

But how can we know if a credit institution is healthy or seriously ill? We take its "temperature" by looking at its repayment rate (the amount paid divided by the amount due, multiplied by 100), and look at its "growth," or the increase in the amount of those loans outstanding. If the repayment rate and/or amount of loans outstanding begin to drop, then we say a credit program is ill. If it is indeed ill, we suspect strict credit discipline is at issue. We next examine where and how. In short, strict credit discipline means:

- Staff and members have a clear idea of their responsibilities and carry them out accordingly.
- Members regularly and punctually attend weekly Center meetings and participate in other Center activities. Any absence must have prior approval from the Center Chief.
- Center meetings are conducted in a prescribed and business-like manner, with members sitting in their respective places and Group Chairpersons and Center officials performing their duties.
- Loan amounts are carefully determined according to loan activities and ability to repay.
- Loan disbursement is made on time and the disbursement process is highly transparent.
- Loans are used primarily for approved activities, as verified by careful loan utilization checks by both Center officials and staff.
- Repayment of principal and interest is in full and on time.
- Surplus income is used for the improvement of the standard of living of the entire family.

It is not easy to achieve all these elements of strict credit discipline. Strict credit discipline does not exist naturally; it must be created and maintained. Borrowers, at least initially, don't like to be so disciplined. They will continually "test the limits." Creating and maintaining strict credit discipline involves many processes.



005. Grameen member repaying loan at center meeting

<sup>14</sup> This section on Creating and Maintaining Credit Discipline is wholly composed of excerpts from CASHPOR's *Training Manual on Creating and Maintaining Credit Discipline*, published by the Grameen Trust. It is strongly recommended that those interested in developing a Grameen-style Microcredit program read the full manual, as credit discipline is crucial to the overall success of the Grameen methodology.

## B. Creating Strong Credit Discipline

Creating strong credit discipline requires following certain processes and practices. Together, they promote solidarity among group and Center members, peer pressure and support, compliance with the rules and regulations, and motivation to improve the well-being of member families. These include:

### 1) PROPER TARGETING

Targeting is the first essential step in creating strict credit discipline. Targeting selects only those clients who are most likely to accept and comply with the program's rules and regulations—i.e., genuinely poor women. Only they will accept the firm discipline required to run a financially viable credit program. Essentially, this is because they have few, if any, alternatives to earn or increase their cash income. They also are determined to improve the prospects for their children in any way they can. The non-poor, on the other hand, are less likely to attend compulsory training, memorize rules, take the group recognition test, attend Center meetings regularly, repay weekly and agree in principle to share responsibility with poor participants. They have other opportunities and won't see a reason to accept such discipline. If allowed into the program, they will undermine discipline among poor participants.

### 2) GOOD GROUP FORMATION

Groups form the building blocks of the Grameen Bank approach. To build a Grameen-style program that has discipline, its building blocks—the groups—must be strong. A strong group is one in which the members accept that it is in their own self interest to ensure that all group members fulfill their obligations. The group should translate this acceptance into action. That action proves the group's creditworthiness through proper utilization of loans and the full and timely repayment of all loans by each member. (The criteria for good group formation are discussed in an earlier section.)

### 3) CONTINUOUS GROUP TRAINING

The role of Continuous Group Training (CGT) is to create a culture of credit discipline and to ensure that all members have a minimum understanding of the credit program. First, the objectives, rules and regulations of the credit program must be explained and understood. Second, all the rights and obligations of members must be understood and accepted. The reasons behind the program's rules and regulations need to be emphasized in training. (The process of Continuous Group Training is discussed in detail in an earlier section under the same heading.)

### 4) THE VERBAL CONTRACT—ATTENDANCE, REPAYMENT AND COLLECTIVE RESPONSIBILITY

The role of the verbal contract is to elucidate and cement the relationship between the members and the credit program, as well as protect the rights of both parties. To do so, the verbal contract should form the centerpiece of Continuous Group Training. During CGT potential members should understand and accept the conditions stated in the contract. If members faithfully carry out their obligations as stated in the verbal contract, their right to the program's continuous line of credit is ensured. Should they break their verbal contract by not fulfilling their obligations, then the program has a right to withhold further credit to the member, group and Center until they fulfill all collective responsibilities.

The following is a suggested verbal contract:

- On the part of the borrower:  
*“We pledge to attend regularly the weekly Center meetings, to utilize our loans for the purpose approved, to save and pay our installments weekly, to use our increased incomes for the benefit of*



*our families, to ensure that other members of our group and Center do likewise and to take collective responsibility if they do not.”*

- On the part of the staff/program:  
*“If you keep your word, we pledge continuous, honest and timely delivery of the credit you need for approved income-generating activities.”*

## **5) THOROUGH GROUP RECOGNITION TEST**

The Group Recognition Test (GRT) is the most effective method available to the credit program to exercise quality control over its customer base. Quality control in this instance means ensuring that all members meet the eligibility criteria, have a good understanding of the objectives and procedures of the program and understand and agree to carry out their obligations. Once these conditions are met, the program takes a major step toward creating strict credit discipline. In order to ensure the GRT is conducted thoroughly, the process should closely follow a set of guidelines (discussed earlier in the section on Group Recognition).

## **6) ADMISSION OF NEW GROUPS TO THE CENTER**

After Group Recognition, the new group is presented to the nearest Center the following week. This should be done in a simple but serious ceremony in which the Center Chief reports on the results of the Group Recognition Test. The new group should be asked whether it agrees with the verbal contract and will follow all the rules of the credit program. They then are asked whether they wish to join the center. Once they reply in the affirmative, the current Center members should be asked whether the members of the new group are credit worthy. If the reply is “yes,” the new group is accepted into the center. New Center members can then start with their first loan cycle, to prove their credit worthiness. The formality of accepting new groups into the Center is important; once the Center has accepted them, it also must accept collective responsibility for members, both new and old. Similarly, when the new group is asked formally whether it wants to join the Center and its members respond affirmatively, they too assume the collective responsibility for both its own members and those already part of the center.

## **7) CENTER DISCIPLINE**

The new group then takes its place at the back of the center, with its Chairperson and Secretary sitting immediately behind those officers of the previously admitted groups. Likewise, the three ordinary members of the new group take their places behind their counterparts in the group in front of them. The new group will sit in the same places at subsequent Center meetings, until there is a change in the group’s office holders following an election.

Proper seating is the beginning of Center discipline. Members acquire discipline by sitting in the same place at every meeting. If Group Chairpersons insist upon this rule, the members will follow. And once they follow, they tend to follow all other rules of the credit program.

Center discipline also requires compulsory attendance at Center meetings. Members not present when a loan is approved may subsequently refuse collective responsibility for its repayment; after all, they did not take part in its approval. Similarly, to ensure the effective transparency of all transactions, loan approvals must be witnessed by all Center members. In general, credit programs that are strict on attendance do not worry about defaults. Members are only human and over time tend to test the limits of program discipline. If you fight your battle on attendance, you will not have to do so for repayment.

Similarly, Center discipline also demands the punctuality of staff and members in attending Center meetings. If everyone remains punctual, then all will view the Center meeting as a formal event that warrants serious attention. But if staff keeps members waiting by arriving late to Center meetings, the members in turn will see no reason why they should be punctual. Eventually, they too will regularly arrive late—and start to challenge the other rules and regulations of the credit program. To ensure that this does not happen, staff and members must face some form of penalty should they arrive late at Center meetings. The Area Manager or Branch Manager should check up on the staff with surprise field visits. And the Center Chief should impose small but deterrent financial penalties on tardy members. Furthermore, Center Chiefs, Group Chairpersons and Secretaries must be replaced immediately if they break any verbal contract, to ensure that they set a good example for their fellow members.

Finally, Center meetings should be conducted in a business-like, serious manner. They should begin and end with a recital of the verbal contract by members and staff alike. Members should keep their focus on the business at hand, and not discuss other matters during meetings.

### **8) Strict Adherence to Loan Proposal Procedures**

The loan proposal procedure must be strictly followed, to allow group and Center members the opportunity to both satisfy their queries and ultimately approve or deny the proposal. If group and Center members did not have an opportunity to voice objections to a proposal, it would be difficult and unreasonable to later impose collective responsibility if necessary. Details on loan proposal procedures are discussed in a subsequent section.

### **9) Cost-effective Loan Utilization Check**

Bad loan utilization is the major cause of repayment problems. If the loan capital is not invested in an enterprise that generates an income stream, the borrower will most likely face problems keeping up with repayments. Demonstrating good credit discipline includes showing how to utilize loan capital to undertake approved activities that generate income. However, initially it must be assumed that members do not have good credit discipline. The credit program must establish the expected standard by carrying out a strict loan-utilization check. Details on loan utilization check are discussed in a subsequent section.

### **10) Group Support/Pressure and Collective Responsibility**

It is the role of all group members to ensure that peer group pressure and support is maintained. They must apply pressure to those who can repay but may not want to, and provide support to those who cannot repay in any particular instance. These twin roles can be emphasized by making it very clear that when repayment problems arise, they remain the responsibility of the group and Center collectively. They cannot be solved by the staff of the credit program. The staff can listen to members and seek to understand the problem, but they cannot make any decisions about how the group and Center should solve the problem. If the staff did intervene, it would send the wrong signal to the members and would discourage peer group support/pressure and collective responsibility.

### **11) The Sixteen Decisions**

Credit discipline can only reduce poverty if any increase in income is actually spent on poverty reduction. To provide guidance to members, developing a socioeconomic development agenda is suggested. Basic issues or goals on the agenda likely would include sanitation, the eradication of the dowry (if practiced) and other harmful cultural practices, nutrition and childhood education. The agenda should be developed with the participation of the members. This encourages them to work on

those issues or goals outlined on the agenda. To achieve those objectives, specific loans may be required to fund the acquisition of key assets, such as tubewells and new or improved housing. Ultimately, meeting the main goals on the socioeconomic development agenda can serve as reference points to gauge the socioeconomic progress of members and the impact of the credit program.

## C. Supporting Strict Credit Discipline

It is important to think of credit discipline as a wider issue that extends outside the organization as well. Strict credit discipline also involves management policy, conduct and the example they set. Certain management practices are particularly relevant to the creation of strict credit discipline, as they tend to support it as well. While these methods in and of themselves do not represent good credit discipline, they foster an environment conducive to strict credit discipline within the organization. If these practices are not insisted upon and followed by management, staff will find it difficult to create strict credit discipline.

### 1) Transparency in All Transactions

Transparency in all transactions is absolutely vital in supporting strict credit discipline. It promotes trust between the members and the program, strengthens financial controls and limits financial abuse. The key to transparency is the open conduct of all business within Center meetings and, indeed, throughout the organization. To the greatest extent possible, all business of the credit and savings program—that is, savings, loan proposals, loan approvals, loan disbursements and loan repayments—should take place at the village-based Center meetings, in front of all concerned. No business should be transacted outside of these meetings. All business records should be audited externally and professionally, and published in an annual report. These practices support strict credit discipline by publicly revealing any breaches. As loan disbursements tend to involve relatively large amounts of money, they may take place at the branch office if security risk in the field is high.

### 2) Management Should Provide Close Supervision, Especially of Fieldwork

*(For more details, see discussion of “Essential Areas of Field-Level Supervision” later in this Section)*

The actions of senior management influence the whole credit program. If senior management does not carry out their responsibilities sincerely, that sends a message to subordinate staff and, eventually, to borrowers: they need not follow the rules closely. This is especially true for the supervision of fieldwork and financial transactions. As most, if not all, program business takes place at the weekly, village-based Center meetings, they must be adequately supervised. The main technique involves good rules—especially concerning financial control—and both scheduled and surprise Center visits by more senior staff to ensure compliance.

Surprise Center and branch visits should be carried out professionally. In the case of Center visits, the supervisor should arrive at the scheduled meeting place independently and five or 10 minutes before its start. He or she should observe the arrival of the Center Manager and Center members, and record any observations. Supervisors making surprise visits to centers and branches should complete a standardized report on each visit, and send them to their immediate superior officer.

Branch and Area Managers unaware of what happens at their Center meetings undermine credit discipline, both by their ignorance and the bad example they set. It has been the experience of some replication programs that lack of adequate supervision by head office has significantly contributed to a lack of discipline by branch staff and, eventually, members too. To support good credit discipline,

the key responsibilities of senior management lie in the design of appropriate policies, provision of guidance to staff on how to implement them and determination that they are actually implemented in the field through on-the-spot inspections.

### **3) Appropriate Personnel Policies**

(For more details, see Section 5: Human Resources)

Supporting strict credit discipline also involves designing and implementing appropriate personnel policies. Seven key factors should be considered:

- Adequate remuneration
- Attractive staff training opportunities and career prospects
- Incentives for good performance
- Effective grievance procedures
- Local and sporting activities for staff
- Effective disciplinary procedures for non-compliance with the program's policies and procedures
- A willingness to carry out disciplinary action

### **4) Monitoring and Evaluation with Follow-up Action**

(For more details, see Section 7: Monitoring, Reporting and Management Information System)

The timely submission of accurate management information on the implementation of the credit and savings program remains essential for supporting strict credit discipline. For example, management must learn as soon as possible of any missed installments. And management should monitor attendance at Center meetings, as it serves as an early warning indicator. It is suggested that Work Progress Reports be used to monitor and evaluate each branch at least on a monthly and quarterly basis. The reports should compare actual performance to predetermined targets, as agreed upon by the Branch Manager and senior management. Reports should be submitted on time to ensure that monitoring remains effective. Once reports are evaluated, management should make any necessary and appropriate recommendations for follow-up action. The head office should closely monitor implementation of these recommendations and impose penalties for non-compliance.

### **5) Some Form of Security Net or Insurance Fund for Members in Difficulty**

Eventually, for a variety of reasons, members may face difficulties and need an extra injection of funds to overcome any crisis. Grameen requires compulsory savings for all members to help with any such unforeseen difficulties. In the Grameen Classic System, the Bank required each group to maintain a joint “group fund.” Since the implementation of the Grameen Generalized System, this has been replaced by a variety of individual savings programs. *Section 4: Financial Products of Grameen Bank* will discuss savings in detail, as well as the possibility of a “flexible loan” when members have serious repayment problems.

## **D. Maintaining Credit Discipline**

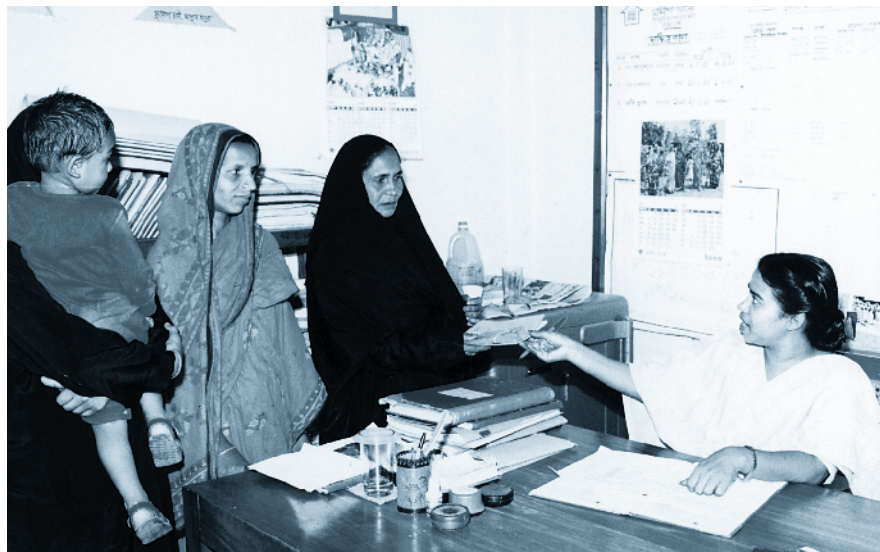
Credit discipline is always vulnerable! Creating strict credit discipline is only the beginning of the process of ensuring its persistence. Credit discipline can break down at any time, because most people don't like to face strict discipline and will periodically test its limits—especially in the early years of a program. But once strict credit discipline has been created, effort must be put into maintaining it. The key to doing so is insisting upon regular attendance at weekly Center meetings and conducting them according to procedure. Regular attendance maintains strict credit discipline, because it ensures:

- Regular weekly savings and repayment
- Accountability to other group and Center members
- Good decisions on loan applications
- Frequent monitoring of loan utilization and early warning of difficulties
- Enough members are present for the group and Center to make and enforce decisions to solve problems
- Maintenance of regular communication between the credit program and members
- Fostering of group and Center strength and unity

If members regularly attend weekly Center meetings because of group and Center peer pressure/support, they will also pay all loan installments regularly. But more importantly, members must regularly attend Center meetings to participate in group and Center activities, such as loan approvals, and to foster collective responsibility. When near full attendance is achieved, this enables all group and Center members to become accountable to one another, as they witness and approve loan applications and all other transactions carried out during the Center meeting. This means that it is essential for all transactions to be transparent. Transparency means the honest and open conduct of all business.

The development of the center's authority and ability to solve problems remains another crucial element that requires regular attendance at Center meetings. Without regular, full attendance, the Center meeting may not acquire

the degree of authority and ability it needs to make and enforce appropriate decisions. Without such an authority, it can be difficult for members to take collective action to solve problems. Regular attendance is also necessary to maintain good communication between the credit program and its members. Good communication also facilitates the information flow required for the close supervision of members, as well as the dissemination of new information to them. The strength and unity required to maintain strict credit discipline develops when members attend Center meetings, remain accountable, conduct business transparently, rely on good communication and enjoy the capacity to make and enforce their decisions.



006. A Grameen member receiving a loan from the branch manager

## VIII. LOAN PROPOSAL, DISBURSEMENT AND MONITORING PROCESSES

### A. Loan Proposal Process

The loan proposal process is an important part of the Grameen system. It is always a participatory process and takes place in the presence of the whole center. Although it can be a long and challenging process at first, Center Managers should work hard to establish the correct and efficient protocol during all center meetings. The effective functioning of the loan proposal process during Center meetings ensures overall transparency, empowers members and provides greater risk control than would be the case if proposals were determined only in the presence of a Center Manager and individual member.

The formal loan proposal process within Grameen Bank begins at a Center meeting. However, prior to this, group members should gather informally to discuss and approve a member's loan proposal at some convenient time and place (normally at a member's house or at their Center house before or after an earlier Center meeting). At the Center meeting, the Group Chairperson then formally presents the proposal to the Center Chief in the presence of all members. Full attendance should be mandatory for a proposal to be considered, as it is the members who are expected to provide support in case of trouble.

Group participation in the decision-making process that a loan proposal entails is important. The group should be encouraged to properly assess proposals from fellow members to ensure that the income-generating enterprise selected (if it is a start-up project) is the right one, and that a correct loan amount is being requested. As group members are friends and neighbors, they should have a good idea of how the proposed business is developing or, if it is a new business, how it would fare in the local market.

Center Managers must maintain close contact with borrowers to carry out a correct assessment of any loan requirements. This means that the CM should visit the borrower's house and/or business before the loan proposal process is initiated at the center. The loan amount proposed at the Center meeting should be consonant with all program policies and be considered in light of its potential to generate income, any involved risk, overall cash flow and prior experience of the loanee with the proposed project. The amount proposed should also not be influenced by the borrower's desire for funding of non-business activities.

### B. Loan Approval Process

After the loan proposal is presented and agreed upon at the center, the Center Chief, working closely with the Center Manager, submits the proposal for approval by a higher authority. The Center Manager must work with the Center members to agree upon an amount that he or she feels is both appropriate and in line with Grameen guidelines. Under the new Grameen Generalized System (GB II)<sup>15</sup>, the Area Manager has final approval over basic loans that follow normal procedures (Ref. GB circular no 12-01/2007 dated February 19, 2007). For special loans, or loans that exceed established

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<sup>15</sup> In the Grameen Classic System, branch managers had to obtain approval from the Area Office for all loans. In starting out, replication programs have generally preferred to have loan approvals go through the Head Office (Director or Program/Operations Manager) until the Branch Managers have gained both experience and the confidence of senior management.

limits, the Branch Manager must obtain approval from the Area Manager through the Program Officer. Following approval, the Branch Manager chooses a date for the loan disbursement. Although the Branch Manager may reduce the amount outlined in the loan proposal submitted by the Center Chief and Center Manager before forwarding it to the Area Manager for approval, this should be avoided when possible. Grameen-style programs want to empower their members in the management and organization of their centers. The best way to do this is to guide them in the decision-making process and avoid overruling their decisions.

## C. Loan Disbursement Process

### LOAN DISBURSEMENT STEPS

Within Grameen Bank, borrowers whose loans have been approved must go to the Branch Office on a pre-determined day and time, accompanied by their respective Center Chief and at least one other Center member to serve as a witness. The Branch Manager questions the borrower about any previous loans and the purpose of any present loans. The borrower receives advice and guidance on how to best utilize the loan funds. The Branch Manager then disburses the loan to the borrower, with the Center Manager, accountant (second signatory), Center Chief and one to two witnesses (preferably respective group members) present. The following paperwork is completed at this time, following this process:

- 1) The Center Manager fills out the loan application form
- 2) The borrower and witnesses sign the disbursement receipt
- 3) The borrower's loan and savings pass book entries are updated
- 4) The loan ledger entry for total loan amount is entered
- 5) The savings ledger for the obligatory savings is updated
- 6) The voucher is completed and then entered into the appropriate books

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*Within Grameen Bank, all disbursement activity takes place at the Branch Office. However, some replication programs that operate in less densely populated areas allow loan disbursement to take place at Center meetings. Disbursements come in the form of a check or in cash collected at the Center meeting. Doing so requires significant supervision. It is highly recommended that Branch Managers be present for all disbursements, whether in the field or the branch office. Eventually, when branches and loan amounts grow, management may choose to disburse at the branch level to ensure proper control.*

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Figure 2.1 presents a simplified diagram that outlines the loan proposal and approval process within Grameen Bank.

## FACTORS TO CONSIDER:

	Group members discuss and agree informally among themselves on a member's loan proposal, prior to the Center meeting.
<b>INVESTMENT CAPACITY (OF CLIENT)</b>	The Group Chairperson then verbally presents the loan proposal to the Center Chief at the Center meeting.
<b>ASSESSMENT OF PROJECT CASH FLOW</b>	The Center Chief (with support from the Center Manager) prepares the written draft loan proposal for approval by the higher authority.
<b>PREVIOUS EXPERIENCE ON THE PROPOSED PROJECT</b>	The Center Manager submits the official loan proposal to the Branch Manager after the meeting.
	If the loan proposal lies within the basic guidelines, the Branch Manager approves the loan. If not, she or he should forward the proposal to the Area Manager for approval (through the Program Officer).
	The Area Manager approves the loan proposal and sends it back to the Branch Manager.

### D. Loan Utilization Monitoring

#### 1) THE IMPORTANCE OF PROPER LOAN UTILIZATION

The Grameen methodology places special attention on the monitoring of loan utilization. The correct utilization of a loan for income-generating activities increases the likelihood that the loan will be repaid and the borrower's income will increase. That in turn brings her closer to a poverty-free existence. Proper utilization of a loan for productive purposes is important for the following reasons:

- **Income generation:** The Grameen microcredit program's aim is to alleviate poverty. However, credit has no power of its own to do this; the credit must be applied to income-generating activities.
- **Loan repayment:** Grameen is not a charity. The loan must be returned with interest. If the loan is used for consumptive purposes, instead of as an investment that generates income, the borrower will not be able to repay the loan.
- **Capital accumulation:** The ultimate aim of a Grameen microcredit program is to accumulate capital and help bring the poor out of poverty. Even if a loan is repaid, if it is not used for income-generating purposes the borrower cannot increase her income and assets. And without doing so, a poor woman will always remain poor.
- **Demonstration effect:** If anyone in a group or Center does not utilize a loan in a proper way, it will signal to others that such behavior is acceptable. As a result, the whole Center may be affected and repayment problems will surely arise.



The challenge is to create a culture of correct loan utilization in the program from the beginning. That way, every borrower is encouraged to invest her loan correctly. Eventually, she and others will make it a habit. For this reason, the Group Chairperson, Center Chief, Center Manager and even the Branch Manager should involve themselves in the process during the first few loans granted to each new member. Although it may seem inefficient to involve so many people, establishing the proper culture from the start is fundamental to the success of the program's ultimate goal: the alleviation of poverty.

## **2) THE FIRST PHASE IN LOAN UTILIZATION VERIFICATION—THE ROLE OF CENTER AND GROUP LEADERS**

Within Grameen Bank, a borrower is expected and encouraged to invest her loan within seven days of receiving it, and then to inform her Group Chairperson. The Group Chairperson and Center Chief are expected to verify the use of the loan by visiting the member's home. In the past, they were required to sign a loan utilization form, which they then submitted to the Center Chief at the following Center meeting. Although this practice has been discontinued at Grameen Bank as its clients have matured and internalized the importance of proper loan utilization, we recommend adopting this practice for start-up programs, as this is an effective way of ensuring that members utilize their loans productively. The Center Chief is expected to review all disbursed loans with the Group Chairpersons, as well as conduct periodic spot checks on member loans. Those checks should be made independently—first by the Group Chairperson and then by the Center Chief.

## **3) THE SECOND PHASE IN LOAN UTILIZATION VERIFICATION—THE ROLE OF GRAMEEN MANAGERS<sup>16</sup>**

After completing her visits, the Center Chief also signs the loan utilization form and presents it to the Center Manager at the Center meeting. After the meeting, the Center Manager is then expected to visit the businesses of borrowers who have taken on new loans. Within Grameen Bank, Center Managers usually visit an average of two to three borrowers after each meeting.

Center Managers should not consider loan verification checks a policing action. Instead, they should see them as a way of developing an appropriate client relationship, all while getting the information they need. To verify utilization, an indirect approach has proven successful. This can include such strategies as consulting neighbors to verify primary information.

The Branch Manager, Area Manager or Program Officer also play important roles in loan utilization checking. Although the Branch Manager will not be able to check 100% of loans, he or she should check a sample on a routine but surprise basis. Center Managers and members should not have prior knowledge of a check. This helps minimize attempts to cover up unapproved loan utilization.

## **4) A NOTE ON THE COST-EFFECTIVENESS OF LOAN UTILIZATION CHECKS**

Loan utilization checks are essential but expensive, as they consume staff time. Therefore, the costs involved in checking loan utilization should be minimized as much as possible. Since the largest portion of the cost is in labor, the procedure should not be excessively sophisticated. As long as the procedure instills collective responsibility and serves to physically verify loan utilization, it is sufficient.

Another way to further reduce labor costs involved in loan utilization checks is to relax the scrutiny of borrowers who have proven themselves to be creditworthy. One example is when a borrower has successfully completed their fourth loan cycle and shown good loan utilization.

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<sup>16</sup> This and the previous point on loan utilization verification are excerpted from the CASHPOR Training Manual, *Creating and Maintaining Credit Discipline*.

## IX. LOAN UTILIZATION VERIFICATION POLICY

The following guidelines are recommended in developing a loan utilization check policy:

- A Center Manager's prime duty is to check the 100% loan utilization immediately after the loan disbursement. Typically, a borrower must utilize a loan within seven days of disbursement.
- The Branch manager should conduct a loan utilization check on a majority of loans; the Program Officer or Area Manager should check on a sample basis.
- Loan utilization checks conducted by the Branch Manager, Program Officer or Area Manager must be unscheduled (by surprise), as a way of supervising the work of Center Managers.
- The policy should require the Center Chief, Group Chairperson and respective group members—beyond just the Center Manager and Branch Manager—to visit borrowers at home and/or work, to ensure proper loan utilization.
- Informal discussion with other group and Center members, as well as the borrower's neighbors, should be used to confirm information.
- In case of failure to abide by the loan utilization rules, the borrower must return the loan amount to the Branch Manager.
- Actual loan utilization should be discussed regularly at Center meetings.

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*Replication programs have developed their own variations on how to carry out loan utilization verification. Programs experiencing rapid growth or that operate in sparsely populated areas, with long distances separating the field from branch offices, have left Branch Managers unable to check all loans. Some programs don't utilize separate forms for loan utilization checks, but rather provide a place for this in the member's savings and loan passbook. Other programs have not been able to fully empower the group and Center Chiefs to be actively involved in the process. Grameen-style programs must grasp the concept of loan utilization and develop a system that is as efficient and effective as possible. One must understand that this is also a "developmental" aspect of the program, where we have the opportunity to encourage participants to take responsibility for their own progress. By creating this culture within the institution, a Grameen-style program can be more assured of the impact it will have on poor families.*

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## X. SUPERVISION OF FIELD OPERATIONS

### A. Introduction

David Gibbons, Managing Director of a successful Grameen replication project in India, CASHPOR India, has stated the following about supervision:

*“Supervision of subordinate staff is a central process in the running of an effective and efficient microfinance institution. It must never be simply assumed by supervisors that work is being carried out by their subordinate staff as they have directed. Each supervisor has the responsibility to check and check again, to ensure that the work is being carried out properly. If a supervisor does not check the work of his subordinate staff thoroughly and frequently, they will assume he does not really care how they do their work.”*

Effective supervision generally implies:

- Providing clear instructions (written, if possible) to subordinate staff
- Making a record of the instructions given (in one’s agenda, for example)
- Carrying out both planned and surprise visits to ensure that the instructions have been carried out as directed
- If instructions have not been carried out as directed, asking why and making adjustments if necessary
- Noting brief summary reports of surprise visits on designated forms, a copy of which should be available for management as well as the subordinate in question

As credit discipline is always vulnerable, it should be constantly reinforced through supervision. Supervision is a process of detecting omissions and errors in operations. Management must ensure that the program is being carried out as dictated by policy, and identify areas where the goals are not being met. Before any issues grow to become serious problems, and are adopted as customary within the functioning of a program, an appropriate and effective action plan must be implemented.

Grameen maintains a very intensive—both frequent and detailed—supervision process, which involves frequent visits to Center meetings and field activities (such as group recognitions) and visits to member homes for loan utilization checks. Supervision also involves work at the branch level, where the main financial and management functions take place.

It is important to establish clear expectations of both Center and branch operations, and then to carry out frequent supervision of such operations. For Grameen-style programs, it is strongly recommended that a formal supervision policy and process be developed from the beginning, to assure the quality and efficiency of field operations. It should not be assumed that the mere presence of a supervisory officer is adequate for the creation and maintenance of discipline in the centers and branches; supervisors must have clear guidelines and goals—and they too must be held accountable.

## B. Supervision Forms

Most replication programs have found it useful to use written supervision forms, so that the supervisory officer and subordinate have clear expectations and a record of any visits made. (*See Annex 3.1 for Grameen's field report format*)

## C. Essential Areas of Field-level Supervision

In Grameen-style programs there are six main areas that should be rigorously supervised at the field level:

- 1) Client selection
- 2) Continuous group training
- 3) Group recognition tests
- 4) Center meetings
- 5) Loan utilization
- 6) Member passbook audits

Center Managers, Branch Managers and Area Managers all have specific responsibilities to ensure that each area is carried out successfully. Members, along with group and Center leaders, also play an important part. The following is a detailed list of these essential areas, along with some supervision guidelines for each. The specifics are particular to Grameen Bank, but every Grameen-style program would be well served to develop a list of its own, and outline key steps in field operations.

For each main area of field operations, the policy and process of supervision should be defined and maintained in the operations manual. They should clearly answer the following questions: Who is expected to carry out the supervision? How often? What are they supervising? What are the guidelines for that supervision?

## 1) CLIENT SELECTION

Grameen Bank and other replication programs are focused on serving the poor, and utilize cost-effective tools to help ensure that they are successful in reaching the poorest. These programs want to ensure that they have limited leakage to the non-poor, as resources are scarce and should be used to focus on achieving the institution's mission. Groups with non-poor members tend to discourage the poor from joining. The visual verification of the poverty level of potential members is essential in ensuring that Center Managers use the targeting tools accurately and avoid accepting non-eligible members due to social pressure from the community.

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### WHO IS BEING SUPERVISED: CENTER MANAGER

The Center Manager must visit the target members' houses and assess their poverty level by physical verification. If the potential members are eligible, according to the GB target tool (or its equivalent), the CM then motivates them to form a group.

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### SUPERVISORY FUNCTION:

- a) The Branch Manager supervises the work of CMs in selecting clients. She must visit the new members' houses for physical verification of both information contained in the poverty assessment tool administered by the CMs and others provided by prospective members during their training. **She should pay close attention to the accuracy of the information and build staff capacity through the proper application of the GB targeting tool, if necessary.**
- b) **The Area Manager/Program Officer supervises the Branch Manager and Center Manager by personally visiting the homes of all prospective group members to physically verify they are eligible to participate in the program before officially recognizing the group.**

## 2) CONTINUOUS GROUP TRAINING (CGT)

Effective group training is an important element of the program. The time, effort and expense of carrying out training are significant. However, Grameen-style programs recognize that this is an important investment in future success. Accordingly, every potential member should be thoroughly familiar with the rules and their responsibilities.

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### **WHO IS BEING SUPERVISED: CENTER MANAGER (CM)**

The CM is responsible for training new members using the Continuous Group Training approach. The goal is to ensure that all members become fully familiar with the rules, procedures and policies of the program before they join. The CM trains the prospective members for a minimum of seven hours, over seven to 14 days.

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### **SUPERVISORY FUNCTIONS:**

#### **Supervisory officer: Branch Manager (BM)**

- The BM should supervise the CGT work of the Center Managers and attend at least two of the training sessions, including the last day.
- The BM should review all attendance sheets as well as the poverty assessment results contained in the targeting form.
- The BM should visit the homes of prospective members after the CGT session to ascertain poverty status.
- The BM should ensure that all prospective trainee members understand the course contents. The BM should not recommend the groups for recognition test until satisfied they are ready.

## 3) GROUP RECOGNITION TEST (GRT)

This is the last stage of quality control. For this reason, the responsibility of conducting the Group Recognition Test is not left up to the Branch Manager, who may face pressure from the community and existing members to accept new members, but to a senior officer.

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### **WHO IS BEING SUPERVISED: CENTER MANAGER (CM)**

This is the last stage of quality control. For this reason, the responsibility of conducting the Group Recognition Test is not left up to the Branch Manager, who may face pressure from the community and existing members to accept new members, but to a senior officer.

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### **SUPERVISORY FUNCTIONS:**

#### **Supervisory officer: Branch Manager (BM)**

- The Area Manager (AM) or Program Officer (PO) is responsible for carrying out the GRT to ensure that the Center Managers have conducted the Continuous Group Training properly. They must administer an oral test to evaluate the knowledge of group members regarding their responsibilities as well as the rules and regulations of the program. Emphasis must be on asking the “why” of the program’s policies, rules and regulations, as much as the “what.”
- The supervisory officer should review the attendance record and the results of the poverty assessment forms.
- When a group is not approved, the officer must explain why and make recommendations for further training.

## 4) CENTER MEETINGS

Centers are the key operational units in the Grameen system. Regular attendance should be encouraged and enforced by all members and program staff. Meetings should follow an established agenda and process. In that way, everyone knows what to expect and can effectively participate. Supervisory officers carry out detailed supervision of the Center meetings, as Center discipline is always vulnerable. Branch managers and all other supervisory officers should make sure that no Center transactions take place outside of the meeting.

The supervisory officer must write any observations and suggestions for improvements in the Center/ Branch supervision form. After completing the form (both the Center and Branch components), it should be presented to the Branch Manager and a copy should be forwarded to the higher authority (Area Manager).

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### WHO IS BEING SUPERVISED: CENTER MANAGER (CM)

The CM is the staff member who represents the program at Center meetings. He is responsible for ensuring that Center officials (Center Chief, Deputy Center Chief, Group Chairpersons and Secretaries) and Center members attend the meetings regularly and on time, pay their loan installments, deposit savings, participate in all Center activities and follow all rules and regulations strictly.

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### SUPERVISORY FUNCTIONS:

#### a) Supervisory officer: Branch Manager (BM)

- The Branch Manager should visit each Center at least once per quarter. Centers experiencing difficulties should be visited more often. The BM should conduct 60% to 80% of his Center visits on a surprise basis.
- Branch Manager should ensure that Center meetings are conducted properly and Center discipline is enforced.
- The BM should use a supervision form to help guide this process in order to give written feedback to Center Managers.

#### b) Supervisory officer: Area Manager (AM)/ Program Officer (PO):

- Whenever the supervisory officer (AM/PO) visits the Branch Office for any purpose, he or she should visit at least two centers of that branch.
- The AM/PO must consider the monitoring statement of the branches in preparing their "Center Visit Schedule" and should conduct it on a surprise basis.
- The AM/PO should use a written supervision form to review the Center and Center Manager performance, and provide suggestions for improvement. A copy should be left with the BM for follow-up

## 5) LOAN UTILIZATION VERIFICATION

Loans must be utilized for income-generating activities/projects, to ensure loan repayment. Poor loan utilization is the major cause of repayment problems. If loan capital is not invested properly, it will not generate income streams. As a result, the borrower will most likely face problems in keeping up with the repayment schedule.

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### **WHO IS BEING SUPERVISED: CLIENT/MEMBERS OF A CENTER**

This is the last stage of quality control. For this reason, the responsibility of conducting the Group Recognition Test is not left up to the Branch Manager, who may face pressure from the community and existing members to accept new members, but to a senior officer.

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### **SUPERVISORY FUNCTIONS:**

#### **a) Members, Group and Center leaders:**

##### **Member:**

Each member should check the loan utilization of other members.

##### **Group Chairperson (GC):**

GC should verify her group members' loan utilization through home visits and report her findings to the Center Chief.

##### **Center Chief (CC):**

The CC should also make spot checks of loan utilization by borrowers and discuss findings during the regular Center meetings.

#### **b) Supervisory officers:**

##### **Center Manager (CM):**

- The CM must visit the borrower's house or other appropriate place to physically verify loan utilization and check receipts for approved activity. She must check the loan utilization of 100% of her new borrowers.
- Once she is satisfied that the loan has been utilized properly, she then signs the last page of the passbook.
- The CM must discuss how borrowers utilize their loans during regular Center meetings.

##### **Branch Manager (BM):**

- The BM should conduct the loan utilization check on a majority of loans—a higher percentage in the initial years of operation and then less, as the staff and members grow more experienced. A minimum of 60% is recommended in the first three years.
- BMs should do their best to check the loan utilization of an average of 25 borrowers from different centers each week.
- They should also supervise whether the CM verifies loan utilization by members by checking signatures on the last page of passbooks.
- BMs should discuss loan utilization by members during their regular Center visits.

##### **Area Manager (AM) and Program Officer (PO):**

- The AM and PO should check loan utilization on a surprise basis.
- Depending on how many branches they supervise, the AM/PO should be assigned a reasonable number of borrowers to check each month. In Grameen, each AM/PO verifies each month the loan utilization of 10 borrowers from two centers in each branch, and then discusses the findings during regular Center visits.



## 6) PASSBOOK AUDITS

Financial figures must be recorded correctly in the passbooks during Center meetings. Errors are common, but since the passbooks are the “receipts” of the members, it is imperative that the figures—especially savings balances—be reviewed formally and regularly. Transactions at Center meetings must not be allowed without passbooks.

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### WHO IS BEING SUPERVISED: CLIENTS/MEMBERS

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#### **SUPERVISORY FUNCTION:**

##### **a) Group and Center leaders**

The Group and Center leaders must help to check passbooks of the members to ensure all transactions are correctly posted in their passbooks.

##### **b) Supervisory officer: Branch / Area Manager:**

- All passbooks should be checked quarterly by the Branch Manager.
  - The Branch Manager, Area Manager and Program Officer should check passbooks on a sample basis during all Center visits.
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## D. Branch Manager’s Supervisory Functions

The Branch Manager plays one of the most important supervisory roles in Grameen-style programs. As the staff member primarily responsible for the performance of a branch, he or she ensures that all branch staff—Center Managers, cashiers—fully carry out their responsibilities and meet all performance targets. A Branch Manager’s supervisory functions are centered on the supervision of the field staff—the Center Managers—in their work with members both at Center meetings and outside these meetings, as well as their work in the branch office. These supervisory functions are outlined in Figure 2.2.

Figure 2.2 Supervisory Functions of a Grameen Bank Branch Manager

BRANCH MANAGER'S SUPERVISORY FUNCTIONS	
<b>BRANCH MANAGER</b>	a) Supervise Center meetings every day (at least two centers)
	b) Check cash in hand and cash in bank daily
	c) Receive verbal reports from all field staff every day about Center meeting's performance
	d) Daily loan utilization check
	e) Ensure accounts are up to date every day
	f) Ensure monitoring register is up to date every day
	g) Check savings balances weekly
	h) Check loan balances monthly
	i) Monitor staff performance regularly
	j) Troubleshoot problems as soon as they arise

### E. Area/Zonal Office Supervisory Functions

Within the Grameen organizational structure, the Area/Zonal Office is responsible for directly supervising the Branch Managers and, indirectly, the branch staff. The Area/Zonal Manager performs his/her supervisory functions by visiting the branches under his/her supervision as well as attending a sampling of Center meetings for each branch visited. He/she also conducts random checks on the loan utilization of clients.

Branch office supervision by the Area/Zonal Manager centers on the checking of branch financial and operational records/accounts, branch staff performance and the troubleshooting of problems encountered by the branch. In the field, the Area/Zonal Manager's supervisory functions include ensuring the adequate training of new members joining the program (through the conduct of Group Recognition Tests), enforcement of Center discipline (through visits to Center meetings), and ensuring that target beneficiaries (the very poor) are being reached by the program (through visits with clients in their homes and their businesses). Failure to exercise these regulatory functions properly and fully is bound to result in irregularities, either involuntary or voluntary, that will not go unnoticed. In Grameen Bank, after the Center visits and before the branch staff meeting, the Area/Zonal Manager is required to review the accounting and monitoring information according to the Branch Supervision Form. (See Annex 3.1 for an example of this form.)

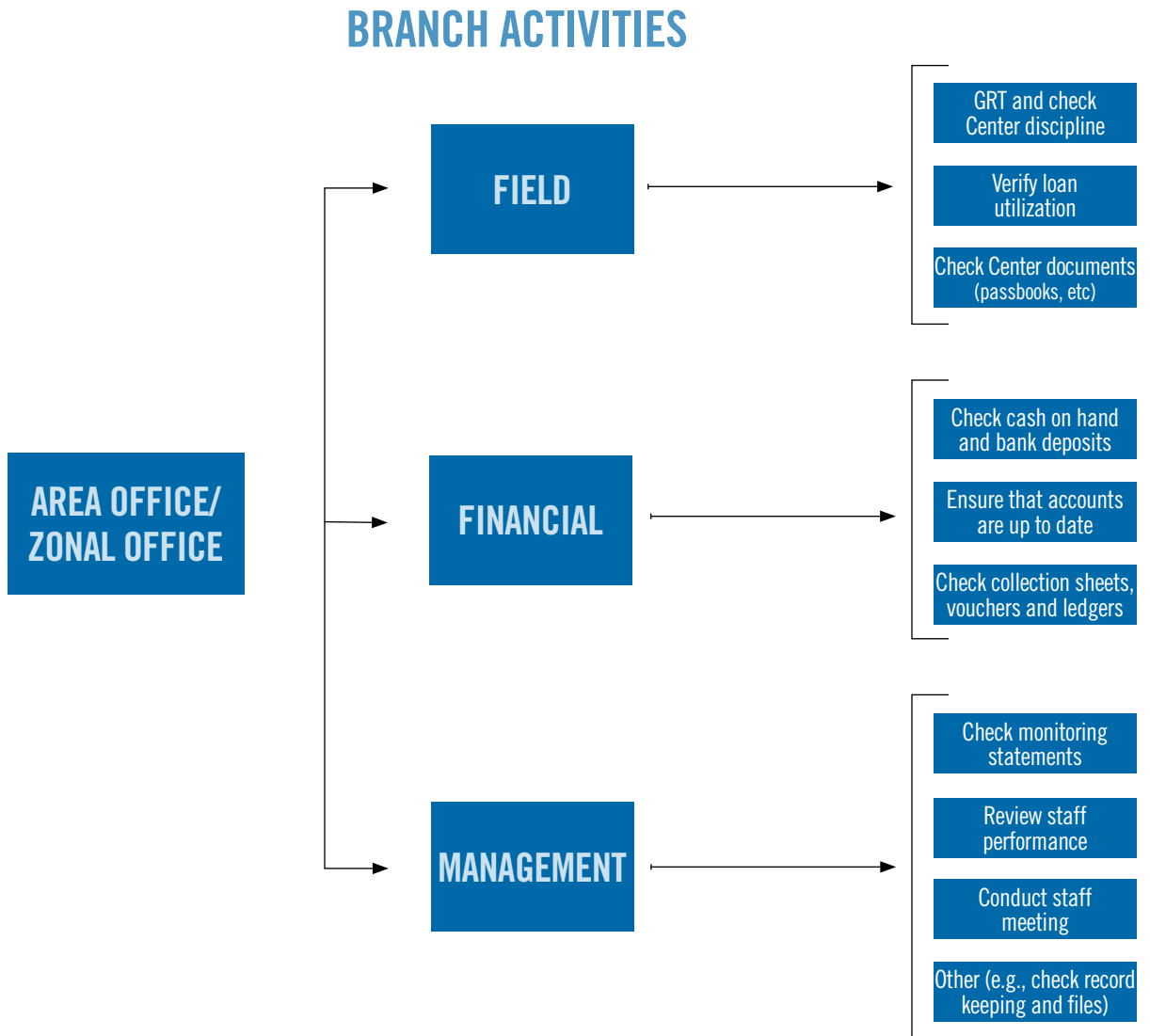
## **BRANCH STAFF MEETING**

The branch staff meeting concludes a supervisory visit to a branch by the Supervisory Officer (i.e., Program Officer, Area Manager or Zonal Manager). To ensure a positive outcome to a visit, the Supervisory Officer should take the following into consideration when conducting a branch meeting:

- The supervisory officer should create a positive environment, to enable all staff to openly participate.
- He/she must encourage the staff to participate in the discussion and have the patience to hear their views.
- The supervisory officer should commend the branch for any positive developments or accomplishments.
- He/she must discuss in detail findings from Center visits and any observations on the branch's financial and operational records/accounts.
- He/she should ask the branch staff for ideas about how they can improve the branch's present position or implement a new program (if applicable).
- Finally, he/she should conclude the meeting with an action plan on the basis of any findings and discussion at the meeting. The Branch Manager is responsible for following up on the action plan and presenting the results during the next visit of the Supervisory Officer.

The supervisory functions of the Area/Zonal Manager are outlined in Figure 2.3.

Figure 2.3 Grameen Bank Branch Supervision by Area/ Zonal Office



## XI. DELINQUENCY MANAGEMENT IN GRAMEEN-STYLE PROGRAMS<sup>17</sup>

### A. Introduction

Normally in a microcredit program at some point clients will face difficulty in paying a loan installment. When that occurs, the client must understand it is primarily her responsibility and that of her group and Center to resolve the problem, and not that of program staff.

This does not mean that the organization is not involved in understanding her situation and or in guiding the process. It does mean that when a member encounters difficulty, she should not look first to the Center Manager to deal with the situation.

From its formation, the Center must strive to develop a strong sense of its meaning and purpose. Center Managers should work to constantly empower the Center Chief and group Chairpersons to take active leadership in the well-being of the center. With a strong Center, you will be able to deal with groups that may have more than one troublesome member. If the Center is weak, you are bound to face many difficulties.

The organization must establish a culture of collective responsibility as well as collective identity among its members. They should identify their Center as “theirs,” and as something to be cared for and developed. This is not an easy task, but is essential for the long-term sustainability and development of it and its members.

### B. The Concept of Solidarity

Grameen (and most group lending programs) acknowledge that its methodology is strict and requires strong discipline from members. We also know that, once established properly, this system can be maintained and will be the key to a Grameen-style program’s ultimate success. Initially, it will be hard to get members to agree with the system. If there are other microfinance organizations “competing” with the program, you may lose clients. But in the long run, if you are consistent and provide a fair, dependable and transparent program, you will gain the appreciation and loyalty of your members. This is especially true among members who belong to the main target group, the poorest of the poor. One of the most fundamental aspects of this program is solidarity, so you must do everything in your power to create and maintain an environment that is conducive to the proper functioning of this solidarity. This means that the group must be motivated to understand that it is to their advantage to accept collective responsibility, within both their group and Center, to take care of their members and to ensure each other’s progress. The members themselves selected the members of their groups; they should support them in times of difficulty.

Although Professor Yunus has strongly stated that Grameen Bank does not require members to contribute to the payments of other members, and that it is not a requirement for continuous access to the Bank’s services, most replication programs require group co-responsibility in ensuring the complete payment of their group’s weekly installment to the organization. Some organizations have adopted this policy because they (mistakenly) believe it to be a key characteristic of the Grameen

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<sup>17</sup> An excellent reference on this subject is CASHPOR’s manual on “Repayment Crises and Rehabilitation Strategies,” June 1997, also available at Grameen Trust.

methodology. Others in their own practices have seen that this fosters an intense peer pressure that ultimately is helpful in dealing with irresponsible members who may have the ability to make payments, but have chosen not to.

One thing is certain—from time to time, some members will face challenges in dealing with their cash flow. It is to everyone's advantage if group and/or Center members can support fellow members through any temporary and short-term difficulties. It also helps if the organization has effective policies for dealing with any longer-term challenges a member faces.

### C. Common Cases of Delinquency

It is important to recognize that there are different reasons why a member does not make her full repayment to the program. Some of the more common reasons include:

- The member is unable to attend the Center meeting and pay her weekly installment but promises to attend the following meeting. At this point she appears to have a temporary cash flow problem. Often this happens with members who sell on credit or who have invested money but have not yet made a return.
- The member has a serious problem and expresses this to the group. Her problem is one that appears to be longer-term and will not be solved by the next meeting. This usually includes a serious illness in the family, an accident, death or business investment lost due to unforeseen circumstances.
- The member loses all her assets and business capital due to a natural disaster/calamity and she is unable to pay her weekly installments until she can recover from her misfortune.
- The member does not want to pay, or has disappeared from the program (e.g., moved to another community). It is rare that a member will actually tell her fellow group members that she is not going to pay her installment, but on occasion, this can occur.

### D. How to Deal with Delinquency

**Whatever the situation, the process for dealing with it is the same—the group and Center Chief must discuss the problem and determine possible solutions.** The borrower must first be encouraged to talk about her situation and present possible solutions. (This is one of the reasons that it is so important to always encourage attendance, especially for members having difficulties.) The group should then discuss and agree to a proposed solution. Finally, the Center Chief must approve the proposed solution on behalf of the Center. It is imperative that this process take place and that any group experiencing a repayment problem be encouraged and empowered to develop their own proposed solution. The institution should consider all recommendations—except the forgiveness of any debt.

**The Center Manager's role is one of motivator and facilitator.** He/she can guide the discussion and encourage members to find the best solution for the problem. The solution must come from the members themselves—not from the Center Manager. This process will obviously require significant training and motivation on behalf of the Center Manager. But it is a necessary process to successfully control and prevent delinquency.

**In all cases, the proposed solution should be written up and signed** by the member facing a repayment problem, as well as the Group Chairperson, Center Chief and the Center Manager. It then should be submitted to the Branch Manager for approval, who in turn should submit it to his supervisor for approval.

This is a system of control that enables the Branch Manager and supervisory officers to monitor the process and clearly document any decisions taken by the group and later approved by the Center Chief. If the proposal involves a loan restructuring (Grameen Bank does this through its Flexi-loan program), a copy of the final approval should be sent to the accounting department for necessary adjustments to the account concerned, and a copy sent to the monitoring department. Formal monitoring and reporting on restructured loans should be required and made a normal part of the summary operations report and financial statements, among others.

## **E. Delinquency Management within a Center**

During a Center meeting, after roll call and discussion as to the whereabouts of absent members, the Center Chief must ask each Group Chairperson individually if her group's installment is complete. If all are complete and all absent members are accounted for, then there are no problems and collection can begin. However, if one or more groups are incomplete, the Center Chief and Center Manager must enforce the culture of credit discipline—the program will not accept incomplete group payments without a discussion of the missing payments. The Center Chief should be involved in facilitating the discussion with the group in trouble, as well as the rest of the Center, to see how the issue can be resolved.

At this time, it is critically important that the Center Manager, along with the Center Chief, assume leadership in discussing with Center members the importance of attending Center meeting at all times—even if they have trouble making a complete payment. It is much easier (and more responsible) for the group and Center members to help another member with a problem, if she has the courage and sense of responsibility to appear and ask for assistance.

As soon as possible following a meeting, the Center Manager, together with all members of the group with a repayment problem and the Center Chief, should arrange to go to the house or workplace of any member or members who missed a weekly installment. If there are three irregular members in the group in question, the group members and Center Chief should request that the other Group Chairpersons accompany them. This expanded group will have a stronger presence and provide the necessary moral support to the two regular group members.

The visit to irregular members following a meeting is an obligatory responsibility of the Center Manager and it must be checked (verbally) on a daily basis by the Branch Manager. Failure to carry this out should be considered a serious case of non-compliance with the rules and should be handled as such (that is, the management team should determine how to monitor and follow up this process, as well as determine the repercussions for non-compliance).

# SECTION 3



## SECTION 3: GRAMEEN BANK'S FINANCIAL PRODUCTS AND SERVICES

### I. INTRODUCTION TO GRAMEEN'S CLASSIC AND GENERALIZED SYSTEMS

In the introduction, we mentioned the evolution that has taken place within Grameen Bank since 2000 resulting in the development of the Grameen Generalized System, or Grameen Bank II (Grameen II) model, which has been fully implemented since mid 2002.

Grameen II retains the basic concepts and processes of the original methodology, delivery system, and branch and staffing frameworks—all of which were discussed in detail in Section 2. The main differences pertain to the offer of products and the benefits for members.

In this section, we explain the current offer of financial products by Grameen Bank—as part of the Grameen II system—but highlight the differences with the features of the Classic system.<sup>1</sup> The goal is to provide the reader with an understanding of what Grameen offers to its borrowers, to inspire ideas about what a replication program might offer.

It is important to recognize that the product improvements contained in Grameen Bank II evolved over nearly two decades, after a strong institutional culture, together with an equally strong foundation of members and staff, had been established. For replication programs determining and defining their own set of products and services it is important to take into account the following:

- Market research is imperative in determining and developing what products and services the poor in your target area need to develop their businesses. Loan types and amounts, terms, conditions, etc., should be carefully analyzed within the local, regional and national context.
- In the past, standardized products in leading microcredit models have been the norm. Flexible products and services that are able to serve the needs of your potential clients most effectively are important. However, greater customization/flexibility requires well-functioning systems, policies and procedures. It also requires well-developed institutional capacity and resources—namely, strong management systems, organization, policies, staff capacity, internal control and monitoring systems, MIS, governance, etc. Start-up institutions that haven't fully developed these capacities may not be ready for the more complex operations required in customization. Be careful not to try to do too much too soon.
- The offering of different types of savings to clients and the general public is one of the most important innovations in GB II. However, many NGO replications are not legally authorized to mobilize client savings, let alone the savings from the public, as a source of capital for lending. Find a solution to this challenge in your context—do not just leave out the savings component until a future time; it is too important for achieving the mission of a Grameen-style program.

<sup>1</sup> For a full review of the development, features and implementation of GB II, refer to Professor Yunus' document *Grameen Bank II: Designed to Open New Possibilities*, available on the Grameen Bank website ([www.grameen.com](http://www.grameen.com)) and *The Poor Always Pay Back: The Grameen II Story*, Asif Dowla and Dipal Barua, Kumarian Press Inc., 2006.

## II. GRAMEEN BANK'S LOAN AND SAVINGS PRODUCTS



007. Grameen members making stools

### A. Loan Products in the Grameen Classic System vs. the Generalized System

Table 3.1 outlines the key differences in the loan products offered under the Grameen Classic System (GBI)—the system Grameen Bank established over its first two decades—and the Grameen Generalized System (GB II), which evolved out of the Classic System and began to be implemented in mid-2000.

### B. The Basic Loan: Terms and Conditions

Grameen II has one main loan product, referred to as the “Basic Loan.” The majority of members continue with this basic loan, cycle after cycle, to meet all their credit needs in a satisfactory manner. The purpose of the basic loan is to finance income-generating activities.

#### KEY FEATURES OF THE BASIC LOAN:

- 1) **Loan term:** The term of a basic loan can vary from three months to multiple years. The borrower may obtain a loan for any duration (three, six, nine, 12 months or longer than 12 months), as needed.
- 2) **Interest rate:** 20% on declining loan balance. Interest is paid weekly simultaneously with a portion of the principal.
- 3) **First loan amount:** Determined on the basis of the following criteria:
  - Borrower’s ability to invest the loan fund (e.g., previous or current experience in the proposed microenterprise).
  - Assessment of cash flow from the proposed business (daily/weekly/monthly/quarterly).
- 4) **Subsequent loan amounts:** Can be increased, up to a maximum of 50% of the previous loan amount, depending on loan activities and the ability to repay.



008. Grameen member raising ducks

Table 3.1 Overview of the Loan Products in the Grameen Classic vs. Generalized Systems

GRAMEEN CLASSIC SYSTEM—GB I		GRAMEEN GENERALIZED SYSTEM—GB II
1	Multiple loan products	One prime loan product—the basic loan
2	Mostly one-year loans, with some exceptions	Loan duration can vary from three months to three years
3	Installment size fixed	Installment size variable during the loan period and can be tailored to needs of the borrowers
4	Lump-sum and one-time repayment not allowed	Repayment subject to negotiation between staff and borrower at any time, although the minimum payment due depends on the duration of the loan
5	Staggered loan distribution, with two members receiving the loan first, followed by another two after three weeks, and finally (in most cases) the group chair receives her loan two weeks after that	Member can receive loan at any time, regardless of what others are doing
6	No new borrowing until the previous loan is repaid in full	Members can borrow the amount that has been repaid in the first six months without repaying the current loan in full
7	Loan disbursed in one lump sum	Loan disbursement can be in tranches
8	A common loan ceiling imposed for the whole branch	Borrowers each have their own loan ceiling and, based on their savings and the performance of their group, Center and branch, this can be increased
9	No hard and fast rule for decreases in loan ceiling	Loan ceiling can be decreased based on borrower performance (e.g., missing Center meetings or installment payments)
10	Part of loan (5%) sanctioned to borrowers is required to be deposited in a compulsory savings account (Group Fund) managed by the group	No deductions are made from the loan (started in 2007)
11	Family responsible for loans of deceased borrowers, and female borrowers responsible for outstanding loans even in the event of spousal death	Contributing to a special savings account enables borrowers to ensure that outstanding loans will be paid off after their death, and extra contributions enable female borrowers to cover loans outstanding in the case of spousal death
12	Borrower becomes defaulter if she cannot repay the full amount in 52 weeks	Borrower becomes defaulter if she cannot pay the amount due according to repayment schedule within six months for basic loan
13	Borrower will not become a defaulter from failure to make timely deposits in savings accounts	Borrower who fails to make four consecutive monthly GPS deposits will be treated as defaulter
14	Borrowers unable to borrow against their savings	Borrower free to borrow against savings
15	Defaulter could borrow from the group fund	Defaulter cannot borrow from her savings account until all arrears are paid in full
16	No special program for the hardcore poor (beggars program)	Special program with easier and more flexible loan terms, savings requirements and repayment conditions for beggars
17	Funds for disbursement to new bank branches borrowed from head office at 12% interest	New branches can be self-financed from day 1 by mobilizing savings from members and non-members prior to disbursement of credit

- 5) **Loan ceiling:** Each borrower must have her/his own loan ceiling. There are two ways to determine the loan ceiling of a borrower:
- On the basis of the amount of total savings (ceiling would be equivalent to 150% of the borrower's savings); or
  - On the basis of the performance of the borrower, her group and center. The greater two of the three are used to set the ceiling.

In the second case, the criteria for increasing the loan ceiling are as follows:

- A borrower repays the loan without missing any installment, without skipping savings, without missing weekly Center meetings (up to 10% increase).
- A borrower repays her loan with some missing installments and some absences at the Center meetings (up to 5%).
- A center's repayment is 100% (up to 10%).
- A center's repayment rate is less than 100% but a borrower's own group repayment rate is 100% (up to 5%).
- An incomplete group in a Center has a 100% repayment record (the ceiling may be increased up to 5%). If only a group's repayment rate is 100%, then it may be increased to 2.5%.

The criteria for decreasing the loan ceiling are as follows:

- For every missing installment (2% decrease).
- For each day of absence at Center meeting, the ceiling will be decreased by 50 taka per thousand taka loaned. Whatever the number of days of absence, the maximum decrease will not exceed 500 taka.
- If interest is not paid within specified time, the ceiling will be decreased by 2%.

- 6) **Gold membership:** New to GB II is the concept of Gold membership. A member may be awarded with Gold status if she has actively borrowed from the Bank for at least five years and has maintained a 100% repayment record. The award gives her special consideration for higher increases in her loan ceiling.
- 7) **Fresh loan after every six months:** A borrower can borrow exactly the same amount paid back during the last six months. If a borrower does not take another loan upon completing six months of repayments, she can later borrow an amount equal to what she has repaid up to the time of taking another loan.
- 8) **Loan disbursement:** The approved loan amount can be withdrawn in a single or several tranches, according to an agreed-upon schedule (showing when and how much will be withdrawn in each tranche). The borrower can prepare this schedule as per her investment plan.
- 9) **Repayment:** The amount of each weekly repayment can vary over the loan period, according to a pre-negotiated amount and repayment schedule.
- 10) **Loan proposal:** The loan proposal must be approved unanimously by the group and Center. However, the Center Manager and Branch Manager can recommend reduction of the amount. The Area Manager approves the basic loan proposal within the loan ceiling.

## C. The Basic Loan and the Flexi-loan<sup>2</sup>

Within Grameen Bank, the basic loan is treated as the “Grameen microcredit highway.” As long as the borrower keeps to her schedule, she moves forward uninterrupted with ease and comfort on the microcredit highway. She can pick up speed, according to the rules of the highway. If she drives well, she can shift to higher and higher gears. In other words, a borrower can routinely upgrade her loan size, during each loan cycle, while on the Grameen highway. This is done on the basis of predetermined rules. She knows ahead of time how much growth in loan size is coming, and can plan her activities accordingly.

But if a borrower faces “engine trouble” (a business slow-down or failure, sickness, family problems, accidents, thefts, natural disaster, etc.) and cannot keep up with highway speeds, she has to exit the highway. That puts her on a detour, called the “Flexible Loan” or “Flexi-loan.” This detour allows her to drive at a speed that is consistent with her situation. Now she can reduce the installment size to an amount that she can afford to pay, by extending the loan period.

Taking a detour, however, does not in any way imply that she has changed her journey’s destination. She still proceeds with the same objectives, but only by taking a winding and narrow road for a while. Her immediate goal is to overcome her problems, limit her detour time and quickly get back on the highway. A borrower may be lucky and do so quickly (i.e., by returning to a basic loan) or she may have sustained problems. In that case, the best she can do is to move from one Flexi-loan to the next Flexi-loan, working out an even easier repayment schedule and delaying her rejoining the highway.

One big disincentive for a borrower to take the Flexi-loan detour is that the moment she exits from the basic loan highway, the loan ceiling she has built over years gets wiped out. When she re-enters the highway, after completing her detour, she must rebuild her loan ceiling. Initially, the ceiling will be closer to what she had on entry than to what she enjoyed just before moving to a Flexi-loan.

A borrower will always make efforts to re-enter the basic loan. That is because under a Flexi-loan, a borrower can only work within a non-expansionary loop—that is, a borrower can borrow only the same amount or less, cycle after cycle. Since this limits the borrowers’ capacity for investment, they are motivated to move back to the highway that basic loans represent.

Flexi-loans work as a push to get a borrower back on the highway. As soon as the initial amount of a Flexi-loan is paid fully, the borrower re-enters the highway. She still carries with her any new loans she took on while on the Flexi-loan program.

### CONDITIONS FOR THE FLEXI-LOAN

- 1) **Loan ceiling:** While on this detour, a borrower has no opportunity to enhance her loan size.
- 2) **Fresh loan after every six months:** After the first six months of perfect repayment record, she can borrow a maximum of twice the amount she has paid during the previous six months. She can borrow the same amount she has paid back in each subsequent six-month period, provided she maintains a perfect repayment record. During the first six months, if a borrower fails to maintain a 100% loan repayment schedule, weekly savings deposits, and weekly meeting attendance, the following disbursement schedule would apply:

<sup>2</sup> Drawn from an excerpt of Professor Yunus’ paper, *Grameen Bank II: Designed to Open New Possibilities*.

- If loan installment and weekly savings deposits are maintained regularly for six months (but Center meeting attendance is not perfect), 175% of the loan amount paid can be borrowed again.
- If loan installments and attendance at weekly meetings are maintained regularly for six months (but weekly savings deposits are irregular), 150% of the amount paid can be borrowed again.
- If only loan installments are paid regularly for six months (but Center meeting attendance and weekly savings are not perfect), 125% of the amount paid can be borrowed again.
- If loan installments, weekly savings and attendance at the Center meetings are irregular, only 100% of the loan amount can be borrowed.

If a borrower does not want to borrow an additional amount after completion of repayments for six months, she can borrow at any time during her repayment schedule.

- 3) **Loan approval:** The Area Manager approves flexible loan proposals.
- 4) **Repayment:**
  - The amount of each weekly installment may vary, depending on the ability of the borrower.
  - Any amount of repayment is accepted at any time, and a “lumpy” repayment amount is treated as the amount due in calculating the repayment rate.
  - The minimum weekly installment size should not be less than 20 taka.
  - Interest must be paid with the principal. The loan and interest is 4:1; fractions must be avoided.
- 5) **Re-entry to the basic loan:** As soon as the initial amount of the Flexi-loan is paid in full, the borrower re-enters the basic loan (“microcredit highway”).
- 6) **Adjusting the loan ceiling:** When a borrower re-enters the basic loan, after completing her detour, her loan ceiling will have to be re-constructed. This will be nearer to her entry-level loan ceiling than was the loan ceiling she enjoyed immediately before going into the Flexi-loan.
- 7) **Overdue:** If a borrower fails to repay her installment for 10 consecutive weeks, according to her repayment schedule, she will be treated as a defaulter. Any amount of Flexi-loan that is not paid back within two years becomes overdue and 100% provision is made for that. Any amount of Flexi-loan not paid back in three years is considered bad debt and is written off entirely.

## D. Housing Loans

In March 1984, the second national workshop of Grameen members adopted 16 decisions that serve as the underlying socioeconomic development program for Grameen members. The third decision states: “We will not live in dilapidated houses. We will fix them. We will build new houses for ourselves as soon as possible.” Grameen Bank initiated the housing loan program for its borrowers that same year. As of October 2010, almost 700,000 families have participated in this program.

Housing loans are given to Grameen borrowers to finance the construction of a new house or the rehabilitation of an existing one. In addition, Grameen Bank provides loans for the purchase of homestead for those borrowers who do not own land.

## 1. REQUIREMENTS FOR A HOUSING LOAN

- **Branch:** Should be at least three years old, with perfect repayment records by branch borrowers.
- **Center:** Should be at least three years old and should have its own Center house with perfect discipline and repayment records. It should implement and practice the Sixteen Decisions.
- **Member:** Must be in her third loan cycle to qualify for pre-basic housing loan. To qualify for the other three types of housing loans, she must be in her fourth loan cycle, with perfect repayment history. She must also own a piece of land in her name.



009. Borrower's house financed by housing loan

## 2. HOUSING DESIGN

As Bangladesh is a flood-prone country, many rural houses are washed away each year. Floods affect most Bangladeshis and the poor are the worst hit. Given their very thin economic base, it is very difficult for the poor to cope with floods. In rural Bangladesh, houses are built with thatch roofs, bamboo pillars and walls of mud or jute sticks—all of which can collapse during a flood. Every year, many poor people must reconstruct their houses at a cost they cannot afford. The vulnerability of thatch roof-and-bamboo pillar construction to floods puts a huge pressure on the economy of the poor.

So Grameen Bank designed a house that replaces the thatch roof and bamboo pillars with a galvanized iron sheet roof and reinforced concrete pillars. Both are durable and do not wash away during floods. The house design includes four reinforced concrete cement pillars, one in each corner, and metal sheet roofing on a wooden frame. Furthermore, a sanitary latrine is a required attachment to every house.

## 3. TYPES OF HOUSING LOANS

The types, terms and amount of housing loans are given below:

TYPE OF LOAN:	AMOUNT	PERIOD TO PAY	INTEREST RATE
Pre-basic house	Tk. 5,000	3 years	8% on declining balance
Basic house	Tk. 7,000	4 years	As above
Improved basic house	Tk. 7,001-12,000	6 years	As above
Moderate house	Tk. 12,001-25,000	10 years	As above

## E. Higher Education Loans

In 1997, Grameen Bank introduced the Higher Education Loan program in an effort to provide an opportunity for the talented children of borrowers to receive a higher education. Grameen believes that education is one of the most effective pathways out of poverty for their members' children and their families. The sons and daughters of borrowers who enroll in medical or engineering school, or any honors or masters program, or who seek a degree in agriculture, marine or textile engineering (as well as other educational programs) are eligible for financing under this program.

The higher education loans are intended to cover all student expenses, from the beginning of a course until its successful completion. That includes admission and course fees, books, food and lodging, and other necessary expenses. As of October 2010, more than 47,000 students have received higher education loans. Table 3.2 describes the terms and conditions of Grameen's higher education loans.



010. Higher education loan recipients

Table 3.2 Terms and Conditions of Grameen's Higher Education Loans

### INDICATORS

<b>Objectives of Higher Education Loan</b>	<ul style="list-style-type: none"> <li>To provide an opportunity for talented children of Grameen borrowers to receive a higher education</li> <li>Higher education loans are to cover food, lodging, tuition fees and other study-related expenses</li> </ul>
<b>Interest rate</b>	<ul style="list-style-type: none"> <li>0% during the period of study</li> <li>5% after study is completed</li> </ul>
<b>Eligibility criteria to receive loan</b>	<ul style="list-style-type: none"> <li>Only GB borrower children</li> <li>For tertiary-level or higher study only (bachelor's degree, master's degree, medical degree, etc.)</li> <li>Must obtain admission to a college or university of good standing</li> <li>Must maintain a minimum pre-set score in each semester</li> <li>The Center where the applicant's parent is attached must agree to the approval of the loan</li> </ul>
<b>Loan disbursement schedule</b>	<ul style="list-style-type: none"> <li>Loan amount is approved by the respective Zonal Manager</li> <li>Total estimated and approved loan amount is disbursed in yearly installments for the duration of the course</li> <li>The loan amount is disbursed by check and deposited into the personal savings account of the member at any GB branch</li> </ul>
<b>Loan repayment schedule</b>	<ul style="list-style-type: none"> <li>One year after finishing the course of study, the loan recipient begins repayment by making monthly installments</li> </ul>



## F. Microenterprise Loans

Many borrowers move ahead in business faster than others. The reasons vary—it can be proximity to market, the presence of an experienced male member in the family or simply better entrepreneurial skills. Grameen Bank provides larger loans, called microenterprise loans (as distinguished from the traditional “basic loan,” which typically involves less than \$100) for those fast-moving members. There is no restriction on the loan size. As of October 2010, Grameen has disbursed more than 2.7 million microenterprise loans for a total of US\$1.1 billion. The average loan size was Tk. 21,885 (US\$ 325) and the maximum loan was Tk. 1.2 million

(US\$17,795). Large loans are used to finance investments such as for transport facilities, sawmills, large-scale poultry farms, etc. Other popular items financed under the microfinance program include power tillers, irrigation pumps, transport vehicles and boats for transportation and fishing.



011. Grameen Bank borrowers at their loom

## III. GRAMEEN SAVINGS AND PENSION FUNDS

Savings play a vital role in the Grameen credit system. They facilitate asset formation and serve as a rescue mechanism for members when they encounter adverse conditions. They also serve as a source of additional working capital. Finding a safe place to save is not easy for the rural poor. For that reason, it is important to provide a savings service beyond loans for income-generating activities.

Grameen Bank offers a number of savings products with very attractive interest rates for its members as well as the general public. Grameen mobilizes local deposits and has been able to finance 100% of its outstanding loans from deposits. More than 57% of its deposits come from its own borrowers. Deposits amount to 141% of outstanding loans. When those deposits are combined with GB’s own resources, the amount is equal to 157% of loans outstanding.

Table 3.3 outlines the key differences in the savings products offered under the Grameen Classic and the Grameen Generalized systems. The most important changes in savings products under the Grameen Generalized System (GB II) are:

- Joint Accounts maintained by the groups as Group Fund under the Grameen Classic were eliminated and replaced by individual savings accounts.
- The 5% “Group Tax” automatically deducted from loans under the Grameen Classic was eliminated under GB II.
- Only one savings account existed under the Grameen Classic (the Joint Account, represented by the Group Fund); under GB II, multiple savings products are offered to members.

Table 3.3 Overview of the Savings Products in the Classic vs. Generalized Systems

GRAMEEN CLASSIC SYSTEM	GRAMEEN II
Joint savings in a group account known as the Group Fund <sup>3</sup>	Joint savings were eliminated and replaced by individual personal savings account for each member
The group fund was jointly operated by the group leader and secretary, with the consent of all members	All savings are operated individually
Amount of weekly personal savings (obligatory) was uniform for all members	Weekly personal savings (obligatory) varies according to the loan size
A group tax of 5% deducted from the loan required and was deposited into the Group Fund	5% group tax eliminated
A defaulter could borrow against the Group Fund	A defaulter is not permitted to withdraw money from her savings accounts until all arrears are paid in full
There were no other savings products and Grameen did not encourage or permit members to open various accounts	Grameen Bank now offers a variety of attractive savings products, including a pension fund, fixed deposits and monthly income deposits
There was no insurance for paying off a deceased borrower's liabilities—her family was held accountable for any debt	There is a loan insurance savings fund for this purpose

## Types of Savings Products

Under GB II, each Grameen Bank member has the following two obligatory savings accounts:

- Personal savings account (Ref no. 2-04/2007, dated March 15, 2007)
- Grameen Pension Scheme (Ref no. GB Circular no. 12-02/2007, dated February 20, 2007)

### A. Personal Savings Account

The Personal Savings Account begins with the small fund started during the Continuous Group Training. Thereafter, in every weekly center meeting, a member will deposit weekly compulsory savings. The amount varies according to the size of the loan. The Personal Savings Account allows withdrawals at any time, as needed by the member.

<sup>3</sup> The Group Fund has been completely eliminated under Grameen Bank II because it proved to be unwieldy to manage and created dissatisfaction and friction among the group members.

## B. Grameen Pension Savings (GPS)

The GPS product is designed to encourage GB members to save for their retirement. GPS is for a period of five to 10 years, with attractive interest rates higher than those on regular savings accounts. They are renewable upon maturity.

GPS is optional for GB members but compulsory for those with loans of Tk. 8,000 and above. A minimum of Tk. 50 per month is required, and weekly savings for GPS are collected and deposited into a member's regular personal account. This amount is transferred to the member's GPS account every six months.

If a member continuously fails to make deposits in her GPS Account for three months, she is allowed to repay all arrears with penalty in the following fourth month. But if borrower fails to make deposit payments for four continuous months, the account is automatically closed.

## C. Loan Insurance Savings Fund (LISF)

Borrowers always worry what will happen to their debts if they die. Will the family members pay them off? Grameen members believe that if any debt remains unpaid after death, their souls cannot rest in peace. GB has developed a product to address this concern. The LISF is a fund to which the borrower contributes an amount based on the size of the loan (details explained below) that insures her loan in the event of death. Figure 3.1 shows how it works.

### 1) IMPLEMENTATION METHOD

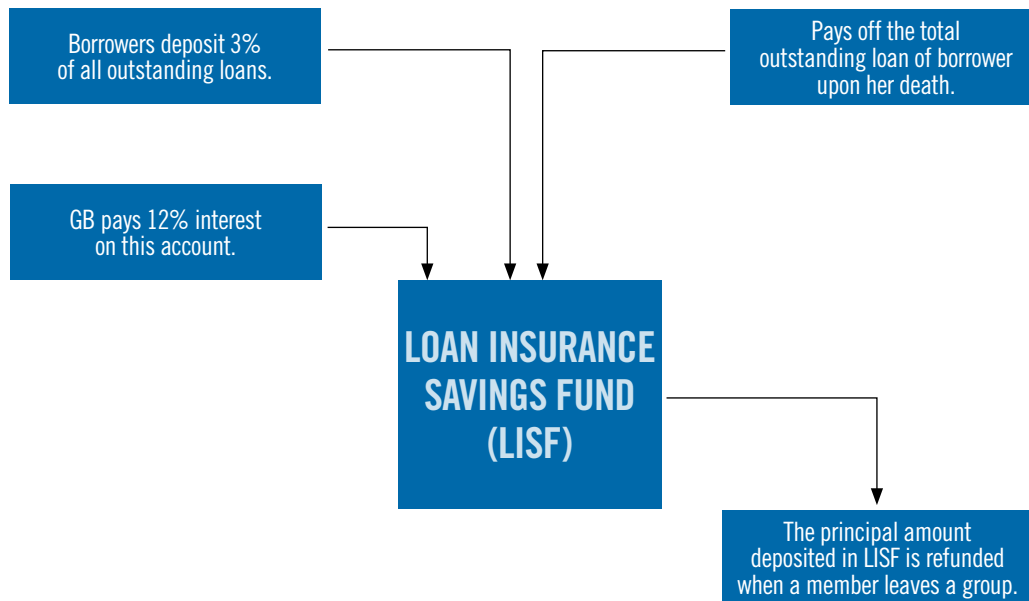
- At any time, any branch can start this program. If any Center comes under this program, all members of the Center must be covered. An attempt must be made to cover all the members of the branch gradually. Once the program is started, then it will be calculated in the annual closing.
- Regardless of the loan repayment and attendance record, a member can deposit in her LISF. If her savings are up to date, she will obtain coverage.

### 2) COVERAGE AND REFUND POLICY

- Whenever a member deposits into the LISF, she obtains coverage until the next annual closing. If any member dies during this time, her outstanding loan and interest will be paid by the LISF.
- The savings in the LISF and other savings accounts will be refunded to her heirs.
- To obtain coverage under the LISF, a member's savings must be up to date at the time of death.
- The principal amount deposited in the LISF will be refunded when anyone leaves the group.

**Note:** The Guidelines for Loan Insurance was published by GB in Oct 2006 (Ref.no. 2-19/2004, dated December 6, 2004)

Figure 3.1 Main Features of the Grameen II Loan Insurance Savings Fund



### 3) DEPOSIT AMOUNT IN THE LISF

- Once a year, on the last day of the year, the borrower is required to put in a small amount of money in the LISF.
- The amount is calculated on the basis of the outstanding loan and interest owed by the borrower on that day. The borrower deposits 3% of that outstanding amount.
- If the outstanding amount remains the same at end of two successive years, the borrower does not have to put in any extra money in the LISF in the second year. If the amount outstanding in a year is more than that of the previous year, the borrower pays 3% of the incremental amount.
- The minimum savings balance required is Tk. 100.

### 4) LISF COLLECTION SYSTEM

- Savings will be collected from the personal savings account of the borrower through transfer. The borrower will authorize that transfer.
- If a borrower does not have sufficient money in her personal savings account, she will still get coverage. However, the amount required for the LISF must be transferred from the personal savings account of the borrower whenever the funds become available.
- In case of micro-enterprise loans, the amount that will be required to cover LISF is deposited in cash to the personal savings account of the borrowers at the time of loan proposal and transferred to the LISF at the time of loan disbursement. (Ref no. 12-02/2007, dated February 20, 2007).

### 5) APPROVAL PROCESS

- If a borrower with up-to-date savings in the LISF dies, the bank must issue a declaration of repayment of the outstanding loan. A death certificate-cum-application must be provided by the Center, which the Branch Manager will confirm.
- After repayment of the outstanding loan from the LISF, the Center chief will issue a certificate that the deceased borrower's loan has been paid. A Loan Insurance Savings Fund is formed at the branch level, with the savings from the borrowers; whatever amount is outstanding must be paid by the bank.

- In case of natural death, the Zonal Manager will give the approval to pay the outstanding amount from the LISF upon the confirmation of the Center and at the recommendation of the branch.
- In case of an unnatural death, the General Manager (Administration) of the Head Office will give approval.

## D. Fixed Deposits

Grameen has various fixed deposit products that are available to all Grameen members (see Table 3.4 and Figure 3.2). These include the following:

### 1) DOUBLE YOUR MONEY IN 7 YEARS

- Minimum deposit Tk. 1,000
- Duration: Seven years
- After seven years, the amount on deposit has doubled

### 2) FIXED DEPOSIT WITH MONTHLY INCOME

- Minimum deposit: Tk. 20,000
- Duration: Five to 10 years
- Interest rate:
  - Five years—9.6%
  - 10 years—10%

Interest earnings are paid on the closing day of the month, by transfer to the account holder's personal account; the account holder can then withdraw interest earnings.

### 1) FIXED DEPOSIT

- Minimum deposit Tk.1,000
- Duration: One to three years
- Interest rate:
  - One year—8.75%
  - Two years—9.25%
  - Three years—9.5%

Individual or joint account; multiple accounts permitted.

## E. Other Voluntary Savings

### 1) PERSONAL SAVINGS FOR NON-GB MEMBERS:

- Open to the public
- At any time, anyone can open a savings account at a GB branch and can deposit any amount
- Attractive interest rate

### 2) CURRENT ACCOUNT:

- Open to the public; GB borrowers also may open this account
- No interest is paid
- At any time, account holder can deposit and withdraw money

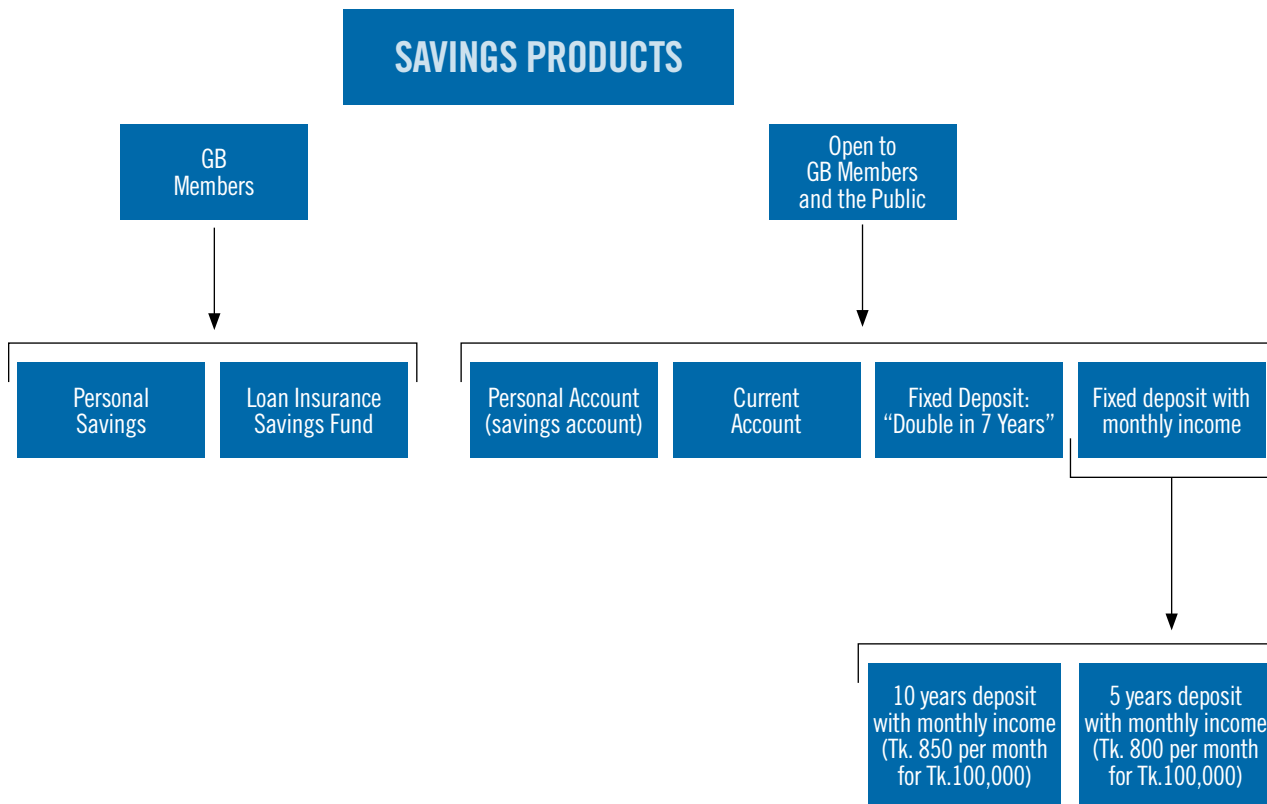
## INTEREST PAID ON SAVINGS ACCOUNTS

Table 3.4 provides a summary of interest paid on the various types of savings under GB II.

Table 3.4 Grameen Bank Savings Products

NAME OF THE SAVINGS PRODUCT:	RATE OF INTEREST
<b>Obligatory Savings:</b>	
a) Personal Savings	8.5%
b) GPS for 5 years	10%
c) GPS for 10 years	12%
<b>Voluntary savings:</b>	
a) Personal savings (open to members and the public)	8.50%
b) Current account (open to members and the public)	0%
c) Loan Insurance Savings fund	8.50%
d) Deposit doubles in 7 years (members and public)	10.40%
e) Monthly profit savings for 5 years	9.60%
f) Monthly profit savings for 10 years	10.02%
<b>Fixed deposit (members and the public):</b>	
For 1 year	8.75%
For 2 years	9.25%
For 3 years	9.50%

Figure 3.2 Flow Chart of Savings Products of Grameen Bank



## IV. LIFE INSURANCE

Each year, the families of deceased Grameen Bank borrowers receive a total of Tk. 8 million to 10 million (US\$ 119,000 to \$148,000) in life insurance benefits. Each family receives at least Tk. 1,500, depending on how long the deceased had been a Grameen Bank borrower.

As of October 2010, almost 130,000 Grameen Bank borrowers had died. Their families have collectively received more than US\$4.5 million.

Borrowers are not required to pay any premium for this life insurance. Borrowers obtain this insurance coverage by being a shareholder of the bank. Struggling members (beggars) are also covered by this insurance benefit, without paying any premium.

# SECTION 4



## SECTION 4: GRAMEEN BANK'S SOCIAL DEVELOPMENT SERVICES

### I. INTRODUCTION TO GRAMEEN'S SOCIAL DEVELOPMENT AGENDA

The social development agenda forms a pivotal component of the Grameen Bank program. Unlike commercial banks, whose sole purpose is to lend money and make a profit, Grameen's purpose is to help their members to move out of poverty; financial services are just one tool to achieve this. The Sixteen Decisions form the cornerstone of Grameen's social development program. They outline key areas that each member and her family work toward to create a higher standard of living. GB is helping members to achieve these goals through basic microfinancial services, consciousness raising and social programs, such as special workshops for its members, health and education programs for members and their families, disaster relief, provision of seeds and plants, and others.



012. A Dowry-less wedding ceremony

### II. GRAMEEN'S SIXTEEN DECISIONS

Grameen Bank borrowers adopted the **Sixteen Decisions** to inculcate common values that would guide them as members of Grameen in their day-to-day lives and help their families move out of poverty. The decisions commit them to working toward concrete changes in their lives, such as keeping their families small, sending their children to school and making sure they stay enrolled, breaking from the custom of giving dowry to the bridegroom's family, ensuring they drink clean drinking water and so forth.

#### The Sixteen Decisions are as follows:

- 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 houses and work toward constructing new houses at the soonest.
- 4) We shall grow vegetables all year. We shall eat plenty of them and sell the surplus.
- 5) During the planting seasons, we shall plant as many seedlings as possible.

- 6) We shall plan to keep our families small. We shall minimize our expenditures. We shall look after our health.
- 7) We shall educate our children and ensure we can earn enough 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 arsenic-free tube well water. If it is not available, we shall boil water or use alum.
- 11) We shall not take any dowry when our sons marry, nor shall we give any dowry when our daughters marry. We shall keep our Center free from the curse of dowry. We shall not practice child marriage.
- 12) We shall not inflict any injustice on anyone, nor 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 all help him or her.
- 15) If we come to know of any breach of discipline in any Center, we shall all go there and help restore discipline.
- 16) We shall take part in all social activities collectively.

### III. PROGRAMS FOR PROMOTING DEVELOPMENT

In addition to the Bank's continuous work in encouraging and supporting the adoption by members of the Sixteen Decisions and associated products, such as low-interest loans for improved housing and the building of pit latrines and tubewells, Grameen and its related family of companies work in a variety of areas to stimulate the social and economic development of the country's poor. Various replication programs have also adopted special programs and policies, beyond normal credit and savings programs, to promote their members' overall development.

#### A. Special Workshops for Members

Beyond a lack of money, numerous other causes lead to poverty. They include, but are not limited to, illiteracy, superstition, lack of technical knowledge, lack of awareness and being a victim of circumstance. Many visible and invisible factors are collectively responsible for poverty. Microcredit is a powerful vehicle for poverty alleviation. But complementary social development programs, such as education, healthcare, insurance and skills development, to name a few, can enhance its impact on reducing or eliminating poverty.



013. Client workshop

Workshops play an important role in educating members regarding program rules, regulations and credit discipline. They are also important venues for discussing and providing training in important life-skills areas and development topics. Whenever a branch feels a need for a special workshop, they can organize such an event with the approval of the Head Office/Zonal Office. Sometimes branches include special workshops in their annual plans and arrange

for experts or specialists to teach workshop participants. Each region's choice of workshop varies, depending on the specific needs of its members. Centers are encouraged to identify their own needs and make requests to the branch manager for skill-development workshops.

Typically, Grameen's workshops at the branch level last anywhere from one to seven days. The content or agenda for a workshop determines its duration. Common topics include the Grameen philosophy, Sixteen Decisions, leadership, rules and regulations, credit discipline, etc.

Longer special workshops provided by Grameen branches include: midwifery training, general preventative health, nutrition, family planning, poultry raising and vaccination, sanitary latrine development and vegetable gardening.

Upon completion of any workshop, there is follow-up mini-workshop held at each Center by the workshop participants to disseminate the lessons learned to fellow Center members who did not participate in the original workshop. The Center Manager should participate in this workshop.

Examples of these workshops are given below.

### **1) SEVEN-DAY WORKSHOP:**

#### **General Leadership Development and Special Development Training**

**Participants in workshop:** A maximum of 35 Center Chiefs can participate in this workshop. If the number of centers under the branch is fewer than 35, then two or more members can represent one Center. The additional Center representative should be the Assistant Center Chief or a Group Chairperson. If the branch has more than 35 centers, they may be divided into two groups and the workshop shortened to just three days for each group with up to 35 participants. During the last day, participant family members may attend the workshop. Generally, the workshop facilitators are bank officers from the Zonal Office and sometimes from the Area Office. Occasionally, outside experts from local government agencies or private institutions (e.g., veterinarians, medical doctors, nurses, midwives, animal husbandry professionals) are invited to serve as resource speakers. A seven-day workshop is conducted continuously and covers various topics of interest to the members.

During the workshop, the participants should speak more than do the organizers and facilitator. The branch staff should encourage participants to engage in the discussion. The workshop should help empower them as leaders of their respective groups and centers.

**Contents of the workshop:** Issues commonly discussed during these workshops include a combination of the following, and should be completed within the time allocated:

- Importance of Center discipline (timely attendance, opening and closing)
- Center meeting procedures (e.g., installment payments collection procedures, etc.)
- Reporting on a center's present position (problems, success, potential, current situation at centers)
- Loan utilization procedures
- Duties and responsibilities of a Center Chief and Group Chairperson
- Loan proposals
- Mutual help, dynamics within a group
- Importance of the Center house
- Special development programs (children's education, health, nutrition, agriculture, etc.)
- Exchanging ideas and views among the participants
- Loan utilization verification and other activities

- Sharing knowledge among participants on how to generate more income by investing loans efficiently
- Future plans for the program
- How to manage accurate accounts and transactions in the Center meeting
- The Sixteen Decisions

This type of workshop is useful for a Grameen Bank-style start-up program. The topics selected could be modified to match the local context and situation. Initially, a seven-day workshop may be arranged once a year. As the program grows older, it may be held less frequently—say, once every two years.

## **2) ONE-DAY WORKSHOPS:**

### **Management techniques for solving Center problems**

**Participants in the workshop:** This workshop is organized by the branch management at least once a year. A maximum of 50 Center Chiefs, Deputy Center Chiefs, Group Chairpersons and Group Secretaries may participate in this workshop. The number of existing centers determines the number of members who attend the workshop. If the number of centers under the branch is fewer than 50, then more than one Group Chairperson can represent the centers.

**Contents of the workshop:** The workshop focuses on existing problems at the Center, as well as any of the topics covered in the seven-day workshop. During the workshop, the participants present a report on behalf of their respective Center. The report should include the Center's achievements, obstacles and proposed solutions, and a future plan for the Center.

### **Issue-based workshops for major problems affecting the branch**

Whenever a program encounters a major problem or issue, the branch management should organize a one-day workshop or call a special meeting to solve the problem. This type of workshop cultivates member awareness and enables them to play a role in resolving such issues. This workshop should not last more than a half-day. At least 40 members or one representative from each Center ideally should attend the workshop. Usually, the Center Chiefs are the main participants in the workshop.

### **Special workshops for problematic Centers**

While problems cannot be predicted in GB-style microcredit programs, the damage caused by problem borrowers may be reduced if the management responds in a timely manner. If symptoms of a potential problem appear in a particular Center, the branch management should immediately organize a workshop at that Center. All members of that Center should participate in such a workshop. The workshop should take place at the Center house or a convenient location nearby. During the workshop, the Branch Manager and Center Manager seek to understand and determine the causes behind the problem, and pursue steps to solve it through discussion with the members.

## **B. Education Programs**

### **1) HIGHER EDUCATION LOAN PROGRAM**

In Bangladesh, access to higher education is mostly limited to children of wealthy families. High cost and severe competition make it almost impossible for poor people to obtain a higher education. With very few tertiary institutions in the country and extremely competitive entry to the better known universities, the aspirations of many to seek a higher education often remain unfulfilled. The Grameen

initiative to provide loans to the children of borrowers was designed to enable them to realize this dream. Without this kind of support, it would be otherwise impossible.

As of October 2010, more than 114,000 children of Grameen members have been granted scholarships, and the number is growing. The terms and conditions of the higher education loan program are discussed in the previous section (*Grameen Bank Financial Products and Services*).

## **2) SCHOLARSHIP PROGRAM FOR OUTSTANDING STUDENTS OF GRAMEEN BORROWERS**

To encourage the meritorious children of borrowers to seek a higher education, Grameen Bank has established this program. It now offers nearly 4,000 scholarships every year to leading students of Grameen families.

**Number of scholarships:** Normally, one scholarship is allocated for each branch in each area; in addition, Zonal Managers can allocate an additional scholarship in each area from their quota. Furthermore, the Head Office can allocate two more additional scholarships for meritorious students from each Zone.

**Selection Committee:** A selection committee exists at the Area Office level, headed by the Area Manager, with all Branch Managers serving as members.

### **Eligibility of member-parent:**

- Regular borrower
- Has purchased GB shares
- 100% loan utilization for approved activity
- Perfect loan installment repayments over the last 12 months

**Proportion of male and female students:** 50% of all scholarships are reserved for female students; the balance is awarded according to merit. Under no circumstances will the number of females will be fewer than that of male students. If sufficient numbers of qualified female students are not available, the committee will relax the qualifications.

### **Award Process:**

- The student and her/his parent apply using a prescribed application form to the Branch Manager. The Branch Manager forwards the application to the Area Manager, along with marks sheet, certificate and other documents.
- The committee verifies the applications and selects the most qualified students.
- The committee nominates one or more qualified students from each area to the Zonal Manager.
- The Zonal Office makes the final selection, based on a set of guidelines from the Head Office.
- Scholarship money for the year is given in quarterly installments.
- To receive money, the borrower-parent must be present with her child/student at the branch with a certificate from the head of the school that confirms enrollment.
- If the student stops studies or the borrower-parent loses regular borrower status, the scholarship will be cancelled.

## C. Health Services

In 1997 Grameen Bank created Grameen Kalyan, a non-profit member of the Grameen family of companies, to provide affordable and effective health care services to Grameen members as well as other poor villagers in their community. Research has shown that health problems among Grameen members have been one of the major barriers to their moving out of poverty. Grameen Kalyan's main program is Micro-Health Insurance. For a modest annual premium of 120 taka (US\$ 1.70) for Grameen Bank members and 150 taka (US\$ 2.14) for non-members, plus a doctor's prescription fee of 5 taka for members and 10 taka for non-members, the family members of the insured are entitled to the following services:

- Treatment at a Grameen Health Center
- Tk. 2,000 (US\$28.60) paid to a family member when referred to a hospital for operation
- Annual medical check-up
- Pregnant mother check-up and vaccination (including her child)
- Pathological tests
- Family planning materials provided at minimum cost
- Health-care education provided during house visits by Health Center staff

Each of Grameen Kalyan's 33 Health Centers is staffed by a medical doctor, paramedic, six nurses, laboratory technician and office manager. The centers are equipped with modern facilities for laboratory tests, X-rays, ECDs and the treatment of diseases such as diabetes, rheumatic fever, hepatitis B, typhoid and jaundice.

## D. Program for Destitute Members<sup>1</sup>

Begging is often a person's last resort for survival. The ranks of beggars include the disabled, blind and retarded, as well as with the elderly in poor health. Grameen Bank's Struggling Members Program was established to reach out to beggars and to demonstrate that even the poorest can benefit from credit. As of October 2010, more than 90,000 beggars have joined the program. The total amount disbursed is US\$2.3 million. Of that amount, US\$1.8 million has already been paid off.

The objective of the Struggling Members Program is to provide financial services to beggars. That helps them secure a dignified livelihood, send their children to school and graduate to become regular Grameen Bank members. It is Grameen's goal that no one in a Grameen Bank village must beg for survival.



014. Struggling member selling her wares

<sup>1</sup> Information taken from the Grameen Bank website, October 2010.

### **THE BASIC FEATURES OF THE PROGRAM ARE:**

- Existing rules of Grameen Bank do not apply to beggar members; they make up their own rules.
- All loans are interest-free. Loans can have very long terms, and repayment installments can be very small.
- Beggar members are covered under Grameen's life insurance and loan insurance programs, without paying any cost.
- Groups and centers are encouraged to become patrons of beggar members.
- Members are encouraged, but not required, to give up begging; they are also encouraged to take up an additional income-generating activity, like selling popular consumer items door-to-door, or in the location where they had begged.

## **E. Disaster Management Program**

Bangladesh is a country that faces frequent and devastating natural disasters. These affect the country and the millions of people served by Grameen. To minimize the negative impact of natural disasters on its members and their families, Grameen Bank has established a Disaster Management Program. Grameen-style programs in geographic regions that are prone to natural disaster may want to establish their own disaster management program. They may consider adopting some of the features of Grameen's program, as described below.

Grameen's Disaster Management Program is divided into four phases: precautionary, preliminary, intermediate and rehabilitation.

### **1) PRECAUTIONARY PHASE:**

All Center Managers should discuss with Center members the following safety measures in the periods of the year when natural disasters—e.g., floods—are most common. If possible, the Center Manager should urge Center members to develop a fund for this purpose:

- Save money throughout the year for disaster relief.
- Store some dry food (including dry milk or other baby food), commonly used medicines for adults and children, water purification tablets and match boxes in a safe place.
- Check the house to determine if it is strong enough to withstand a disaster like flood or typhoon; if not, then strengthen it to the greatest extent possible.
- Find a secure evacuation place (i.e., high land that stays above water in a flood) in your area and plan to use it if necessary.
- Keep excess money in the Bank during times when disaster threatens.
- Reduce livestock herds to a size that can be easily moved to safety if necessary. Store some livestock feed.
- Alert the community to any available support in the event of a natural disaster.

### **2) PRELIMINARY PHASE:**

When a natural disaster or calamity, including flood, cyclone, epidemic, tidal wave, river erosion, excessive rainfall, drought, earthquake, fire and so forth, brings normal life to a standstill, an area may be declared as disaster area. The following steps are carried out in the preliminary phase:

- Determine what percentage of centers, branches, areas and zones are affected by the disaster. Make a formal declaration if:
  - 50% or more centers of a branch are affected
  - 75% or more centers of a branch are affected

- 50% of the branches in the area are affected
- 75% of the branches in the area are affected
- Stop loan repayment in areas that have been declared as “affected”:
  - Borrowers in areas that have been declared as affected are not to be pressured to repay loan installments.
  - If necessary, loan repayment collections in the centers may be stopped partially or fully. The Branch Manager may decide to stop loan repayment collections with the counsel of the relevant Area Manager/Zonal Manager.
  - In a disaster area, the loan repayment collection may be stopped initially for a maximum of two weeks and then, considering the damage, may be extended several times in two-week increments.
- Provide emergency food, healthcare and other support to disaster-affected members. This includes:
  - Baby food.
  - Food items (puffed rice, molasses, bread, rice, lentils, oil, salt, bananas).
  - Oral saline, water purification tablets, candles, matches, etc.
  - Common medicines (for diarrhea, dysentery, cholera, malaria, diabetes, hyper-acidity, fever, etc.)
  - Provide all support to shift the disaster-affected members, especially the wounded and injured, to a secured shelter/medical center.
  - If the emergency food, medicine and other items cannot be procured and supplied to the affected area, then each member can receive a food loan (interest-free) of Tk. 400 in cash, drawn from the rehabilitation fund of the branch office.
- Savings withdrawal:
  - The branch office may allow disaster-affected members to withdraw 90% to 95% of their savings, from both voluntary and obligatory savings accounts.

### 3) INTERMEDIATE PHASE:

Following the preliminary phase, the following actions are carried out:

- Center meetings may be postponed for as long as one to two months if necessary. However, the Center Manager and other workers must visit the disaster-affected areas regularly to boost the morale of members.
- The Branch Manager and all field staff should regularly visit all centers (if possible) to receive situation updates from members and their families.
- The Branch Office must inform the local medical center, aid agencies and other service-oriented organizations in the area about the families of disaster-affected members, along with their locations, and request relief services for any victims.
- Branch staff will provide necessary advice and support for taking care of poultry and other domestic animals at the disaster shelter. They also will encourage them to start or restart their businesses while at the shelter if possible.
- As soon as normal activities can be resumed (or as soon as the Zonal Manager has declared the disaster over), members are to resume paying the loan installments.



#### 4) REHABILITATION PHASE:

During the rehabilitation phase, the following measures are carried out:

- The Group Chairpersons, Center Chiefs and all Center members are encouraged to carry out their duties under the rehabilitation program.
- The field staff must encourage the disaster-affected members to resume their income-generating activities as soon as possible and to maintain discipline and unity.
- On the basis of borrower requests and the prior approval of the Head Office, the branch may create a new loan repayment schedule by reducing the size of the installments by as much as half. In special cases, and the with prior approval of the Zonal Manager, the size of loan installments may dip to even less than half the size of the previous loan installment.
- Seriously affected borrowers may also be eligible for a Rehabilitation Loan or an Emergency House Repair Loan.
- Branch, Area and Zonal offices of Grameen Bank may contract with government medical centers or local doctors to arrange a one-day medical camp at the Branch Office for disaster-affected members. The affected members and all family members can receive a medical checkup free of charge. Each medical camp may store medicine up to Tk. 2,000 and provide medicine to the patients on a cost-recovery basis.
- Loans for Medicine: The branch may also provide small, interest-free loans (up to Tk. 200) for borrowers who need to purchase medicine.
- Vaccination program for poultry and domestic animals: The Branch, Area and Zonal offices may contact the local government veterinary offices to arrange for a one- or two-day vaccination program for poultry and domestic animals in the affected area of the branch.

## F. Rehabilitation Fund

Funds may be disbursed from the Rehabilitation Fund from the Head Office to affected zones, on condition that they are paid back later. Affected members are given interest-free loans in cash or kind from this Fund (except for Capital Rehabilitation and Emergency House Repair loans). Once they have recovered from the disaster, members are expected to pay back the loans with a lump payment or in installments under terms and conditions worked out with them.

- This fund will be used for the rehabilitation of disaster-affected members and their families.
- Special priority is given to the nutrition and health of family members. The Rehabilitation Fund may be used to purchase items such as baby food and other dry food, rafts, bamboo, oral saline, alum, water purifying tablets, medicine, seeds, candles, lamps, kerosene, matches, etc.
- Money from the Rehabilitation Fund may be used to purchase necessary related materials (such as lamps, candles, matches, etc.) but expenditures on these items cannot exceed more than 5% of the amount allocated for rehabilitation work.
- Each member can receive a maximum of Tk. 3,000 in cash or kind from the Rehabilitation Fund.

## IV. MEASURING POVERTY ALLEVIATION

### A. Introduction

Social impact monitoring and impact evaluation for microcredit programs is an increasingly popular topic in the industry. This section will focus on the experience of Grameen Bank and replication programs in monitoring poverty alleviation among their clients. It does so by asking: Are our clients making measurable strides in getting out of poverty? How many of them? It does this rather than evaluate any impact by comparing client outcomes against those of a comparison group of non-clients. However, there is a wealth of information available on impact evaluation studies and techniques. Those interested are encouraged to read Grameen Foundation's publication, *Measuring the Impact of Microfinance: Taking Another Look*, which reviews the most significant impact evaluations published as of mid-2010.

### B. Grameen Bank's "Poverty-free Indicators"

Every year, Grameen Bank staff evaluate their work and check whether the socioeconomic situation of members is improving. Grameen Bank evaluates the poverty level of the borrowers using 10 simple indicators. New in Grameen Bank II is the "Star System," which is discussed in *Section 5: Human Resources*. The system utilizes these 10 indicators to determine the most coveted performance star for both staff and branch—that is, the "poverty-free" star, which indicates that all members have achieved poverty-free status based on the applicable criteria.

#### 1) THE 10 POVERTY INDICATORS

Grameen considers a member's family poverty-free if it meets the conditions of all 10 of the below indicators. Likewise, Grameen considers a branch poverty-free if all member families meet the indicators. The indicators are simple and easy to measure or verify. They include the following:

- 1) The family lives in a house worth at least Tk. 25,000 (about US\$370) or in a house with a tin roof, and each member of the family is able to sleep in a bed.
- 2) Family members drink clean water drawn from arsenic-free tubewells, or that is boiled, or purified using alum, bleaching powder, tablets or filters.
- 3) All children in the family over six years of age attend school or have finished primary school.
- 4) The minimum weekly loan installment of the borrower is Tk. 200.
- 5) The family uses a sanitary latrine.
- 6) Family members have adequate clothing for everyday use (including warm clothing for winter, such as shawls, sweaters, blankets, etc.) and mosquito nets.
- 7) The family has sources of additional income, such as a vegetable garden or fruit-bearing trees, which the family may fall back on when they need additional money.
- 8) The borrower maintains an average annual balance of Tk. 5,000 in her savings accounts.
- 9) The member's family is able to afford three square meals a day throughout the year. That means no member of the family goes hungry at any time of the year.
- 10) The family can take care of their health. If any member of the family falls ill, the family can afford to take all necessary steps to have the patient treated.

## 2) RESULTS TO DATE

According to a recent internal survey, 68% of Grameen borrower families have crossed the poverty line. The balance is growing closer to doing so.<sup>2</sup>

Grameen-style programs can develop their own set of indicators best suited to their local conditions. Many of the indicators used by Grameen should be applicable in many countries where poverty-focused microcredit programs operate. Otherwise, they can consider using the Progress out of Poverty Index™ (PPI™), developed by Grameen Foundation and modeled after the Grameen Bank's 10 indicators of poverty. The PPI is discussed in detail in the next section.

### C. Grameen Foundation's Progress out of Poverty Index<sup>3</sup>

Grameen Foundation has long recognized the critical role of social performance in achieving its fundamental mission: maximizing outreach to and impact on the poor and poorest. In fact, social performance is at the heart of Grameen Foundation's work: It stands for what Grameen Foundation is and what it wants to achieve.

To carry out its mission, Grameen Foundation also recognized the need for a practical, accurate and transparent tool to measure social performance in the same way that financial tools measure operations. Grameen Foundation sought an innovative way to help microfinance institutions (MFIs) measure a “double bottom line”—both social and financial—in assessing the results of microfinance programs and in using those results to better manage these programs.

As mentioned in the previous section, the Grameen Bank already established a 10-Point System, a set of easily observable indicators that, if achieved, suggest a family has moved out of poverty. Prizma Microfinance had also developed a poverty scorecard. Based on this, Grameen Foundation, in partnership with the Consultative Group for the Alleviation of Poverty (CGAP), commissioned the development of the Progress out of Poverty Index (PPI).

The PPI is designed to measure the poverty levels of groups and individuals, and to track changes in poverty levels over time. The PPI is a composite of 10 easy-to-collect, country-specific and non-financial indicators, such as family size, number of children attending school and housing type. In each country, the PPI draws information from that country's national household survey (e.g., Mexico's National Household Income and Expenditure Survey, or Pakistan's Integrated Household Survey), or the relevant World Bank Living Standards Measurement Survey. The PPI score then serves as a baseline from which client progress can be measured. By using benchmarks and standards of measurement that produce reliable information, managers can build client profiles and track how they change over time.

In many respects, the PPI is, at its core, a consumer research tool for MFIs. It is analogous to the type of consumer marketing research conducted by many retail businesses. Simply put, the results provide information the management team needs to serve their clients better.

Are MFIs reaching the poor and poorest in large numbers? Are their clients moving out of poverty in large numbers within a reasonable timeframe, and staying out? While poverty-focused MFIs agree

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<sup>2</sup> From Grameen Bank website, “Grameen at a Glance,” October 2010.

<sup>3</sup> Extensive information regarding the PPI can be found at [www.progressoutofpoverty.org](http://www.progressoutofpoverty.org).

that moving the poor out of poverty is their mission, the majority are not able to provide up-to-date, accurate and objective classifications of the poverty levels of their clients, nor information on the rate at which poor clients are crossing the poverty line.

With this kind of reliable, objective poverty information, MFIs can serve their clients more effectively, better understand the outcomes of their client services and more efficiently attract the funding necessary to increase the scale of their operations.

The PPI is a simple and accurate tool that measures the poverty levels of groups and individuals. Using the PPI, MFIs can better determine their clients' needs, which programs are most effective, how quickly clients leave poverty and what helps them to move out of poverty faster.

The PPI is based on an approach developed by Mark Schreiner of Microfinance Risk Management, L.L.C. It is a user-friendly tool that estimates the likelihood that a client will fall below the national poverty line, the poverty line that defines the poorest half below that national poverty line, or the \$1.25/Day/PPP and \$2.50/Day/PPP international poverty lines. While the PPI is built on a universal methodology, each PPI is country-specific and is based on that country's best nationally representative income and expenditure household survey.

For each country, the process starts with a nationally representative income and/or expenditure survey. The data from the survey are analyzed to rank indicators that strongly correlate with poverty. These indicators are then tested and vetted with local MFIs and their representatives.

Use of the PPI can be broken into three stages: measuring, analyzing and managing.

### **1) MEASURING**

MFI field staff visit the homes of clients to collect key information. Using a practical list of 10 indicators, such as family size, the number of children attending school, the type of housing and others, staff members interview clients while observing their households. Each indicator receives a score that reflects client response, and all 10 indicators receive a total score.

The indicators in each country are drawn from either that country's national household survey (such as Mexico's INEGI database or Pakistan's Integrated Household Survey), or the country-specific World Bank Living Standards Measurement Survey, depending on which data set has the most complete information. This index then serves as a baseline from which client progress is measured.

### **2) ANALYZING**

Field staff matches the total points from a client's PPI to a poverty level estimate by using a simple chart. In this way, individuals are ranked according to the applicable poverty line. Using this analysis, institutions can assess the poverty likelihood of clients by branch, rural or urban setting and client history (new or current).

### **3) MANAGING**

By tracking poverty levels against other client demographic information, the results of the PPI enable an MFI to make key decisions about its mission and how to execute it. By using the PPI over time, MFIs can:

- 1) Better define and adhere to their mission.
- 2) Increase their competitive edge, profitability and ability to retain clients by responding more quickly and effectively to changes in their communities and by showing documented results.

- 3) Provide timely and accurate information to socially responsible investors who may want to provide financial resources to their programs.

The PPI is made available for use by MFIs free of charge. To ensure that the largest possible number of organizations have access to the PPI, Grameen Foundation is involved in a wide variety of promotional activities. Once a country PPI is created, a critical step in integrating it into operations at the individual MFI level is ensuring that needed support and advice is available. Grameen Foundation works directly with its network partners, as well as with national, regional and international organizations, to promote local PPI expertise and facilitate cross-institutional learning.

### **The PPI within a Social Performance Management System**

The PPI forms the core of a comprehensive social performance framework or management system. As a social performance tool, the PPI provides management with the ability to:

- Divide clients into distinct poverty bands
- Integrate financial and social indicators
- Correlate product offerings and distribution channels to poverty levels
- Track movement of clients across poverty lines
- Assess how well a social mission is translated into action

More specifically, the PPI can assist MFI managers in the following ways:

- Inform management decisions about processes, programs, products and provision of services
- Target clients for specific products and services
- Help in responding to competitive pressures, by understanding the balance of financial and social returns
- Provide timely and accurate social performance information to regulatory bodies, social investors, donors and rating agencies

How any individual MFI's social performance management system looks depends on the specific needs of that organization. The Imp-Act Consortium defines social performance management as “an institutionalized process that involves setting clear social objectives, monitoring and assessing progress toward achieving these, and using this information to improve overall organizational performance.”<sup>4</sup>

Social performance is the key to translating an organization's mission into reality. Managing social performance is based on 1) setting clear social goals and objectives, 2) collecting information to monitor progress toward these objectives and 3) using social performance information to improve operational and strategic decision-making. The PPI should therefore be thought of as a powerful tool that helps advance an organization's mission within a larger social performance management system.

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<sup>4</sup> Quoted from [www.imp-act.org](http://www.imp-act.org).

# SECTION 5

# SECTION 5: HUMAN RESOURCES

## I. INTRODUCTION

The field staff, along with management, is the most important resource of a microfinance program. Grameen-style programs require staff members who are highly motivated and committed to seeing their work make a difference in the lives of poor families. It is important for the program to recruit staff members who believe in the mission and its values, and to provide them with proper training to carry out their work. How well the program manages its staff ultimately influences their productivity, efficiency and willingness to stay on (staff retention). That in turn determines the program's sustainability and impact.

To establish and maintain an effective staff management system, Grameen-style programs should develop (and continue to improve on) an employee handbook. This document should contain the program's policies and procedures, as well as rules and regulations relating to employee hiring and firing, salaries, financial and other benefits, employee code of conduct and disciplinary action, promotion, performance evaluation, staff development, reward system, leave rules, etc. The employee handbook should be consistent with a country's labor laws and should be approved by the program's board of directors.

This section will discuss the following human resource topics:

- Organizational and staffing structures
- Staff recruitment and field staff training
- Staff and branch evaluation process
- Staff management and motivation
- Grameen Bank's staff and branch "Star System"

## II. ORGANIZATIONAL AND STAFFING STRUCTURE

### A. Grameen Bank's Structure

Grameen Bank is an enormous institution, with nearly 24,000 employees serving more than 8.3 million borrowers. The organizational structure of the Bank has evolved over time, but has always been based on a highly decentralized system of operations. In his article, *Grameen Bank: As I See It*, Professor Yunus describes the Bank's structure as one that is organized on the principle of circles within circles.

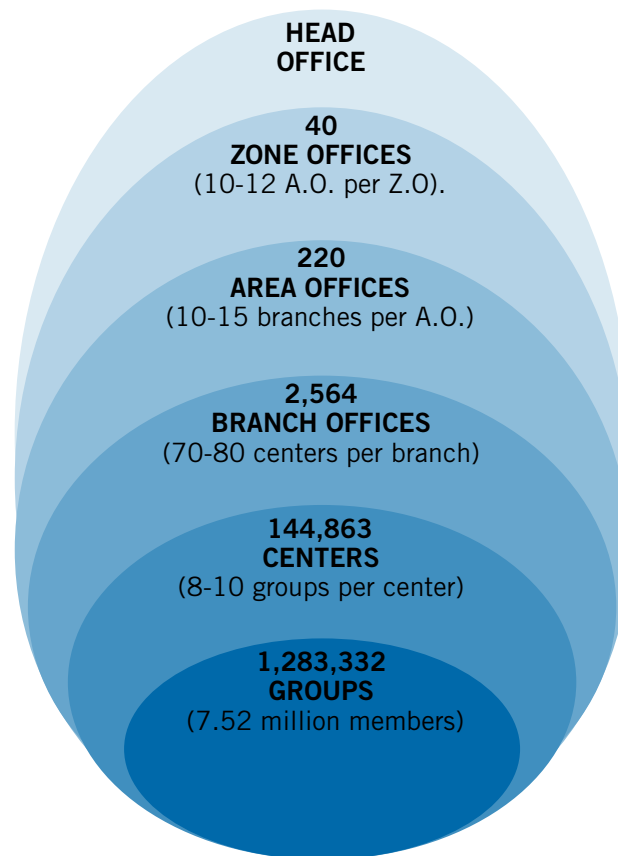
*"Each circle is complete, but it is located within a bigger circle. The biggest circle is the Head Office; the smallest circle is the Group. Groups belong to the bigger circles of centers, which belong to the still bigger circle of the branch, branch to the Area Office, area office to the Zonal Office, and Zonal*

*Office to the Head Office. Each bigger circle tries to pass on the responsibilities to the immediate next smaller circle within itself, while keeping a close watch on what goes on in each constituent smaller circle. In case of emergency, the higher circle takes up the responsibility more directly to bail out the lower circle...*

*“Supervisory offices (Area, Zonal and Head offices) are each there to make sure a minimum qualitative level is maintained in all the units under its supervision. Continuous monitoring of events in the lower units becomes the most crucial function of the supervisory offices. Access to information automatically reduces the necessity for day-to-day administrative control. The more information that is available on a regular basis, the easier it becomes to dispense with regulatory administrative measure; self-regulation in one’s own self-interest is the most effective form of regulation.”*

Figure 5.1 presents the basic structure of Grameen Bank (with data updated as of October 2010)

Figure 5.1 The Various Levels in Grameen Bank’s Organizational Structure



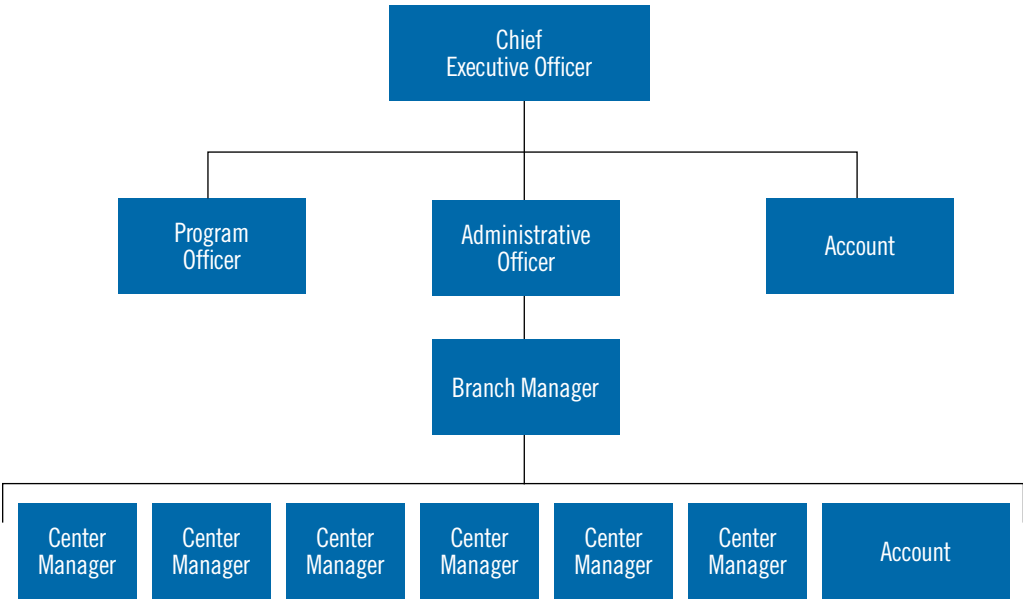
## B. Initial Staffing Structure in a Start-up Program

A Grameen Bank-style microcredit organization often starts with a single branch, with additional branches added later as the program gains experience and expands to new areas. Whether an organization administers a single branch or several branches, it should have a control and supervision system.



In the start-up phase, the Chief Executive Officer would be equivalent to the Area Manager, who is in charge of the Area Office, the first supervisory office in Grameen’s organizational structure. The basic structure of this office includes a Program Officer, Administrative Officer and an Accountant (an outline of their responsibilities is discussed later in this section). The Area Office supervises the branches (up to 10 in a mature Area Office), each of which is headed by a Branch Manager, who generally supervises six Center Managers and a branch accountant. This organizational structure is depicted in Figure 5.2 below (a typical Grameen Bank branch structure is also described in greater detail in Section 10):

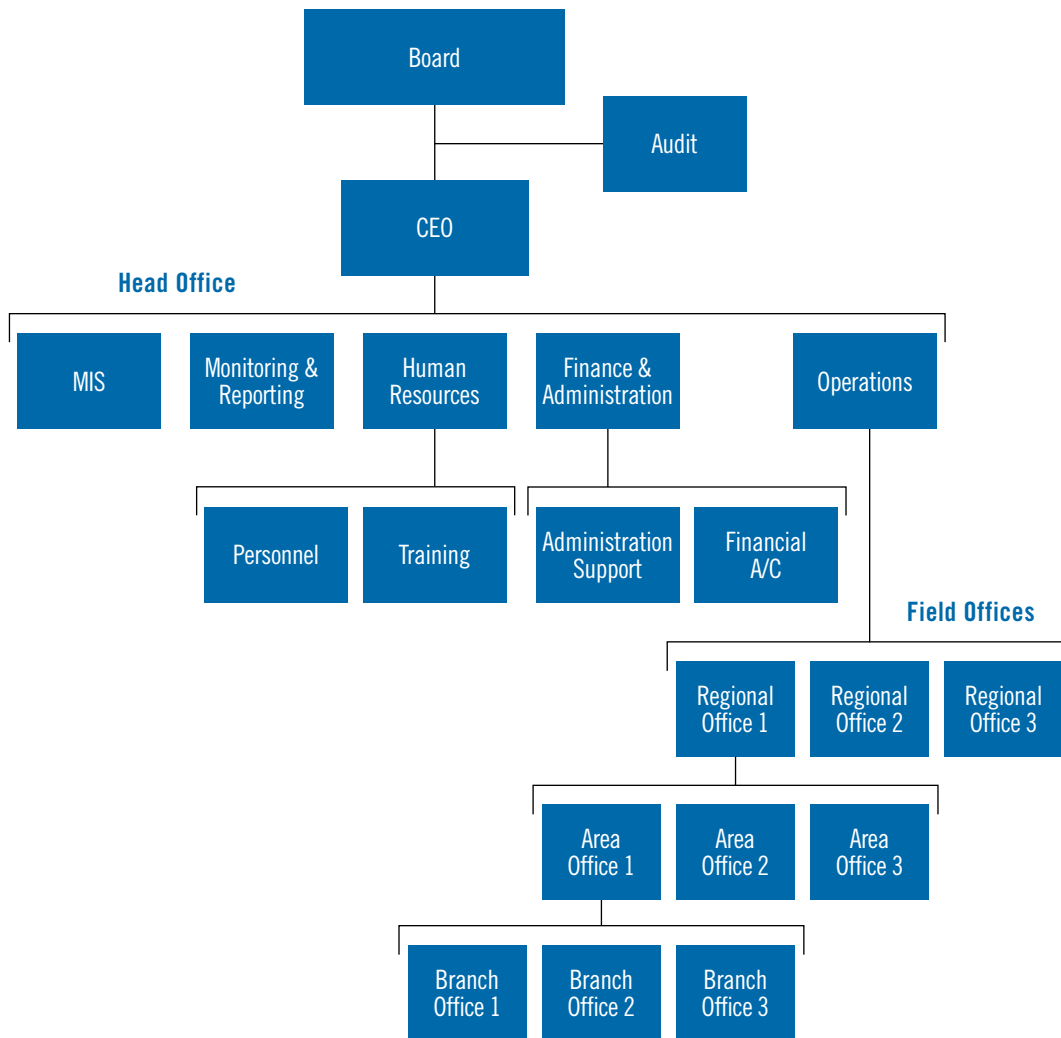
Figure 5.2 Organizational Structure of a Start-up Program



In organizations that initiate operations with just a single branch, the supervisory office is often housed at the same location. The closer the supervisory offices are to the field and daily operations, the better.

As the program grows and adds branches, the organizational structure becomes more comprehensive, in keeping with its expanded and increasingly complex operations. This would come to look more like the organizational structure shown in Figure 5.3.

Figure 5.3, Model Organogram of a Mature Microcredit Institution



### III. STAFF RECRUITMENT

It is important to recruit staff who are highly motivated to do the kind of work involved in microcredit programs—working closely with poor clients in rural areas with poor infrastructure and amenities or in poor urban communities, often involving long hours in the field and branch office, and often with compensation and benefits packages that are not as attractive as those offered by alternative job opportunities. In Grameen, the recruitment board avoids hiring applicants who grew up in cities and are used to easy living. That is especially the case of those who come from wealthy families. In the Bank’s experience, applicants who meet this profile drop out early, in training or shortly after deployment to the field. This is probably the case in most other countries as well.

The positions of Center Manager (or loan officer) and Branch Manager comprise the bulk of staffing requirements of a microcredit program. Hiring for these two positions therefore makes up most of the recruitment work in a microcredit program. The recruitment process would normally involve advertising the post/job opening in a local or national-circulation newspaper, administering a written test and interviewing the applicant. For a start-up program that needs only a few staff members to get started, it should be sufficient to advertise the required positions in the local paper, local television and radio (if such exist), and at local colleges and universities.

The written test should be designed to test the applicant's writing and math skills and general knowledge, while the interview should focus on the applicant's attitude and interest in working with low-income families in poor communities, their ability to work in a team setting, people skills, background and willingness to put in long hours of work. It should also cover what is expected of the applicant on the job. Applicants should be notified within two weeks following the interview whether they have been accepted and when they should report for training.

In Grameen, job openings are advertised nationally but recruitment is done locally, at the Zonal level. Applicants for the post of Center Manager take their written tests and have their interviews at the Zonal level (normally on a school's premises). These tests and interviews are conducted by a team that includes the Zonal Manager and two officers from headquarters. Applicants for the Branch Manager post take the test and interview at the Training Center at the GB headquarters in Dhaka.

## IV. FIELD STAFF TRAINING

A start-up program must have its staff trained adequately and appropriately at the right kind of training institution or program. Early in the 1990s, when Grameen-style microcredit programs outside Bangladesh were not yet well established, one could obtain this kind of training only by sending people directly to Grameen Bank, which had developed standardized and tailored training programs for those interested in adopting the Grameen approach. Today, there are

more training options available, as many of the start-up GB-style programs that started in the '90s have become more established and are now professionally run, with training programs successfully developed and adapted to local conditions that meet their own needs as they expand. Many of these also now offer training to staff of other MFIs, both locally and even internationally. Examples include NWTF and CARD in the Philippines; ASA, SHARE and a number of other MFIs in India; Nirdhan in Nepal; LAPO in Nigeria; KASHF in Pakistan; and Pro-Mujer in Bolivia, to name just a few. The ideal is still to send any staff involved in initiating a program to the Grameen Bank International Training Institute for a tailored training program of four weeks or so. That allows them to learn the Grameen methodology and lending culture first-hand from the institution that started it all.



015. Staff training at Grameen

## A. GB Field Staff Training

Grameen Bank has developed a training program for its staff that is unconventional but has proven to be highly effective. The unconventional nature of Grameen's training program should not surprise anyone, especially when one considers that Grameen itself is an unconventional bank that does not follow conventional banking procedures or practices. Grameen has designed its training program to maximize learning by actual observation and work, with trainees posted at a branch office.

That way, the trainees learn while doing work alongside the branch staff (Center Managers, Accounts Officer and Branch Manager) as they perform their respective functions both in the field and at the office. This is supplemented by periodic classroom-style sessions at the Head Office Training Center, where activities include lectures, video and PowerPoint presentations, role playing, queries and discussions about the trainees' observations, and experience at the branch office and in the field (Center meetings, group training, visits to client projects and homes, etc.).



016. Grameen Field Staff Training

The main training material used by Grameen is the training guide, which trainees receive at the start of their training program. The guide is unusual (but consistent with Grameen's philosophy of maximizing learning by doing and observation) in that it comprises only of a set of questions, arranged by key topics (e.g., mission and objectives, methodology, accounting and bookkeeping, special development programs, etc.), and no answers. The trainees must find/discover the correct answers to these questions using information culled from lectures, library study and, most importantly, what they observe at the branch and in the field.

## B. Grameen Bank Training Design

Grameen's training program is outlined below. It is perhaps best suited for a mature program with many well-established branches. Still, we believe a start-up program can learn a lot by becoming familiar with the way Grameen rigorously trains its staff and by adapting the many attractive features of the system to suit its own situation and local context.

At Grameen, Branch Managers and Center Managers are trained separately, but the training procedure, duration and content/subject matter are all similar. Trainees are divided into groups of about 30. The classroom-style segments of the training take place at the Head Office, conducted by training officers from the Grameen Bank Training Center. The fieldwork segment takes place at various Grameen branches, where trainees are individually posted (one trainee per branch). These branches are selected so trainees will have the opportunity to be exposed to different types, in terms of age and performance (e.g., a relatively new branch, an excellent performing mature branch, a mature branch with repayment problems, etc.).

## **Total duration: 12 months divided into two phases**

### **PHASE 1: DURATION: SIX MONTHS**

#### **FIRST THREE MONTHS:**

- Trainees undertake three months of intensive training under direct supervision of the GB Training Institute.
- The first three months are divided into three stages, each lasting one month. Each stage includes five days of classroom-style training at the GB Training Institute, followed by 25 days in the field (posted at a branch). At each stage, the trainee must pass a test conducted by the Training Institute before proceeding to the next stage.

#### **KEY ACTIVITIES:**

##### **First month: Grameen Bank by-laws and other introductory topics**

- Grameen Bank's by-laws
- Case study of a struggling borrower
- Standard case load for a Center Manager and branch
- Sixteen Decisions implementation process
- Non-member savings deposit collection
- Problems in the field

##### **Second month: GB loan policy and products**

- Grameen's loan policies and products
- A case study of a regular loan borrower
- Loan contract
- Overdue and bad-debt loan-recovery program
- Role of the GB Branch and Center Manager in the implementation of the Grameen village phone program
- The "Star" award system
- Scholarship program for children of borrowers
- Disaster management and rehabilitation program

##### **Third month: GB accounting system**

- Grameen accounting system
- Daily transactions at the branch office and statement preparation
- Opening up a new branch
- Case study of special investment borrower
- Grameen "Gold Cup" competition
- Management information system
- Survey of poverty-free members
- Internal and external audit

#### **NEXT THREE MONTHS (MONTHS FOUR, FIVE AND SIX)**

- After successfully completing the first three months of training, the trainee is deployed for another three-month period to a branch office under the supervision of the Zonal Office.
- At the end of the fourth month, the trainee is evaluated by the Zonal Office management and if she/he passes the evaluation, receives a special assignment as part of the on-the-job training.
- At the end of the sixth month, the trainee's performance is again evaluated and if she/he passes, moves on for further training in Phase 2.

## PHASE 2: DURATION: SIX MONTHS (MONTHS SEVEN THROUGH 12)

In Phase 2, the trainees perform all the regular duties and assume all the responsibilities for the post (as Center Manager or Branch Manager) in a branch office. In that way, they start to be productive and contribute to income generation at the branch, even if they are still considered trainees. After

completing five months in Phase 2, the trainee is qualified to take the final examination (both written and oral) prior to appointment as a regular and full-time employee of Grameen Bank. The exam is conducted by the Training and Special Program Department at the Head Office. Passing the exam entitles the trainee to the regular pay and benefits of Grameen. If a trainee fails the examination, he/she is given a second chance to pass. A second failure leads to termination.

### COMPENSATION AND FINANCIAL BENEFITS DURING TRAINING

During the first six months of training, trainees receive a fixed monthly training allowance. During the last six months, the trainees receive a higher monthly allowance, with some benefits, including an additional allowance to cover transportation and medical expenses. Generally, the amount received by CM and BM trainees is equivalent to 75% of the regular full-time starting salary for each of these posts.



017. Grameen Bank training class

## V. STAFF AND BRANCH EVALUATION PROCESS

### A. Introduction

The two primary responsibilities handled by the Branch Manager are field management (related to the supervision of centers and clients) and staff management. A Grameen-style program's success depends on the collective efforts of its program staff, driven by friendly competition among themselves and a constructive attitude toward the program mission. To encourage more efficient and timely work, staff performance should be evaluated and recognized periodically and as frequently as possible. Performance evaluation should be based on specific indicators and benchmarks stipulated in the evaluation form.

### B. Preparing Staff Annual and Action Plans

Within Grameen, an Annual Plan for each branch is developed at the end of the year. This plan is the consolidated result of the annual plan targets of all Center Managers in a branch. Each Center Manager's annual plan provides projected monthly targets for key performance indicators for the upcoming year. Over the course of the year, the Branch Manager reviews with all his branch staff these targets, comparing them to actual accomplishments on a monthly, quarterly, semi-annual and annual basis.

In addition to the monthly and quarterly targets in the annual plan, Center Managers are also required to develop a quarterly Staff Action Plan, which includes activities not covered under the annual plan

(e.g., how to deal with default problems, strengthen Center discipline, build Center houses, implement the Sixteen Decisions, etc.). During the monthly and quarterly review meetings, the Branch Manager follows up on the progress of the Center Managers against this action plan. The performance of branch staff as measured against both the Annual Plan and the Action Plan is evaluated by the Branch Manager during the semi-annual and year-end reviews.

### **C. Monthly Staff Review Meetings**

Monthly staff review meetings at the branch level are an essential part of staff management in a GB-style microcredit program. The Branch Manager should organize a review meeting with all branch staff at the beginning of each month. Occasionally, senior management should take part in the review meeting. During the meeting, the following typical agenda items are discussed:

- Monthly targets and achievements
- Successes of previous month
- Failures of previous month
- Overall Center discipline
- Relationship among the staff
- Potential problems and proposed solutions
- Plans for the upcoming month
- Miscellaneous

The monthly staff review meeting is one of the most valuable management tools that the Branch Manager should employ. It is an excellent mechanism for fostering team spirit among the staff, promoting accountability, allowing for timely problem-solving, improving coordination of branch activities and providing opportunity for higher authorities to assess the branch's status and share information from the head/higher offices.

### **D. Quarterly Review Meetings**

At the end of the quarter the Branch Manager meets with the Center Managers and reviews each target versus actual performance. At Grameen, the Branch Manager, after completing the quarterly performance evaluation report, announces the name of the best Center Manager within a branch—namely, the CM with the highest implementation rate (based on the average rating for all indicators). The Branch Manager then informs his higher-up, so that an incentive may be provided. The types of incentives may include a cash bonus with a note of thanks or a certificate that would be weighed in the decision to grant a raise or promotion. A model evaluation report used by Grameen is shown in Table 5.1.

Table 5.1 Quarterly Action Plan and Implementation Report

Name of Center Manager:				
Quarter:				
INDICATORS	Status at start of quarter	Quarterly Target	Actual achievement at end of quarter	Actual as % of target
1 Group formation				
2 Center formation				
3 Loans distributed				
4 Loan outstanding				
5 Rate of recovery (%)				
6 Replacement members				
7 Rate of attendance at the weekly Center meeting (%)				
8 Others (if applicable)				
<b>Average rating:</b>				

Branch Manager signature

Center Manager signature

## E. Semi-annual and Year-end Staff Performance Evaluation

At the end of June and December, the Branch Manager should complete an evaluation report for each Center Manager and submit them to the higher authority with his or her recommendations. The higher authority will use these evaluation reports in considering promotions, incentives, raises and other financial benefits. They also may be used as the basis for termination of an employee for poor job performance. All evaluation reports should be kept in the branch office's personnel files, under lock and key, for future reference. Table 5.2 displays the Center Manager evaluation format adapted from Grameen Bank. It uses 20 separate performance benchmarks. The Branch Manager completes this form based on the overall performance of a Center Manager during a given period and then submits it to the next higher authority (Area Manager).



Table 5.2 Center Manager Performance Evaluation Report

Name:		Title:				
Joining Date:		Current monthly salary:				
PERFORMANCE INDICATOR		A	B	C	D	E
		5	4	3	2	1
1	Organizational work <sup>1</sup>					
2	Planning and implementation					
3	Accounting and reporting					
4	Creative activities					
5	Eagerness in conducting duties					
6	Discipline					
7	Devotion to work					
8	Intelligence					
9	Leadership quality					
10	Promptness in following orders					
11	Ability in managing and directing					
12	Communication skill (verbal/written)					
13	Ability to find solutions to problems					
14	Ability to perform physical work					
15	Interaction with borrowers					
16	Interaction with superiors					
17	General temperament					
18	Motivation capability					
19	Punctuality					
20	Financial transactions					
<b>Total Score Obtained</b>						
Remarks:						
Signature of Branch Manager / Chief Executive Officer						

Scores: A=Excellent; B=Good; C=Average; D=Fair; E=Weak

On the other hand, the evaluation of the Branch Manager's performance should be prepared by the immediate higher authority (at Grameen this would be the Area Manager). This report should be based on a comparison of the quarterly and annual plans to the actual performance of the entire branch. A table that reflects the key responsibilities of the Branch Manager is used for this purpose (see Table 5.3). That then serves as the basis for grading staff performance (Table 5.4).

<sup>1</sup> Ability to conduct Center meetings efficiently, qualitative group formation, provide continuous group training, maintain strong Center discipline, loan utilization checking, proper targeting, etc.

Table 5.3 Branch Manager Performance Evaluation Indicators and Scoring System

PERFORMANCE INDICATOR	A	B	C	D	E
	5	4	3	2	1
<b>1.0 Worker skill</b>					
1.1 Organizational work					
1.2 Office work					
1.3 Planning & implementation					
1.4 Accounting & reporting					
<b>2.0 Initiative</b>					
2.1. Creative projects					
2.2 In maintaining work standards					
2.3. In building up subordinates					
<b>3.0 Responsibility</b>					
3.1 Eagerness in conducting duties					
3.2 Timelines					
3.3 Eagerness in making GB successful					
3.4 Eagerness in working overtime					
<b>4.0 Personal characteristics</b>					
4.1 Personality					
4.2 Discipline					
4.3 Devotion to work					
4.4 Intelligence					
4.5 Judicial knowledge					
4.6 Leadership					
4.7 Professional knowledge					
4.8 Promptness in complying with orders					
4.9 Ability in managing & guiding					
4.10 Ability in implementing decisions					
4.11 Communication skills (written)					
4.12 Communication skills (verbal)					
4.13 Ability to perform assigned duties					
4.14 Ability to find solutions to problems					
4.15 Ability to perform physical work					
<b>5.0 Attitude</b>					
5.1 Interaction with subordinates					
5.2 Interaction with peers					
5.3 Interactions with superiors					
5.4 General temperament					
<b>TOTAL POINTS</b>					

Scores: Excellent=5; Above average=4; Good=3; Fair=2; Poor=1

Table 5.4 Branch Manager Performance Grading System

PERFORMANCE CATEGORIES	SCORE RANGE
Excellent	131-145
Above average	116-130
Good	91-115
Fair	66-90
Poor	41-65
Incompetent	30-40

Signature of Evaluator

## F. Branch Progress Report

A branch office should display basic information on its “projection” board, so that supervisors, branch staff and visitors can learn of the branch’s status at a glance and make a general assessment of its performance. Examples of this are given in the tables below. Similar tables are typically displayed by each Grameen Bank branch, and display actual performance versus targets for each month (Table 5.5) and year covered by the business plan (Table 5.6). Some Grameen-style programs also display at their branch offices the monthly targets and actual performance for each of the Center Managers as a way of promoting accountability and transparency, and to encourage the meeting of projected performance goals.

Table 5.5 Monthly Targets and Achievement Report Format

ITEM	Jan		Feb		Mar		Apr		May		June		July		Aug		Sept		Oct		Nov		Dec	
	T	A	T	A	T	A	T	A	T	A	T	A	T	A	T	A	T	A	T	A	T	A	T	A
Loan disbursement																								
Loan recovery																								
Loans outstanding																								
Groups formed																								
Centers formed																								
No. members																								

T=Target; A= Actual

Table 5.6 Yearly Targets and Achievement Report Format

ITEM	Yr. 1		Yr. 2		Yr. 3		Yr. 4		Yr. 5		Goal for Business Plan period (Yr. ___ to Yr. ___)
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	
Loan disbursement											
Loan recovery											
Loans outstanding											
Group formation											
Center formation											
Recovery rate											
No. of active members											
No. dropouts											
<b>Total Income</b>											
<b>Total Expenditures</b>											
<b>Profit/Loss</b>											

## VI. STAFF MOTIVATION

Branch employees of the Grameen Bank put in very long hours—often more than 12 a day. Branches have no air conditioning, no motorized vehicles and no computers.<sup>2</sup> Typically, they consist of basic buildings with a single large room, furnished with old wooden desks for each Center Manager and the Branch Manager. Employees spend each morning walking or biking to attend two Center Meetings (the first beginning as early as 7 a.m.) and visit clients in their homes and businesses. In the afternoon, they work to train new groups, visit members at home and work, arrange loan disbursements and savings withdrawals, and fill out the associated paperwork. They rarely take time to return home during the day. It is not unusual for a branch worker to return home after 6 or 7 in the evening.

The issue of staff motivation is a critical one for any business or program, but is particularly so in the case of Grameen-style programs, where salaries often do not adequately compensate for the heavy physical demands and emotional challenges involved in the work.

### A. Staff Motivation at Grameen

There are a number of important policies that Grameen has developed to help motivate and retain its staff. Many of them would not work in a small, non-commercial start-up program, or even be relevant outside of the Bangladeshi context. However, the following list is provided to help managers form their own policies and programs that encourage a high rate of satisfaction and motivation among staff at all levels of the organization.

#### MOTIVATION BY CONNECTING TO ONE'S PURPOSE:

- 1) **Training:** during the training period, staff are oriented to the following aspects:
  - To serve the poor means serving the nation.
  - A Grameen job reconciles employment and service to the poor.
  - An opportunity to maintain one's honesty and integrity leaves little scope for engaging in corruption.
  - Grameen is not a clerical job; it is a creative one, where you work for the well-being of the poor and where quality leadership is a must.

#### MOTIVATION THROUGH RECOGNITION OF ACHIEVEMENT AND CONTINUED PROFESSIONAL DEVELOPMENT:

- 2) **Regular recognition of the best worker based on overall performance:** Every six months, the Bank provides a small cash award and certificate to the two best staff members in each area, and the two best branch managers in each zone.
- 3) **Promotion:** After three to five years of service, all staff members are eligible for promotion based on their performance.
- 4) **“Star” award system (discussed in detail later):** Staff are awarded “stars” for achieving targets in five areas of work. These stars are taken into account in considering promotions.
- 5) **Award for bad debt recovery:** In the case of a branch that works to recover a bad debt, staff members are awarded a recovery prize bond and certificate, including a small percentage of the recovered amount (usually 3% to 5%).

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<sup>2</sup> Grameen Bank is completely computerized but to cut down the various costs associated with having computers in each office (issues of security, electricity, etc.), management decided to install computers only in the area offices where one computer manages the information for three branches (7,500-9,000 clients).

- 6) **Award for house loan:** Branches and branch staff members are awarded each year for outstanding contributions in providing successful housing loans. Cash awards go to: 1) the best branch in the bank (award to be divided among staff members); 2) the three best staff members within the bank; and 3) the two best staff members in each zone.
- 7) **On-the-job training:** Grameen continues to support the development of its staff through different workshops, orientation sessions and refresher courses.

### **MOTIVATION THROUGH SECURITY**

- 8) **Pension and Gratuity:** An amount equal to 60% to 80% (depending on the length of service) of the basic salary is deposited into a pension fund to ensure retirement security. Upon retirement or death, the full amount is provided.
- 9) **General Provident Fund:** 10% of basic salary is deducted and kept in the provident fund where Grameen pays 11% to 12% interest.
- 10) **Group Insurance Fund:** In the case of the death of a staff member, his or her family receives this benefit from the group insurance fund, according to a rate established by the employee's previous position or rank.
- 11) **Staff Welfare Fund:** Funded by a monthly subscription by staff (Tk. 5, 10, 15) and is used in the following ways:
  - In the case of a death in the family, a portion is provided in grant form.
  - In the case of an on-the-job injury, it covers the cost of treatment.
  - As an interest-free loan for medical treatment.
  - As a scholarship for talented children of staff.

### **MOTIVATION THROUGH SALARY AND OPTIONS FOR ACCESS TO FINANCING**

- 12) **Salary:** Follows the national pay scale used by the government and other commercial banks.
- 13) **Staff Loan:** Housing, bicycle, motorcycle, medical and other special loans are provided to staff, depending on the length of service. Some loans to staff are interest-free (staff loans also have a corresponding insurance fund in case of death).

## **B. Developing Incentive Programs**

Many microcredit programs throughout the world, including Grameen replication programs, have incorporated financial and non-financial incentives into their programs. There are a number of excellent resources that discuss staff incentive programs in-depth and serve as useful references in designing a new policy.<sup>3</sup>

However, a word of caution is offered in relation to financial incentives: most microcredit programs that work to serve the poorest population in a sustainable manner also struggle to sufficiently and effectively motivate their staff using primarily financial incentives. Programs that provide incentives for rapid group formation may run the risk of poor group training and group recognition processes, as well as of poor client selection. A lack of quality control at this initial stage can affect the long-term sustainability of centers and the organization as a whole. Programs that provide incentives for increasing average loan sizes and total loan portfolios also run the risk of providing loans that are greater than what is needed, and therefore are only partially invested in income-generating activities. This could lead to future repayment problems for the client, if the income from the project financed is not adequate to service the weekly loan repayment.

<sup>3</sup> CGAP's website ([www.cgap.org](http://www.cgap.org)) has a number of resources, including MicroSave's 2002 publication "Developing Staff Incentive Schemes."

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*Grameen-style programs around the world struggle with how to adequately motivate their field staff. Often they come up against other microcredit organizations that offer better salaries, benefits and incentives, or have to compete with better-paying and more comfortable employment opportunities in urban jobs either locally or abroad.*

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## VII. THE STAR SYSTEM: CREATING PRODUCTIVE COMPETITION BETWEEN BRANCHES AND STAFF

In the new Grameen Generalized System (Grameen Bank II), the Star System was created for both branches and individual staff members. It has turned out to be a powerful productive process for competition at all levels of the field. Professor Yunus, in his paper on Grameen Bank II, refers to the program as follows:

*“It has generated a burst of energy all around. They are not doing it for any monetary benefit, they are doing it in the spirit of competition—to be ahead of their peers, to create a record for his branch, or area, or zone, to make a personal contribution in changing the economic and social condition of the poor families he is working for, and, above all, to prove their worth to themselves. It is fun to watch them. Observing this phenomenon, one cannot but wonder how one environment makes people despair and sit idle, and then by changing the frame conditions one can transform the same people into matchless performers.”*

Grameen Bank provides color-coded **STARS** to branches and staffs for 100% achievement of a specific task. A branch (or staff) that earns five stars has reached the highest level of performance. There are five subjects or fields to master. The first three pertain to banking/financial aspects, and the final two are related to the development agenda. The following table outlines the five areas and the corresponding star color:

Table 5.7 Grameen Bank’s Star Incentive System

INDICATOR:	STAR COLOR
1. Freedom from overdue loans and interest with 100% Repayment	Green
2. Freedom from financial losses	Blue
3. Freedom from the Grameen Head Office Fund (i.e., a branch’s deposits exceed its outstanding loans)	Violet
4. Freedom from illiteracy	Brown
5. Freedom from poverty	Red

Each staff member can earn his or her own stars, even when the branch has yet to receive recognition, by simply meeting the same conditions required of the Center for which he or she is responsible. On formal Grameen Bank occasions, staff members proudly display starred badges on their dress. The colors of the stars display the individual employee's accomplishments.

## Procedures

### 1) GREEN STAR: FREE FROM OVERDUE LOANS AND INTEREST

**Branch:** A branch that is at least two years old, and at the time of declaration has reported no overdue loan for the previous two years. Once a branch is declared "overdue free," it may lose its star if any loan comes overdue in the following year.

**Staff:** Staff members receive a star if all the centers under their jurisdiction are free from overdue loans and interest.

### 2) BLUE STAR: FREE FROM LOSS

**Branch:** A branch that earns a profit at year's end covers all branch expenditures as well as those listed on its performance sheet (audit fees, training costs, monitoring and evaluation costs, provisions for bad debts, staff group-insurance premiums, expenditures booked on suspended accounts, etc.). These latter costs are not shown as branch expenditures at the yearly closing because of accounting complexities. But the GB head office shows them as a branch's costs, to identify branch performance. To obtain a star in this field, these costs must be treated as branch costs.

**Staff:** Staff members receive a star in this field if the total income from all their centers covers their salary and other costs.

### 3) VIOLET STAR: FREE FROM GRAMEEN HEAD OFFICE FUND

**Branch:** A branch having more on deposit than outstanding loans and does not need to draw on the Head Office fund.

**Staff:** If staff members can mobilize savings equal to or greater than the total outstanding loans of their center, they will receive a star in this field.

### 4) BROWN STAR: FREE FROM ILLITERACY

**Branch:** If all the children of borrowers age 6 or older attend school or have completed a course of study up to class 'V,' the branch is considered illiteracy-free.

**Staff:** Staff members receive a star in this regard if they fulfill this condition at all the centers under their management.

### 5) RED STAR: FREE FROM POVERTY

**Branch:** If all borrowers of a branch cross over the poverty line (i.e., all branch members meet the 10 GB poverty-free indicators), the branch receives a star in this field.

**Staff:** Staff members receive this star if they can fulfill the condition of the 10 GB indicators of poverty alleviation for all members of their centers.



## Results to Date

The branch that earns five stars is considered to have successfully achieved GB's ultimate objectives. The star is confirmed only after a verification procedure is completed during the yearly review process. As of end of 2009, GB branches showed the following results:

- 1,461 branches out of 2,564 total branches (or 57%) received a green star for maintaining 100% repayment record.
- 1,964 branches (or 77%) received a blue star for earning a profit. (Grameen Bank as a whole earns a profit because the total profit of its profit-earning branches exceeds the total loss of its loss-incurring branches, plus the operating expenses.)
- 1,836 branches (or 72%) earned a violet star by meeting all their financing out of their earned income and deposits. These branches not only carried out their business using their own funds, but also contributed their surpluses to meet the fund requirements of all deficit branches.
- 351 branches (or 14%) applied for a brown star, which recognizes they have ensured the education of 100% of member-family children. Confirmation awaits completion of the verification process.
- 61 branches (or 2.4%) have applied for the red star, indicating they have succeeded in taking all their members' families (usually 3,000 families per branch) above the poverty line. (For all of GB, the total number of families that have moved out of poverty is greater, as a large number of branches that still have not met all red star requirements include members who have fulfilled the 10 GB indicators for moving out of poverty.)

# SECTION 6

# SECTION 6: THE GRAMEEN BANK BRANCH ACCOUNTING SYSTEM

## I. INTRODUCTION

The Grameen Bank accounting system is based on generally accepted accounting principles and follows the basic tenets of double-entry accounting using the historical cost accounting convention. The financial and accounting systems and procedures in a Grameen-style microfinance program must be properly designed and structured, to effectively support the reporting of financial and other information required for the control and management of branch and field operations. The key components of the financial and accounting system within a microfinance institution include the two main areas noted below.

### A. The general ledger, incorporating the chart of accounts

The general ledger provides the main structure for recording and reporting the results of operations. The chart of accounts is designed to provide a comprehensive structure that will allow for the detailed assignment of transactions to the relevant accounts. This ensures the proper allocation and accounting of assets and liabilities on one hand, and of incomes and expenditures on the other, which in turn facilitates the accurate reporting of the results of operations in financial statements (Income Statement and Balance Sheet).

### B. The loan tracking system for the management of credit activities

The loan-tracking system is critical to operations, as it is used to manage the main asset of the institution (i.e., its loan portfolio). Therefore it is important to ensure that the system is well-structured to give management adequate information to enable effective control of both reporting accuracy and portfolio quality. It is normal practice to provide a linkage between the accounting system, as recorded in the general ledger, and the loan tracking system, through a control account for loans in the general ledger.

This section presents guidelines on the branch accounting system used by Grameen Bank, which every other microfinance institution that offers Grameen-style microfinance services should also adopt and implement to ensure a sound, systematic, accurate and transparent accounting system.

## II. ACCOUNTING STRUCTURE

### A. General Ledger

This is the main book of accounts into which all accounting transactions in the branch are posted, as required under the structure set up in conformity with the chart of accounts.

### B. Chart of Accounts

The chart of accounts has been developed to give guidance to accounting staff in the posting of transactions to the different accounts, which represent every aspect of the institution's operations. The structure has been set to facilitate the clear understanding and determination of where each transaction shall be accounted for. It also facilitates how it will be displayed in the financial statements, which give the results of operations and state of affairs of the institution. The detailed chart of accounts is structured into the four broad categories that cover an institution's accounts, as follows:

- i. Assets—1000-2900
- ii. Liabilities—3000-4900
- iii. Expenditures—5000-8900
- iv. Income—9000-9900

These categories are described below:

- i. Assets include items owned by the organization, including any monies owed to it. Such items include current and fixed assets in which the organization has invested for purposes of generating future income. Examples of assets include cash in hand, bank balances, loans outstanding, office equipment, office buildings, etc. The total sum of the assets in the balance sheet must always equal the total sum of liabilities and equity.
- ii. Liabilities represent items owed to others and comprise commitments and payables. Examples of liabilities include loans from individuals, banks or financial institutions, as well as savings deposits and interest payable and other payables. Also included under the liabilities side of the balance sheet is equity. Equity comprises funds invested by stakeholders, plus any accumulated surpluses or deficits from the results of operations. In a microfinance institution, stakeholders either invest in the organization as donors or as shareholders who contribute the funds required for commencement of operations. Equity is a fund that normally remains in the organization and, as long as it is operational, no repayment is made to the donors and shareholders.
- iii. Expenditures include all expenses, direct and indirect, incurred in running the business operations of the organization. Examples of expenditures include staff salaries, bonuses, allowances, rent, utilities and other bills, depreciation, interest paid to the clients on deposits, etc.
- iv. Income comprises the revenue earned by the organization through its various business operations. Examples of income include interest from loans, interest from bank deposits, anything earned from the sale of technical expertise, etc.

Under the above broad categories, each account is identified through a main account and a subaccount title, along with a respective main account and sub-account code. This structure facilitates postings to

the general ledger, with the very clear allocation of operational transactions, for the easy and efficient disclosure of the results that enable effective decision-making. These titles and codes should be used to ensure that the institution's operations are properly accounted for, with the required details noted in the general ledger, to facilitate extraction of a monthly trial balance and preparation of the financial statements.

It is important that accounting systems be structured in a manner that makes it possible to generate key financial reports on a monthly basis. To ensure that accurate reports can be generated, it is paramount that accounting entries are posted properly and accurately to the general ledger and that strict discipline is maintained over funds, as required for control and reporting purposes. Units should be able to generate any such reports as they are required to do. The reports should include any and all key reports required for good management decision-making (i.e., the income statement, balance sheet and other management reports).

### III. TYPES OF TRANSACTIONS HANDLED BY A GRAMEEN BANK BRANCH

At the GB branch, there are a number of transactions that take place every day. These include:

#### A. At the Center level

- i. Loan and interest installments collected from borrowers
- ii. Weekly savings deposits collected from borrowers

#### B. At the branch level

- i. Loan disbursements to borrowers
- ii. Payments to clients who make saving withdrawals
- iii. Other transactions include:
  - Bank deposits of any collected surplus funds
  - Bank withdrawals, where additional funds are required for the day's operations
  - Payments of expenses, such as salaries, utilities, rent, etc.

## IV. RECORDING AND ACCOUNTING OF VARIOUS TRANSACTIONS

### A. Types of Vouchers

There are two types of vouchers for recording the transactions that occur in the branches. These are:

#### 1) CASH TRANSACTION VOUCHER

This is used where the transaction involves either cash paid or cash received. The cash transaction voucher may be for either a cash debit or cash credit.

#### 2) TRANSFER TRANSACTION VOUCHER

This is used where the transaction involves either payment of a check or transfer from one account to another. The transfer transaction voucher may be either transfer debit or transfer credit.

In addition to the main vouchers noted in a) and b) above, it is necessary to have supporting vouchers that justify and prove the authenticity of any transaction, together with a detailed written explanation included in the voucher, enabling a supervisor or auditor to clearly understand the purpose of the transaction and confirm proper accounting for the transaction.

### B. Debits and Credits (Double-entry Accounting)

Every transaction is recorded through a double entry (i.e., through a debit and a credit entry). Because of this, each transaction generates a debit voucher and a credit voucher. An example of this is when cash is received and deposited in the bank account. In that case, the following entries are recorded in the ledger:

- i. **Debit entry**—the bank account is debited
- ii. **Credit entry**—the respective source account is credited

Conversely, when cash is paid out of a bank account to a third party, then the following entries are recorded in the ledger:

- i. **Debit entry**—the respective destination account is debited
- ii. **Credit entry**—the bank account is credited

An example of a transaction at the branch, such as a loan disbursed to a borrower, is recorded through the following entries:

- i. **Debit entry**—the borrower's account is debited
- ii. **Credit entry**—the bank account is credited

Conversely, when installments are received and deposited to a bank account, then the following entries are made:

- i. **Debit entry**—the bank account is debited
- ii. **Credit entry**—the borrower's account is credited

When savings deposits are collected from members and deposited in a bank account, then the following entries are made:

- i. **Debit entry**—the bank account is debited
- ii. **Credit entry**—the member's account is credited

When loan interest is collected from borrowers and deposited in a bank account, then the following entries are made:

- i. **Debit entry**—the bank account is debited
- ii. **Credit entry**—the interest income account is credited

On a daily basis, a branch processes numerous transactions. All debit or credit transactions of a similar type or nature are booked/entered under the same account title and account code number, in the clean cash book and eventually in the general ledger.

For example, a branch disburses different types of loans. These include general, housing and microenterprise loans. These loans are then listed and the consolidated total posted under the correct loan and advance account title (code No. 1300) in the general ledger. The amount for each type of loan is posted separately in the subsidiary ledger, under the specific title and account code number (i.e., general loan, code No. 1301; housing loan, code No. 1302; microenterprise loan, code No. 1303). The corresponding entries for these disbursements will be made in the cash book, as the disbursements are made, and will be posted to the ledger when the postings of the cash book are made to the ledger.

### C. Vouchers and the Classification of Vouchers

In the Grameen accounting system, a “voucher” is the document used in processing the institution’s operational transactions. The voucher must be signed and approved by the proper authorized personnel to certify it has been properly processed and is in line with established system, and is therefore valid for recording the relevant transaction. If vouchers are not signed by authorized personnel, then they are not valid for the processing and posting of the transactions into the account books. In a branch, the daily transaction vouchers are signed by the Branch Manager and the Accountant. Vouchers are prepared as required based on the nature of the transaction. For instance, cash transactions require a cash voucher, while transfer transactions require a transfer voucher. To differentiate the nature of different transactions and types of accounts, different color-coded vouchers, account names and account code numbers are used.

### D. Voucher Preparation and Reconciliation

Vouchers are usually prepared and completed by either the accountant or some other authorized personnel. Voucher preparation represents a very important part of the accounting system. If the vouchers are not prepared accurately, and all the daily transactions are not listed on the various vouchers, then the debit and credit balance totals will not match, creating a situation where the institution is exposed to the risk of errors and irregularities. Preparing vouchers represents the first formal step in the process of accounting for all the daily transactions in the books of accounts. Usually, at the end of the day, the BM verifies and checks all the vouchers and reconciles the respective values with the related book entries. If everything is found to be accurate, then the BM signs the vouchers, along with the respective general ledger and subsidiary ledger, and closes the books for the day. The BM usually reconciles all the vouchers with the cash book, clean cash book and general ledger.

## E. Deposit and Withdrawal Entries

Grameen Bank is authorized to issue “checks” to its clients for their use in making payments to third parties and withdrawals from their checking accounts. On the other hand, if clients have a savings account and opt not to use checks, they make their withdrawals using withdrawal slips. Deposits are made using deposit slips. However, in a Grameen-style program, or any NGO microfinance institution, there will be no such documents; instead, clients deposit and withdraw money from their accounts through their passbooks. Such deposits and withdrawals are entered in the clients’ passbooks and in the relevant collection and disbursement books of the institution.

## F. Sundry Account

During the processing of the daily transactions, if there is excess cash received, but the source is unknown to the cashier/CM/BM, it must be recorded as required. Such cash could be a) an overpayment made by a client in error; b) the Center Manager’s own money mixed in with the collection money; or c) money either from the office or from the field. In a financial institution, that kind of money should be accounted for through the processing of a sundry account entry voucher as follows:

- i. **Cash debit**—bank account (code No. 1101)
- ii. **Cash credit**—sundry account (code No. 4535)

Later on, if and when the source is identified, then a reversal entry should be made and the cash returned accordingly. The entry voucher should reflect as follows:

- i. **Cash debit**—sundry account (code No. 4535)
- ii. **Cash credit**—bank account (code No. 1101)

## G. Suspense Account

During processing of the daily transactions, if a cash shortage comes to light (actual cash received is less than the actual value collections in the cash book), it is necessary to process a suspense entry account for it, to balance the books for the day. Such a shortage could be caused by shortfall from the daily collection, money stolen in transit from the Center to the branch, overpayment made to a client, etc. For example, if during a particular day cash of Tk. 10,000 is collected from different sources yet only Tk. 9500 in cash is deposited in the bank account, then it is clear there is Tk. 500 shortage or unaccounted for. In such cases, the same amount must be processed through a suspense account to balance the day’s transactions. The processing voucher for this transaction would include the following entries:

- i. **Cash debit**—suspense account—Tk. 500
- ii. **Cash credit**—memorandum suspense account adjustment\*—Tk. 500

\*Since the amount has already been received from an identified source whose accounts have been credited, then only a memorandum suspense account is used. This memorandum account would not be included in any trial balance of the accounts in the branch ledger, as it is only for balancing the books pending the identification and processing of the entry to adjust for the shortage. When the shortage is recovered, then an entry is immediately processed to reverse the amount placed in the suspense account through an entry as follows:



- i. **Cash debit**—memorandum suspense account adjustment—Tk. 500
- ii. **Cash credit**—suspense account—Tk. 500

If the shortage is not recovered, then it is necessary to seek management approval to write off the amount in order to clear the suspense account. Suspense account balances should be cleared as soon as possible to minimize exposure to the risk of unauthorized and irregular entries. Auditors usually review all suspense account balances, to ensure they are used only as a temporary measure pending identification of the difference and that any outstanding items in suspense are fully explained and cleared swiftly. Failing that, a strong management control-weakness report is made.

## H. Grameen Bank General Account

A Grameen Bank general account is an account used for recording funds received from or remitted to the Head Office. When a GB branch receives funds in any form, the branch makes a transfer credit entry in the GB general account, with a corresponding debit entry in the branch bank account where the funds have been deposited. On the other hand, when a GB branch remits funds to the head office, then it makes a transfer debit entry to the GB general account, with a corresponding credit entry in the bank account from which the funds have been transferred. The branch office then writes an advice note (which is called “advice”) for each GB general account transaction. A copy of the advice slip is sent to the HO, so that the transaction with the branch is appropriately recorded by the HO. When the HO receives monthly statements from the branch office, then the HO accounts department reconciles the transactions and appropriately makes entries to the account for all the transfers. In a Grameen-style program, a branch would have similar transactions with its head office.

Examples of entries when a GB branch receives Tk. 100,000 through DD/TT (Demand Draft/ Telegraphic Transfer) are as follows:

- i. **Transfer Debit 100,000**—bank account (1100)
- ii. **Transfer Credit 100,000**—GB general account (3100)

When the branch remits surplus funds of Tk. 50,000 to the Head Office, then such a transaction is recorded as follows:

- i. **Transfer Debit 50,000**—GB general account (3100)
- ii. **Transfer Credit 50,000**—bank account (1100)

## I. Depreciation

To perform day-to-day activities smoothly and efficiently, an institution must purchase some necessary fixed assets. They may include furniture, office equipment, vehicles, electrical equipment, mechanical equipment, etc. These kinds of assets lose their book value over time, due to normal wear and tear. The loss in value is referred to as “depreciation.” It is necessary to account for depreciation to show the true value of assets at any given point in time. At the end of each year, depreciation is calculated on all fixed assets at the rates approved by management in its policy on the depreciation of fixed assets. Depreciation should be charged on the original purchase value (i.e., the cost of the assets and not on their current book value). An example of the voucher and book entry to account for depreciation of Tk. 100 on furniture is as follows:

- i. **Transfer debit**—Expenditure /Depreciation, code No. 7707—Tk.100
- ii. **Transfer Credit**—Provision for Depreciation of Fixed asset/Furniture account, code No. 3507—Tk. 100

## J. Voucher and Entry Book System

The Grameen Bank manual accounting system requires the use of debit and credit vouchers and accounting books for entering daily financial transactions. GB uses two kinds of vouchers: Debit (Cash/Transfer) and Credit (Cash/Transfer). Cash vouchers are used for cash transactions and transfer vouchers are used for all other transactions that do not involve cash.

Annex 6.2 includes a model financial transaction voucher-creation process. At the branch level, all varieties of financial transactions are entered into the books of accounts as indicated in that annex.

## K. Weekly and Monthly Balancing

Microfinance programs usually handle large volumes of cash. Therefore, they should have well-structured accounting systems that facilitate the accurate and transparent accounting for business operations. They also require periodic balancing for effective management control. The daily balancing of cash and collections in the field is necessary for cash control, which is the most liquid asset. In addition to daily balancing, regularly scheduled weekly and monthly balancing is required to reduce the risk of errors and irregularities going undetected for any length of time. Through weekly and monthly balancing reports, the branch management and supervisory authority keep control and monitor the progress of various operations. Although weekly balancing may not be necessary for all types of accounts, monthly balancing is compulsory for all accounts. A table showing a model balancing schedule is given below:

	FREQUENCY OF BALANCING	NAME OF ACCOUNTS
1	Daily	Cash collections and cash book entries
2	Weekly	Personal savings ledger
3	Weekly	Other savings ledger
4	Monthly	Loan ledger
5	Monthly	Interest income register
6	Monthly	Savings ledger
7	Monthly	General ledger
8	Monthly	Subsidiary ledger

## VI. FORMS AND FORMATS USED BY GRAMEEN BANK

GB-style programs require various forms and formats for the recording and supervision of daily operations. The ledgers, books and registers used for recording of the institution's operations are as follows:

### 1) Master Group Register

The Master Group Register is used for maintaining the records of a recognized group, as well as any drop-out accounts, replacement accounts, borrower numbers, group numbers, Center numbers, group fund account numbers, etc. After a group receives recognition, all member information should be entered in the Master Group Register, ordered by recognition date. The format of this register is shown in Annex 6.3.

### 2) Loan Ledger

The Loan Ledger is used for maintaining the record of loans disbursed to members. GB branches use one Loan Ledger per center. After disbursement of a loan, an account has to be opened for the particular borrower in the Loan Ledger. Thereafter, all weekly installments are entered in the Loan Ledger under the particular borrower's accounts. The various entries in the Loan Ledger include loan disbursement, installment recovery and interest recovery for each borrower. The format of this register is shown in Annex 6.4.

### 3) Savings Ledger

A GB branch uses the Savings Ledger for keeping personal savings records. The format for the ledger is shown in Annex 6.5.

### 4) Day Book

A Day Book is a basic book for the recording of various daily transactions. It is very useful for the preparation of weekly and monthly statements. All types of transactions that occur during the day are recorded in the Day Book. Examples include loan disbursement, loan repayment, attendance, savings collected from members, interest income, bank withdrawals, bank deposits, etc. The format of this day book is shown in Annex 6.1

### 5) Cashbook

The Cashbook is required to record of all cash transactions. The accountant uses this book for the recording of incoming and outgoing cash on daily basis. It is necessary to reconcile the cash in hand with the balance in the Cashbook every day. The format of the Cashbook is shown in Annex 6.6.

## 6) Clean Cashbook

A Clean Cashbook is an essential step in the daily accounting process even before any entries are posted to the General Ledger. Daily vouchers should be recorded in the Clean Cashbook, according to the main account code. The Clean Cashbook has two sides: one is a draft page and the other the final page. All cash and transfer vouchers should be entered according to the account subcode. Both sides of a Clean Cashbook will hold similar figures and should therefore balance. The format of the Clean Cashbook is shown in Annex 6.7.

## 7) General Ledger

The General Ledger (GL) is the main book of accounts. It is the book in which all of an institution's account operations are recorded. The ledger holds all balances of assets, liabilities, incomes and expenditures. The GL for each branch reflects the financial position of that branch. Upon completion of the records in the Clean Cashbook, postings to the General Ledger should be made using the final page of the Clean Cashbook, according to the account main code. The format of the General Ledger is shown in Annex 6.8.

## 8) Subsidiary Ledger

The Subsidiary Ledger is used for the recording of detailed information on daily transactions and the financial position of a branch. The entries into the Subsidiary Ledger are based on the draft page of the Clean Cashbook, according to the account subcode. All applicable items with account subcodes should have an account in the subsidiary ledger. The format of the subsidiary ledger is shown in Annex 6.9.

## 9) Consolidated Loan Disbursement and Recovery Register

The sum of total loan disbursements and total loan repayments from the opening of a branch should be kept for historical records. This record can be useful to calculate current trends with respect to the loan portfolio. There should be two sections: one for cumulative disbursements and the other for fully paid loans. Whenever loans are disbursed to borrowers and recovered in full, then the amount should be entered in this register. The format of this register is shown in Annex 6.10.

## 10) Dead Stock Register

The branch should have a register into which detailed information on the organization's permanent and temporary assets are recorded. This register maintains a record of information on all its assets, including purchases, sales of assets, write-offs of assets and the depreciation history of those assets. All assets owned by the branch, including furniture, vehicles, and office and electrical equipment, should be recorded in the register under their respective categories and using the rates of depreciation stipulated in the policy. The format of this register is shown in Annex 6.11.

## 11) Salary Register

The program office should have a register of monthly staff salaries. Salary data should be entered in the register, as well as the date of salary disbursement, against which employees should sign. The format of this register is shown in Annex 6.12.

## 12) Loan Passbook

A Loan Passbook is issued to each member and is required to maintain an account of the member's loan disbursements and loan repayments. Loan Passbooks usually belong to borrowers and periodically (preferably every other month) should be verified with the loan ledger in the branch office. The format of the Loan Passbook is provided in Annex 6.13.

The borrower's personal information should appear on the cover page of the Passbook. Passbooks should be bound and used over multiple loan cycles.

## 13) Savings Passbook

A Savings Passbook is required to maintain records of a borrower's savings deposit and withdrawal records. Savings Passbooks belong to the borrower and periodically are checked by the Branch Office and reconciled with the ledger. The format of the Savings Passbook is shown in Annex 6.14.

# VII. BRANCH REPORTING TO HEAD OFFICE

The branch prepares and submits various periodical reports to the Head Office through the area offices. The required reports and contents are covered in Section 7.

## VIII. SEQUENTIAL ACTIVITIES OF THE GRAMEEN BANK BRANCH ACCOUNTING PROCESS

Many accounting activities occur at the branch and Center levels for which staff members have primary responsibility. Those various activities, and the staff member responsible for each, are listed in the table below.

Table 6.1 Tasks and Responsibilities of Branch Office Staff

NAME OF TASK/ ASSIGNMENT	RESPONSIBLE PERSON
Loan and savings collection from the center	CM
CM back to the office	CM
Entries in the Daily Book	CM
Cash deposits to the accountant/cashier	Accountant
Accountant receive cash	Accountant
Entries into the cash book	Accountant
Reconcile receipts with collection sheet	Accountant
Make entries in the loan ledger/savings ledger	CM
Money deposited (end of the day, within banking hours) in the commercial bank (if no loans or disbursements)	Accountant /Manager
Required fund/cash withdrawn from the bank (if there are loan or savings disbursements)	Accountant
If banking hours are over, keep the money in the safe/vault under dual custody with BM and make entries in the vault register/cash register	Accountant
Prepare cash/credit/transfer vouchers as per the day's transactions	Accountant
Make entries in the clean cash book as per all types of transaction vouchers	Accountant
Ensure clean cash book balances, on both debit and credit sides, then post to the general ledger and subsidiary ledgers	Accountant
Make entries in the cumulative loan disbursement and recovery register	Accountant
Make entries of paid-off loans in the fully paid-up loan register	Accountant
Submit vouchers and collection sheets to BM for signature	Accountant
Check and verify all the vouchers and entries in the control books and sign all the documents	BM

## IX. CONCLUSION

The guidelines noted in this section relate to the processing and management of branch-level accounting operations of a Grameen-style program. They are, however, based specifically on Grameen Bank's experiences. An effort has been made to document these guidelines so they can be easily used by any Grameen-style microfinance institution that shares a mission to serve its members and help them move out of poverty.

# SECTION 7



# SECTION 7: MONITORING, REPORTING AND MANAGEMENT INFORMATION SYSTEMS<sup>1</sup>

## I. INTRODUCTION

A microfinance program must regularly track its performance against the targets for any given period, to determine whether it is on track to achieving the goals outlined in its annual plan and, more broadly, to meeting its longer-term strategic and business plans. Tracking performance against target is accomplished using a monitoring system, which provides management at the branch level and higher with information useful in the decision-making process. Monitoring reports include data sets organized systematically and in a prescribed format so they lend themselves to analysis and follow-up action as required. A Management Information System (MIS), on the other hand, refers to how these data are collected, processed and generated for monitoring and other purposes. This section outlines the various ways of monitoring the performance of an MFI, with an emphasis on using appropriately generated reports. This section will also discuss the nature of an MIS and the specific types commonly used by microfinance programs, and provide guidelines for automation.

## II. TYPES OF MONITORING

### A. Verbal Staff Reports

Within Grameen Bank, Center Managers (or loan officers) verbally report to the Branch Manager on the status of their centers (e.g., attendance, loan repayments, group formation, etc.) during their weekly and monthly branch staff meetings. Additionally, Center Managers are expected to apprise the Branch Manager on a daily basis of any problems that arise. These practices both represent excellent opportunities to monitor the health of a branch in an informal way, both on a daily and weekly basis, so that problems receive prompt attention—well before they grow more serious.

### B. Surprise and Scheduled Field Visits

Surprise and scheduled visits by supervisory staff represent important components of the monitoring regime under the Grameen system. The objective in either case is to ensure that all program field staff, as well as clients, follow the rules and regulations of the organization. That is particularly the case with internal controls designed to prevent the misuse of funds. Branch Managers, as well as higher-level supervisory officials (e.g., from the Area or Head Office), should conduct both scheduled and surprise visits to the weekly Center meetings conducted by Center Managers to monitor attendance, meeting quality, loan utilization, etc. Special attention must also be given both to targeting and to how effectively the program minimizes leakage to the non-poor.

<sup>1</sup> This section draws heavily from the CASHPOR Operational Manual, “Tracking Financial and Operational Performance,” authored by Jennifer Meehan and David Gibbons, June 1999. This manual describes in much greater detail the process of planning, monitoring and evaluation (analysis) for MFIs.

Branch Managers should make surprise visits to the field on a weekly basis, with the goal of covering all of a branch's centers every three months. Meanwhile, more senior supervisory officers (from the Area or Head Office) should visit all centers at least once a year.

### C. Internal Audits

An internal audit represents a more formal and comprehensive process of reviewing the operational and financial status of branch and higher-level offices. In an audit, a team drawn from the Internal Audit Department of the Zonal Office Audit Unit reviews a branch's books, interviews branch staff and makes random checks both on how Center meetings are conducted and how clients utilize their loans. In short, an internal audit monitors whether staff and clients are following the rules of the microfinance program. Recommendations for corrective action, whenever and wherever violations are found, form an important part of the internal audit process. These recommendations should be shared with the branch office under audit and should ideally be followed up by the Internal Audit Department to determine whether they were indeed implemented. Auditors use the appropriate forms to collect and record information.

Branch and higher-level offices should be audited at least annually. Ideally, the internal auditor should visit each branch twice a year. *Section 8: Internal Control and Internal Audit* discusses internal audits in greater detail.

### D. Periodic Written Reports

Monitoring by report involves a process where specific information, whether directly or indirectly related to the performance of the microfinance program, is collected and analyzed using prescribed data-collection formats on a periodic basis. The frequency of these reports can be weekly, monthly, quarterly, semi-annual or annual. The basic unit being analyzed in these reports is the branch. Using the branch reports, consolidated reports are then prepared at each successive level of the operation (e.g., area, zone, entire organization).

There are two general types of performance that a microfinance program should monitor: operational and financial. Operational reports focus on such things as loan portfolio characteristics (e.g., average loan size, total loans outstanding, repayment rate, portfolio at risk), staff productivity (e.g., caseload, number of groups formed, total loans outstanding per loan officer) and the like. On the other hand, financial reports focus on such things as profitability, liquidity and equity status, as revealed by financial statements (income statements, cash flow statements and balance sheets). Generally, the monitoring and evaluation department of an MFI prepares a consolidated report (e.g., for the area, zone or overall organization), based on the reports submitted by branches on the program's operational performance. Meanwhile, the finance and accounting department prepares the consolidated financial reports.

Though the subject matter of the different reports may vary, monitoring reports ideally should use standardized forms to record three basic pieces of information: (a) actual performance, (b) targeted performance and (c) the percentage difference between the two. In addition to preparing monitoring reports that cover the current period (e.g., the current month, quarter or year), it is useful in some instances to compare actual performance over multiple periods (e.g., the current quarter vs. the preceding quarter; the current year vs. the previous year; etc.). Regardless of what reporting period or

periods a report covers—or even whether the report is generated by the branch or on a consolidated basis—identical formats should be used as much as possible for the sake of consistency and to promote efficient monitoring.

### III. BRANCH-LEVEL OPERATIONAL AND FINANCIAL REPORTS

Table 7.1 shows some of the key operational and financial reports that a Grameen Bank branch typically generates, including some modified for the purpose of monitoring. Grameen-style programs may want to use these as a guide in adapting or customizing their formats to fit the local context.

Table 7.1 Grameen Bank Reports Generated at the Branch Office

NAME OF THE REPORT		Frequency of the Report				
		Weekly	Monthly	Quarterly	Semi-annually	Annually*
1	Weekly Statement					
	a. Weekly Fund Flow Statement (Annex 7-1)	X				
	b. Loan Disbursement and Collection Report (Annex 7-2)	X				
	c. Center Meeting Attendance, Savings Installments, No. of Loanees in Default (Annex 7-3)	X				
2	Monthly Affairs (Financial Report) (Annex 7-4)		X			X
3	Monthly Operational Statement (Annex 7-5)		X			X
4	Budget Monitoring Report (Annex 7-6)			X	X	X
5	Quarterly Plan Monitoring Report (Annex 7-7)			X	X	X
6	Yearly Statements (Annex 7-4, 7-5, 7-6, 7-7 and others)					X

\*Monthly and quarterly reports are consolidated at the end of the year.

#### Branch-level Financial Reports

Within Grameen Bank, the branch prepares a simplified statement called “Monthly Affairs” that contains its statements of assets, liabilities, income and expenditures (Annex 7-4). The branch prepares the report on a monthly, quarterly, semi-annual and annual basis. Along with the operational reports, the branch financial report is sent to the Head Office Accounting Department through the Area and Zonal offices.

## IV. CONSOLIDATED OPERATIONAL AND FINANCIAL REPORTS

### A. Area, Zone and Head Office Monitoring and Reporting

Within Grameen, the weekly reports generated by each branch are shared with the area office for supervision/monitoring purposes. However, the monthly, quarterly, semi-annual and annual operational and financial reports of all branches are consolidated using a highly systematized process. All the above reports are prepared by the branch offices, through the Management Information Center (MIC) housed in the Area Office. The MIC serves as an extension of, and even a part of, the branch offices. It serves all the branches under the jurisdiction of any one Area Office. It is housed in the Area Office for logistical and economic reasons. The MIC processes the operational and financial reports for each branch office under its jurisdiction (usually 9 to 12 branches total) and then forwards them on to the Area Office.

The Area Office then forwards the operational reports to the Monitoring Unit of the Zonal Office. It in turn consolidates the data for all Area Offices under its control (usually 10 to 12). The consolidated reports are then sent by the Zonal Office to the Monitoring Department of the Head Office. The Monitoring Department in turn consolidates the operational reports for all the Zonal Offices (and by extension for all of Grameen Bank). This information is laid out in a comparative and analytical format, which is periodically shared with all of the Bank's operational units (Zonal, Area and Branch offices). That allows each unit to understand its status and work share and the overall position of the Bank at a given point in time. The financial reports, on the other hand, are consolidated by the Finance and Accounting Department of the Head Office and periodically shared with lower-level offices (at the Zone, Area and Branch level).

### B. Report Analyses (or Evaluation)

Monitoring reports must be analyzed to make sense of the information they provide and to ensure that information remains meaningful to microfinance managers and supervisors. The different types of analyses commonly performed by MFIs on monitoring reports are discussed below.

#### 1. VARIANCE ANALYSIS

One type of required analysis involves comparing actual and targeted performance. Underachievement and overachievement can be equally bad for an MFI; both should be strictly defined and measured. Underachievement means a branch's actual performance falls below its planned target; overachievement means actual performance exceeded that target. Both might imply the inefficient allocation of scarce resources, causing shortages in certain areas or resulting in a drop in quality. For example, a large degree of overachievement in the number of new groups being recognized (that is, where new members are being accepted into the program) could result in a shortage of loan capital. It also could result in the formation of groups that are of low quality—a situation that often leads to future repayment problems. (There are of course exceptions to this generalization; for example, it is almost always better to overachieve in reducing arrears or portfolio-at-risk numbers than to underachieve in these areas.)

There are general guidelines for assessing whether the differences between actual and targeted performance, when calculated in percentage terms, are acceptable or if further action is required. Table 7.2 provides a summary of these guidelines.

Managers must prioritize which specific numbers or indicators to analyze in detail, as some remain more important than others in their impact on performance. The measurement guidelines in Table 7.2 can help managers identify where action is most needed—or not needed at all.

Generally speaking, actual achievement may be considered “good” if it lies within plus or minus 10% of target. However, one must still attempt to understand the reasons for any discrepancy and keep the matter in view. This merits the lowest priority in the monitoring evaluation process.

If the difference falls between 10% and 19%, secondary priority should be given to examining the reasons. Action should be initiated to reduce the gap to less than 10% in the next period, if possible. Although such a variance is still considered “acceptable,” different action might be required, depending upon where the percentage difference falls in this range. For example, if the difference is 11%, a manager would be much less concerned than if the difference were 19%.

Table 7.2 Measurement Guidelines in Variance Analysis<sup>2</sup>

% Difference (+/-) between actual vs. target	% Achieved vs. target (as shown in monitoring reports)	Assessment	Priority level and management action required
<10%	<110% or >90%	Good	Lowest priority for identifying causes of variance noted. <b>Action:</b> Keep in view.
Between 10% and 19%	110% to 119% or 81% to 90%	Acceptable	Secondary priority for identifying causes of variance noted. <b>Action:</b> Initiate action to reduce to less than 10%.
20% or more	>120% or <80%	Unacceptable	Highest priority for identifying causes of variance noted. <b>Action:</b> Initiate action urgently to reduce to acceptable level.

The higher the percentage variance (especially should it rise above 20%), the more it is considered unacceptable. Large variances should be given the highest priority for follow-up investigation and action. A formal plan should be developed to reduce the gap to less than 20% by the end of the following period, if possible.

**2. TREND ANALYSIS**

Variance analysis (or static analysis) should be supplemented with a trend analysis (or dynamic analysis), which compares performance data between different time periods (e.g., this quarter vs. the preceding quarter; this year vs. last year). Trend analyses often provide more illuminating

<sup>2</sup> Reproduced with permission from the CASHPOR operational manual, “Tracking Financial and Operational Performance,” authored by Jennifer Meehan and David Gibbons (June 1999).

information that variance analyses cannot reveal. Trend analyses can show whether performance data are improving, deteriorating or remaining unchanged over time. Significant changes over time are extremely useful in identifying potential or existing problems while they can still be corrected at minimum cost or before they spiral out of control. For example, it is more meaningful for management to know that portfolio-at-risk dropped to 9% this quarter from 12% the previous quarter than to only know that it now sits at 9%. Variance analysis can tell you that the PAR is unacceptably high, as would a trend analysis. But the latter also would inform you that any efforts undertaken to improve PAR quality are working. This is an important distinction.

### 3. RATIO ANALYSIS

The third type of analysis is ratio analysis, which compares one particular piece of information with another, and derives a ratio between them. This in turn provides a multi-dimensional view of the performance of a branch or entire microfinance institution. In doing so, it can uncover important realities about either's results. These ratios can be purely operational or financial—or a combination of operational and financial indicators. They can be analyzed on their own merits, but should also be utilized in combination with variance analysis (comparing the ratios against planned targets) and trend analysis (comparison between time periods), as discussed above, to wring out the most value. Table 7.3 shows some of the most important ratios that a microfinance institution should monitor, in a variance analysis format. A similar analysis in trend analysis format is also useful.<sup>3</sup>

### 4. INTERPRETING THE RATIOS

Earlier we discussed how to use variance analyses in decision making. For ratios, it is generally obvious what direction one would like these ratios to move (e.g., positive for outreach, savings balance, repayment rates, operating self-sufficiency, but negative for portfolio-at-risk and administrative efficiency). What is not obvious is the ideal or range for any given type of ratio. There are no hard and fast rules for this. It also can vary, depending on the size of an institution, whether it is undergoing rapid or slow growth, the region in which an MFI is located and a host of other factors. However, one can get a good idea of what a desirable ratio is by looking at the prevailing ratios among “best-practice” microfinance institutions. The *Microfinance Bulletin*, for example, regularly publishes the ratios for a large number of MFIs around the world, classifying them by size, region, etc.

<sup>3</sup> For a full discussion of what these ratios mean and how they are utilized, please see the CASHPOR operational manual, “Tracking Financial and Operational Performance,” by Jennifer Meehan and David Gibbons (June 1999). Other excellent references on ratio analysis include *Handbook for Management Information Systems for Microfinance Institutions*, produced by CGAP in 1998, and Robert Christen’s *Banking Services for the Poor: Managing for Financial Success* (1997).

Table 7.3 Key Operational and Financial Ratios for Microfinance Institutions<sup>4</sup>

Ratio *(see below for formulas)	Actual Performance	Planned Target	% Achieved
<b>Outreach</b> a. Coverage of target clientele b. Average loan size c. Average savings balance			
<b>Portfolio Quality</b> a. Repayment rate* b. Portfolio-at-risk*			
<b>Sustainability and Profitability</b> a. Operating Self-sufficiency (OSS)* b. Financial Self-sufficiency (FSS)* c. Adjusted Return on Assets			
<b>Institutional Efficiency</b> a. Administrative Expense Ratio b. Institutional Efficiency Ratio c. Loan Loss Efficiency Ratio* d. Financial Efficiency Ratio*			
<b>Labor Efficiency</b> a. Total loan portfolio per loan officer b. Avg. no. of active loan clients per loan officer c. Avg. no. of savers recognized per month per loan officer d. Avg. no. of centers per loan officer e. Avg. no. of savers per center			
<b>Financial Strength</b> Leverage*			

**FORMULAS:**

Repayment rate = Total amount of principal collected/Total amount of principal due.

Portfolio-at-risk more than 30 days = Total loan portfolio with arrears more than 30 days/Total loan portfolio

Operating Self-sufficiency = Total Operating Income/(Interest Expenses + Loan Loss Provision + Administrative Expenses).

Financial Self-sufficiency = Total Operating Income/(Interest Expenses + Loan Loss Provision + Administrative Expenses + Imputed Cost of Capital). Imputed cost of capital makes allowance for subsidies and inflation.

Administrative Efficiency Ratio = Total Administrative Expenses/ Average Loan Portfolio.

Loan Loss Efficiency Ratio = Loan Loss Provision/Average Loan Portfolio.

Financial Efficiency Ratio = Interest Expenses/Average Loan Portfolio.

Institutional Efficiency Ratio (also known as Operating Expense Ratio) = (Interest Expenses + Loan Loss Provision + Total Administrative Expenses)/Average Loan Portfolio.

Leverage = Total Liabilities/Total Assets.

<sup>4</sup> Reproduced with permission from CASHPOR operational manual, "Tracking Financial and Operational Performance," by Jennifer Meehan and David Gibbons (June 1999).

## 5. SEEP FRAME TOOL

The microfinance industry has recently developed a powerful automated tool for monitoring the operational and financial performance of MFIs called the SEEP FRAME Tool. The tool increasingly is being adopted by MFIs around the world, as it makes the reporting process much more efficient and effective. While it is especially effective at generating operational and financial ratios and other performance indicators for the entire organization, it also serves for lower-level consolidation (at the Zone, Area or Branch level). For more information about the SEEP Frame Tool, see the SEEP FRAME TOOL manual, available for download at [www.seepnetwork.org/frame](http://www.seepnetwork.org/frame).

## V. MANAGEMENT INFORMATION SYSTEMS—AN INTRODUCTION

Monitoring and reporting, whether performed using a simple manual system or sophisticated automated system, form part of an MFI's broader Management Information System. The remainder of this chapter provides a brief introduction to the MIS concept, describes the prevailing information systems used in microfinance and makes the case about why it is important to automate. It concludes with guidelines for doing so and includes a brief description of the Grameen Foundation's open-source MIS software, Mifos.

### A. What is MIS?

A management information system, or MIS, involves all aspects of gathering, storing, tracking, retrieving and using information within a business or organization. Thanks to the development of inexpensive computers and software, much of this work can now be automated, allowing for more information to be readily available.

However, hardware and software form only part of an information system. In addition, policies and procedures help organizations direct their operations and staff. These, plus the hardware, software and interaction with the information, make up an information system. Consequently, the selection and implementation of any new software application (e.g., accounting, human resources, loan portfolio) to track an organization's vital information often results in significant changes to the organization itself, as well as changes in how it uses information to make decisions. An MIS is a tool to improve operations, decision-making and enable greater reliability. It is not a solution for the problems an organization might face.

### B. Why is MIS Important?

Information lies at the core of all businesses and is required to make decisions. That is especially true for MFIs. Manual or automated, a good information system is essential because it is a way to capture data and use it to make meaningful decisions based on timely, complete and accurate information. That enables MFIs to more effectively reach their strategic goals. MFIs might find an MIS helps them do the following:

- Make strategic management decisions faster and with objectivity (e.g., on client growth, loan portfolio information and operational oversight among branches)



- Ensure management and donor reporting are consolidated, complete, accurate and organized
- Increase loan officer productivity while reducing transaction costs
- Protect client personal, historical and current information in the event of natural disasters, misplaced files or unavoidable, accidental damage
- Confirm impact and movement of clients out of poverty

Complete, accurate and timely information are the hallmark of an effective MIS. They help organizations operate more effectively and efficiently, lower costs without compromising control and reliability, and reduce duplication. Better information enables management to make informed decisions and convey to banks, regulators and rating agencies a high degree of transparency and legitimacy. Great information also provides opportunities—for the faster development of new products, the proactive response to new regulation, the consistent hiring and retention of the best employees and the benefit of greater access to financing.

To drive its business, an MFI must make decisions. Without quality information, those decisions may be unreliable and can lead to sub-optimal choices. Therefore, as institutions consider better ways to collect, summarize, analyze and report information, they need to understand two types of systems: manual and automated.

## C. Prevailing Information Systems in Microfinance

### MANUAL

Regardless of the system selected (manual or automated), an MFI's MIS must be consistent and reliable. The institution's internal controls must be robust, systematic and logically balanced with its goals, objectives and capabilities. Manual systems offer a useful starting point for many institutions, and in some circumstances provide an excellent way to gather, use and disseminate information to staff, management and external audiences. Paper-based systems or spreadsheets are the most common type of manual systems. They grant institutions the ability to begin quickly, and grow without the technical burdens, time and costs associated with planning, preparing and implementing an automated solution.

However, manual MIS systems provide limited insight into the MFI's business and operations and can constrain the MFI's ability to grow to substantial scale.

### AUTOMATED

An automated MIS relies on a computer application to process transactions, without any action from a user to initiate the next step. The two automated MIS options available to MFIs are customized solutions and off-the-shelf/partially customized solutions. A custom solution requires computer software developers to analyze the organization and create a personalized computer program. It is tailored to the organization's specific needs, and is similar to designing and building a house from scratch.

A custom solution should only be considered under special circumstances, because they are costly and can quickly become obsolete. To consider a custom solution, the organization's processes must be well defined and consistently stable. Also, the organization must have significant technical capacity (the knowledge and breadth of its employees), with a large budget to cover development costs (while allowing for future adjustments and maintenance) and substantial time to comprehensively identify its specific design requirements.

On the other hand, an off-the-shelf solution, with or without some degree of modification, could be considered if the MFI foresees future changes, such as adding new loan or savings products, or has a product that is not yet self sustaining. This option, typically created for organizations requiring flexibility as they grow, comes with specific features that users choose as the organization's needs change. An off-the-shelf package or other commercial solution (e.g., Mifos) that meets at least 80% of an organization's needs and core functions will usually be far superior in function and use, and require much less customization, than a package written from scratch. Likewise, off-the-shelf software is faster to implement, generates fewer bugs and errors, and often brings other benefits, including reliability, ease-of-use, lower cost and faster out-of-the-box operability.

#### **D. A Case for Adopting an Automated MIS or, Why Should an MFI Automate its MIS?**

Before installing an automated MIS, an MFI must have strong manual processes, with well-documented practices and codified policies, and a clear understanding of how information moves within its organization. Further details about who "touches" the information and what controls exist on the information are equally valuable. With efficient manual operations, an automated MIS can decrease costs and risks, and accelerate decision making.

One critical prerequisite for automation is an integrated business strategy that includes an information technology (IT) plan. IT should always be deployed to enable an MFI to meet business goals and not just for the sake of deploying technology. Therefore, before an organization even considers automating its operations, it should first understand and define how the technology will fit into its overall business strategy and how it will specifically enable it to reach its business goals. Selecting and then implementing an MIS is a decision based on deliberate steps and processes, rather than just "doing it" because it seems like a quick solution or fix to a problem.

Another critical building block in establishing effective information management is the streamlining and refining of key business processes. Business Process Management (BPM) is a methodology that promotes effective management and process optimization. It is used to identify the sensitive points and duplications in a business process. Using BPM, organizations can reduce costs, limit losses and increase worker productivity and customer satisfaction. Often these gains can be realized without any technical automation.

Operational costs can decrease after a successful MIS implementation. By decreasing the number of staff needed to process transactions, and by decreasing the time required to do so (and hence increasing the productivity of existing staff), MFIs can take advantage of a reduced cost structure and avail themselves of more funds for expansion and outreach.

A strong automated MIS can also decrease an MFI's risk, by providing the functionality and tools to consistently present financial and operational data clearly, cleanly, transparently and on time.

After instituting clearly defined and efficient operational policies and an IT strategy that remains aligned with the organization's business strategy, an MFI will be ready to begin automating. An automated MIS built upon a strong groundwork of people and processes will provide a number of incremental benefits to the organization.

## E. Guidelines for Automation

### FACTORS TO CONSIDER

Implementing or even upgrading an information system is a deliberate, time-consuming process in which cost, risk, staff resources and time all must be managed. Deciding to move forward is the easiest step in the process; actual implementation can be much more daunting than anticipated. MIS implementation usually fails for one or a combination of the following reasons:

- Underutilization of software capabilities
- Lack of understanding of how to properly use the new information system
- Frustration from overly complicated procedures
- Failure to completely and accurately capture the organization's needs (i.e., requirements)
- Mismatch between the system's capabilities and the organization's expectations (i.e., a significant difference between what staff expected and what the system delivers)
- Unreasonable expectations about what an implementation entails

MFI's can and should consider hiring temporary, external support from consultants or NGOs to assist with the technical aspects of MIS automation. However, enduring success is only possible through organizational commitment to move forward, backed by a positive attitude and the support of senior leadership. A dedicated team with cross-functional support, reasonable projects plans and clear expectations are also necessary. The institution must have senior level buy-in for the project, and must hire or train the right on-site IT staff to maintain the system after the last consultant leaves.

### SOFTWARE OPTIONS

Various microfinance software programs exist to meet an array of needs. They range in complexity, functionality and cost. While MFI's might consider developing their own systems, experience recommends they do otherwise. For example, in-house systems are more expensive to implement, take longer to deploy and fail to launch at a higher percentage than packaged options.

CGAP's website ([www.cgap.org](http://www.cgap.org)), especially the Microcredit Gateway section, supplies extensive information on many Management Information Systems. The site provides ratings and is a valuable first resource. However, an organization's final software selection should be based on an objective needs analysis.

### KEY STEPS IN AUTOMATING AN MIS

A critical component to any successful systems implementation is the emphasis on planning, and the impact on staff, business processes and technology. An MIS automation project is a serious undertaking for any organization; therefore, adherence to a rigorous project methodology is essential for project success.

There are five major phases to a software automation project. These phases are described below. Further details can be found in the CGAP IS Implementation Guidelines (search for "guidelines" on [cgap.org](http://cgap.org)) or by using the Grameen Foundation MIS Toolkit ([www.grameenfoundation.org/grameen-foundation-mis-toolkit](http://www.grameenfoundation.org/grameen-foundation-mis-toolkit)).



## Phase 1 – Project Preparation

The first and most important steps are defining goals and setting expectations. MFI management should review their business strategy and document exactly how the MIS implementation will support and enable future business goals. Management should also outline an implementation timeline.

The MFI must establish an implementation project team. A single project manager (PM) should lead the entire team, and identify a lead technical project resource. The lead PM and the technical resource should be on-site and dedicate 100% of their time to the project. The best project teams will be cross-functional in nature, with representatives from MIS, Accounting, Finance, Operations and Internal Audit. This cross-functional implementation team should meet weekly and establish from the beginning that MIS automation is a collective effort, consisting of a cross-organizational team that understands and documents needs (requirements), evaluates products and vendors, implements the system, migrates data from the old to the new platform, formulates reports, and both determines and develops end-user training.

In addition to the staff responsible for actually completing the system selection and implementation, the most successful MIS installations rely on strict oversight by a management steering committee. This committee should consist of senior leadership from not only the IT department, but also finance, accounting, operations and internal audit. This management committee is responsible for reviewing and approving project progress during each phase, and for marshalling the appropriate resources (both staff and budget) to complete the project successfully.

## Phase 2 – Gap Analysis

To choose the best software solution for an organization, the team must understand its current and future information needs and then compare them to each package's functionality.

The first step in a gap analysis is documenting the organization's current and future information needs. The team should use the outputs from its business process management activities to diagram data flows through departments, and identify gaps in information flows and process difficulties arising from lack of timely or accurate information. The team should document the current and future role of technology infrastructure and information systems, including use of word processing, e-mail, computerized spreadsheets and accounting systems. The current and future use of an accounting system (i.e., charts of accounts, cash flow, budgeting and operational issues) and the methodology used to track the loan portfolio should be assessed, as well as the credit management and recovery mechanisms. It is equally valuable to include other business-critical processes (e.g., loan disbursement, client approval, new product development or regulatory report generation).

The team should also clearly outline the technical capabilities and the specific environment of the MFI. For example, if the institution is located in a country with poor Internet access, then an "offline" capability becomes an important factor for consideration during software selection. Additionally, if the MFI has few skilled IT staff and a limited ability to recruit locally, then the availability and cost of vendor support becomes more important as well. Additionally, available budget, training requirements and target timelines must be considered prior to software selection.

After documenting the MFI's needs and completing the gap analysis, the institution should compare its overall needs to the pool of available software solutions. The team can find information on CGAP's

website and should request brochures and client references from potential vendors. Whenever possible, the team should also visit other organizations already using the products to see and understand their specific experiences.

Once two to three potential solutions have been identified, the MFI should request these vendors to visit and provide a live product demonstration. If possible, the team should send the vendor some sample data and request it to tailor the demonstration to the MFI's specific operations.

### **Phase 3 – System Selection**

Introducing a new MIS significantly impacts an MFI's processes and procedures. Therefore, along with the functionality gap analysis, the team should consider these attributes as it finalizes software selection:

- Functionality gap analysis
- Total cost of ownership
- Vendor support—price of customizations, maintenance contract terms.
- Internal staff IT skills—what level of technological complexity can the staff support?
- User IT sophistication—is the staff computer-literate?

Once a system is selected, the MFI must negotiate the software license fees and maintenance support contract.

### **Phase 4 – Implementation**

An implementation plan breaks down the necessary steps to automate and prepare the entire organization for the new software in an organized and manageable manner.

While no two implementation plans are the same (even when installing the same product), several basic themes emerge, including:

- Measurable objectives with timelines and deliverables (i.e., milestones).
- An all-inclusive schedule that outlines all critical tasks, roles and responsibilities, and a corresponding budget.
- Hardware and software installation.
- A data-conversion plan outlining what historical data (if any) will be moved into the new system.
- A configuration plan describing any changes to the software.
- A testing plan to validate that the software performs as specified.
- Process documentation that describes changes to operational processes.
- A training plan for management, functional staff and MIS staff. The plan should include modules to train staff on the new business processes resulting from the integration of technology and operations, as well as modules that actually instruct staff on how to use the new software. Training should be job-specific. For example, MIS staff should learn to use the software and manage the new infrastructure (such as servers and the database), while internal audit staff should learn how to analyze transactional data in the new system.

The implementation project team defined during Phase 1 will execute each step of the project and provide periodic status updates to the management steering committee. Steering committee oversight during implementation is critical, to ensure that any challenges encountered by the project team are resolved immediately and don't adversely affect the project schedule or budget.

## Phase 5 – Maintenance

Proper implementation of an MIS involves caring for the hardware and software and attending to the people, procedures, processes and policies that make up the complete system.

The MIS team should evaluate the installation with a post-implementation audit at about the six-month mark. This activity provides important feedback to management and should be referenced periodically as the MFI adjusts or upgrades the software solution as the business needs change.

Additionally, the MIS staff will be responsible for maintaining a healthy system by establishing and executing backup and storage procedures, database tuning, patch deployment and network administration, such as security monitoring.

## F. What Programs do Grameen Bank and Other Grameen-style Microcredit Institutions Use?

### GRAMEEN BANK

When Grameen Bank initiated operations, all accounting and management information was collected and analyzed manually and then stored in hard copy. The need for an integrated software solution was felt since the inception of Grameen Bank. The demand from the operational level was for a system that could take over the complex portfolio tracking, monitoring, accounting, reporting and other aspects of microcredit operations and banking activities. To meet this demand, Grameen Bank developed software for its MIS through Grameen Communications (GC), a GB subsidiary that specializes in IT applications for microcredit programs.

Grameen Communications launched its operation in August 1997. GC in-house experts successfully updated the MIS technology from g.Banker 1.0 to g.Banker 5.0 with Portfolio, Deposit Banking, Payroll, Asset Management, Inventory and Accounting Modules. All the systems are integrated and controlled by the Accounting module. Today all branches of Grameen Bank but one are computerized under GC Implementation Package Program, serving more than 8.3 million borrowers. The g.Banker 5.0 is a complete solution for microcredit operations around the world. It is now being used in the microfinance banking system of many microfinance institutions, in countries such as Turkey, India, East Timor, Thailand, Philippines and Nepal.

### GRAMEEN FOUNDATION PARTNERS

The management information systems used by partners of the Grameen Foundation vary in every region and country, and are displayed in Annex 7.8.

### GRAMEEN FOUNDATION MIFOS SOLUTION

Launched in 2006, Mifos is an open-source information management platform purpose-built for the microfinance industry to address the need for cost-effective access to flexible and scalable automation. Mifos provides robust loan and savings portfolio tracking, in-depth client management, real-time reporting, and integrated social performance measurement to enable MFIs to scale upward and outward to extend more affordable and effective services to the poor.

As a fully web-enabled application running on top of a centralized database, Mifos offers the power and insight of real-time access to data across an entire organization through an easy-to-use interface that facilitates rapid configuration and process efficiency.

The development and distribution of Mifos is led by the Grameen Foundation Technology Center, which is guiding a global community of technology professionals delivering and extending the platform while providing local support.

For more information about the product, please visit [www.mifos.org](http://www.mifos.org).

# SECTION 8



# SECTION 8: INTERNAL CONTROL AND INTERNAL AUDIT

## I. INTRODUCTION

### A. Internal Control

Internal Control is a key element in an organization's systems and procedures. The definition below should make that evident. It also clearly gives its objectives:

*Internal control encompasses all of the methods and measures adopted by an organization to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies.*

This definition encompasses the broad controls that include both administrative and accounting controls, both of which are described in detail in section later in this section.

### B. Internal Audit

Internal audit is the independent verification and assessment function responsible for ensuring that the systems and procedures within an organization are operating smoothly, thereby providing a sound control environment for the achievement of internal control objectives. The function should be independent of executive and line management, and should report directly to the Board or the Board's Audit Committee.

The audit process is an important verification and assessment tool. The Internal Auditor uses the process to ensure that there are proper safeguards in place and that the utilization of the organization's assets is proper. It also ensures that all records of operational transactions (and the financial statements produced using those records) can be relied upon as a true representation of the result of operations.

There are various procedures in carrying out an audit. These are described in the segment on internal audits.

## II. INTERNAL CONTROLS

As noted in the introduction, internal controls cover both administrative and accounting controls. These are further elaborated below.

### A. Administrative Controls

These comprise the systems and procedures that give guidance on the decision-making process leading to management's authorization of transactions. This is, of course, the function directly associated with the responsibility to achieve an organization's objectives. Examples of administrative controls are as follows:

#### 1) ORGANIZATION CONTROLS

These controls facilitate how a company assigns responsibility and entrusts authority. The main organization controls are:

- a) Organizational structure
- b) Delegation of authority within the structure

**The main objectives of these controls are to:**

- a) Encourage adherence to corporate policies and procedures
- b) Provide an orderly authorization process

**Characteristics of effective organizational controls include the following:**

- a) Organizational structure supports management's overall goals
- b) Framework for delegation and limitation of authority is well-defined
- c) Functional assignment of responsibility is logical
- d) Assignment of responsibilities is clear
- e) Authority is delegated commensurate with responsibilities
- f) Adequate and competent supervision and staffing is available, with appropriate co-ordination and communication among functions

#### 2) OPERATING CONTROLS

These controls facilitate adherence to policies and procedures within the organization. The main operating controls are:

- a) Policies
- b) Procedures

**The main objectives of these controls are to:**

- a) Establish a framework within which accounting and operational activities can take place in a controlled manner
- b) Provide clear, efficient and effective planning, execution and conduct of business

**Effective operating controls are:**

- a) Suited to the organization structure and aid in carrying out delegated responsibility
- b) Well-defined, clear and documented
- c) Well-conceived and practical to implement
- d) Easy to interpret and apply

### 3) INFORMATION SYSTEMS CONTROLS

These allow control to be achieved by providing information to appropriate levels of management.

The main information systems controls are:

- a) A comprehensive reporting system with calendar of key dates and reports
- b) Checklist management supporting the reporting system

**The main objectives of these controls are to:**

- a) Ensure that key reports are produced, reviewed and distributed to the responsible management for decision-making
- b) Trigger follow-up and appropriate management action on any delays

**Effective information system controls should ensure:**

- a) Information is sufficiently detailed to identify out of normal operations or point to possible problems
- b) Content of reports are relevant to the user
- c) Form of presentations highlights important information and aids understanding
- d) Information is timely and reliable, to be useful for its intended purposes
- e) Distribution matches the assigned responsibilities of individuals in positions to know that the information makes sense in the light of their familiarity with what happened
- f) Information is actually used by recipients with the competence and time to understand its significance, in a position to take action, if need be, and determine if there has been a breakdown of key procedural controls

## B. Accounting Controls

These comprise the systems and procedures that give guidance on the safeguarding of assets and the reliability and accuracy of financial records. These systems and procedures are designed to ensure that only authorized transactions are processed and properly recorded, to serve as a basis for the preparation of appropriate financial statements and further to ensure that access to and use of assets is controlled. Examples of accounting controls are:

### 1) SEGREGATION OF DUTIES WITHIN THE SYSTEM

This is the process whereby no one individual is allowed to control all phases of the processing of transactions.

### 2) PROCEDURAL CONTROLS ON THE TRANSACTIONS FLOWING THROUGH THE SYSTEM

This is the process whereby procedures within the organization are designed to achieve efficiency in operations, to meet the desired objectives.

It is clear from the above definition and explanation of internal control that it is a key element within the systems of an organization. It is important to ensure that the internal controls within the management and operational systems are adequate and must facilitate the proper recording of transactions relating to all operations. Furthermore they must also facilitate the preparation of accurate financial statements (Income Statement and Balance Sheet) of the organization and other management reports required for decision-making. Many of the internal controls within the various systems in an organization will fall into the categories described in this section.

There are many benefits that the organization will realize through a sound internal control environment that ensures the smooth operation of established systems and procedures. These benefits, some of which have been noted in the definition of internal control, are as follows:

- i. The protection and effective use of the institution's assets, including financial resources.
- ii. Compliance with policies and procedures.
- iii. Accuracy of financial transactions and reliability of information.
- iv. Financial and credit discipline.
- v. Promotion of efficient and effective operations. For example, loan officers are responsible for conducting Center meetings on time every day and making sure they work to achieve 100% repayment, 100% attendance and 100% investment. Through oversight and accountability systems, this goal can be attained.
- vi. Smooth operation of institutional chain of command.

A sound control environment is facilitated through the institution of good internal controls. A well-designed *organization structure*, together with clear policies and procedures, are key components, as noted above. The process of monitoring and supervision (discussed in detail in Section 7) is an important element to operational control, as it ensures proper operations and carrying out of delegated responsibilities.

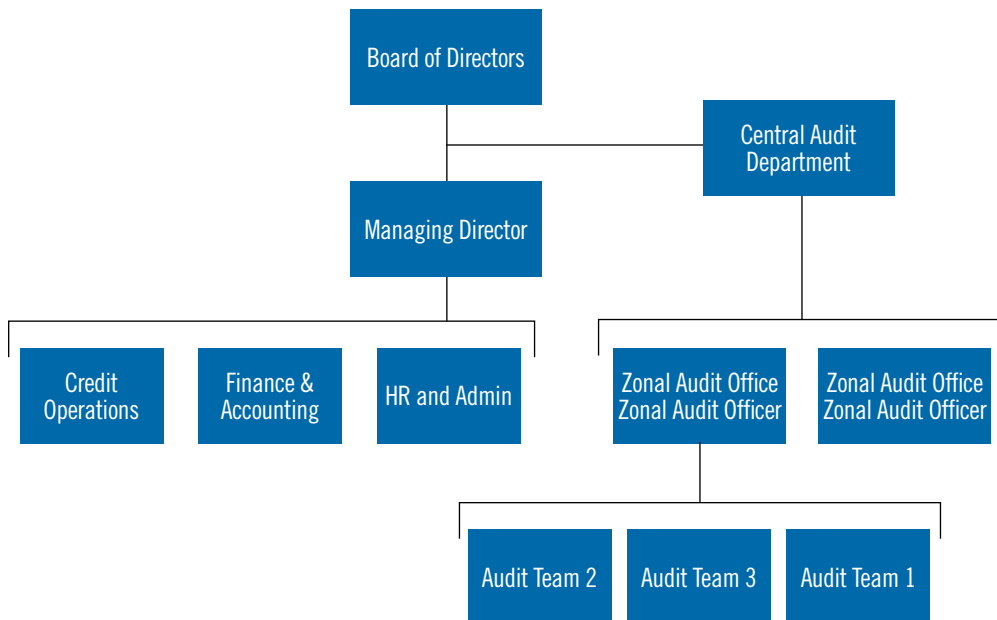
The other key element important to ensuring ongoing internal control is a solid program or system of human resources development (discussed in detail in Section 5). Well-trained officers and staff form the main driving force behind the success of microfinance institutions. Well-trained, motivated and committed loan officers can train and motivate their clients efficiently and effectively. This facilitates the achievement of the program's mission and vision. Therefore, an organization needs to provide its staff with well-developed and intensive training programs. Additionally, intensive foundation training for clients is also crucial—not only for their understanding and appreciation of the program mission, but also for their understanding and appreciation of the role and responsibility they have in interacting with loan officers and other clients.

### III. INTERNAL AUDIT

An efficient Internal Audit Department should be the backbone to an effective internal control system. It can ensure that systems are updated and, where necessary, strengthened to take account of any changes in the business environment or in operations. Figure 8.1 shows an organization chart outlining the ideal structure of an audit function independent of executive and line management.

It is very important that Internal Audit Department staff clearly understand their duties, roles and responsibilities, all of which are expanded and defined in more detail in items 2 and 3 later in this section. Additionally, the audit staff must be familiar with these guidelines, and be prepared to rely on them for reference and guidance as they carry out their audit responsibility. This chapter gives adequate internal guidelines for the audit of a young Grameen-style institution. However, as the institution grows, it would be ideal to develop a separate and more comprehensive audit manual that expands on these guidelines. Such a manual would include these guidelines, along with other and additional aspects to internal audit and risk management, e.g., prevention and audit of fraud, risk management as part of the audit process, various types of audit procedures, etc.

Figure 8.1 Structure of an Audit Function Independent of the CEO and Line Management



Audit staff should apply an unbiased and professional approach to their audit work. At the same time, it should also be effective without causing undue “friction” in staff relations and morale. The Internal Audit Department should adopt procedures that ensure its effectiveness in maintaining oversight and in achieving internal control objectives as described in Item 1 below.

## A. Effectiveness of Internal Audit

To be effective, the audit department must fulfill the following requirements in its planning and management:

- 1) The work of the department must be planned and written up in an Audit Plan, so that operations in all areas can be subjected to verification over the course of the fiscal year. The Audit Plan should provide for periodic meetings with the Board Audit Committee/Senior Management to review progress and achievement of the Audit Plan. It is therefore a must that Internal Audit personnel have a comprehensive understanding of the organization’s operations so that areas of high risk or consistent problems can be subjected to more regular checks and evaluations.

The main contents of an Audit Plan are as follows:

### a) Introduction

The introduction defines the role and responsibility of an audit within the institution and notes the importance of its effectiveness in ensuring a sound control environment for the conduct of the company’s operations.

- b) Objectives of the Plan**  
This section lists the objectives of the audit for the period covered by the audit plan.
  - c) Audit Structure**  
This section provides for the effectiveness and adequate coverage of all operations. It highlights the audit structure, the necessary resources for the adequate coverage of all areas of operations and any requisite changes needed to ensure effectiveness by minimizing the impact of any limitations.
  - d) Audit Procedures and Work Plans**  
This section notes the audit procedures to be applied during the year. The audit work plans should be prepared to ensure that all areas of operations are subjected to audit verification. The areas of operations include all items involving assets and liabilities, as disclosed in the balance sheet, as well as all items relating to revenues and expenditures, as disclosed in the income statement. Other areas include an ongoing review of policies, systems and procedures—including those review procedures applied in the guiding, monitoring and reporting of results, as well as those used in decision-making. The plan is designed to ensure the thorough review of management procedures as implemented for the monitoring and control of operations.
  - e) Audit Budget**  
This section notes the budget requirements needed to ensure the effectiveness of the audit department. In addition to personnel, other costs include travel, audit supplies and any others that facilitate the work and effectiveness of the audit function.
  - f) Audit reporting and monthly meetings with Senior Management/Audit Committee**  
This section mentions the regular and monthly reports that are to be submitted to the various units upon completion of each area of an audit, as well as the summary reports to Senior Management/Board Audit Committee for the review of key areas of weakness that require attention.
  - g) Conclusion**  
This section concludes the plan and, in doing so, makes explicit the desire to ensure that all objectives are met.
- 2) Implementation of the plan must be properly supervised. This supervision should involve review of reports and the drafting of working papers that support the findings. They should also provide a record of all discussions of findings with the Senior Officers in charge of the areas being reported on.
  - 3) In addition to items 1 and 2 above there must be specified standards and internal policies that should be observed by the department. It is important to have such policies and procedures properly documented as guidance material to avoid any misunderstanding by Internal Audit personnel. As noted above, this manual has been prepared for this purpose and should be clearly and fully understood by Internal Audit personnel. They in turn must ensure comprehensive familiarity with all requirements of this manual and any and all other policy manuals developed within the organization.

- 4) The Internal Audit department must have properly qualified staff. Appropriate courses, both internal and external, should be arranged if needed to ensure that the capabilities of the Internal Audit staff enable the department to remain effective.
- 5) Also key to the effectiveness of the department are proper documentation procedures, which ensure full recording of the department's work. They should include the following:
  - a) The audit plan.
  - b) Audit programs that note the areas to be audited and the step-by-step procedures to be followed, while clearly indicating the objectives of the tests.
  - c) The audit working papers, noting documents examined and any exceptions found in carrying out the work specified in the audit programs. All steps of the audit program should be completed.
  - d) The notes and conclusions on the findings.
  - e) The Audit Report prepared on the findings, giving recommendations for eliminating the weaknesses found during the audit.
  - f) Correspondence indicating implementation of recommendations contained in the audit report.
- 6) Another key requirement is the periodic activity report, which should provide Senior Management with a clear and comprehensive summary of the entire operations during the period of the report. Should the Internal Audit find that recommendations for improvements in the systems and procedures have not been implemented, then such a finding should be highlighted in the report. The periodic activity report should be used as the basis for discussion on progress at the meetings with the Board Audit Committee/Senior Management.

The Department's procedures should be reassessed regularly to establish whether it is meeting all the requirements to be considered effective, as noted above. If not, then the necessary improvements should be made as appropriate.

## **B. Duty of Internal Audit**

- i. The Internal Audit function's duty is to provide the necessary monitoring and evaluation of the internal control systems and give audit advisory service to top management through reports of its findings. Such reports should be addressed directly to the Board Audit Committee, with copies to the managers of the relevant departments for necessary action.
- ii. The Internal Audit Department staff must be fully familiar with the Audit Manual and with all organization policies. They must also be familiar with the audit programs required to be applied in testing and verifying operational transactions and other activities of the organization. Those programs confirm that the systems and procedures as laid down are operating smoothly and provide a secure operating environment, with adequate internal checks to assure both the desired level of management control and the safeguarding of the organization's assets.
- iii. There should be a follow up of all audit queries raised by Internal Audit. Any matters not resolved within a reasonable time should be reported with urgency to the Board Audit Committee for appropriate immediate action.

## C. Role of Internal Audit

Internal Audit holds a very important responsibility and must demonstrate a very high level of skill and integrity, which is essential for any efficient and effective audit of the organization. It is therefore necessary for the Internal Audit staff to have and apply the following qualities:

- i. A thorough working knowledge of the relevant regulations (i.e., the policies and procedures manuals of the organization and any occasionally released circulars). These important documents should be readily available. The internal audit staff should have copies in their custody.
- ii. The Internal Audit staff must test and verify the adequacy of the internal control systems by carrying out a traditional “compliance” audit, which involves:
  - Carrying out independent surveys of the internal control system and evaluating its effectiveness, reporting on the findings and, when necessary, recommending changes for management to consider.
  - Performing substantive tests to determine the validity and accuracy of records, which are used to prepare the monthly and end-of-year accounts.
- iii. Internal Audit is an advisory and complementary service to management and the Board. Full responsibility for the entire set of systems and related internal controls rests within it. The Board Audit Committee must review audit findings and recommendations and take appropriate action in line with established procedures.

## D. The Necessity of Internal Audit in MFI Operations

In a large organization, especially in one that handles significant volumes of cash, an effective internal audit function is essential. As noted above, an effective internal audit function can be the backbone of an equally effective internal control system. The following factors show why it is essential for microfinance institutions to have an effective internal audit function:

- a) **High volume of transactions**  
Numerous cash transactions take place every day at the field level of a microfinance institution. The larger the volume of transactions, the greater the possibility of errors and irregularities.
- b) **Transactions outside of the branch**  
Most transactions are processed by loan officers during Center meetings in the field.
- c) **Many illiterate borrowers**  
A large proportion of clients of microfinance institutions in many countries are illiterate and depend largely on loan officers for the proper and accurate recording of all business transactions.
- d) **Fiduciary responsibility to clients**  
The organization has a fiduciary responsibility to its clients and is thereby committed to ensuring that all transactions completed in the field are in line with established procedures and that the rights of its clients are not violated.



## E. Collaboration of Internal and External Auditors

The Board establishes the Internal Audit function and charges it with the responsibilities noted above. On the other hand, External Audit is an activity required by various stakeholders. It is carried out by certified professional auditors who are not part of the organization but are appointed by its stakeholders. The stakeholders may be shareholders, government supervisory agencies, donor agencies, etc.

External auditors focus mainly on giving an opinion on: a) the state of affairs of the organization, and b) the results of operations for the period being audited. To give their opinion, external auditors examine the records and documents pertaining to the operations of the organization. In that respect, it is useful for them to collaborate with the internal auditors who carry out operational audits on an ongoing basis throughout the year. Such collaboration enables the external auditors to identify areas of high risk and any actions taken to mitigate those risks, thereby facilitating their plan for a more efficient and effective external audit.

## F. Objectives of Internal Audit

The above sections clearly show that internal audit plays a significant role in monitoring and in maintaining oversight of the operation and effectiveness of internal controls and its various systems and procedures. This oversight enables the organization to minimize the incidence of errors, fraud and irregularities. It also facilitates achievement of the overall audit objective of ensuring a sound control environment by carrying out various audit processes to confirm the following objectives:

- i. Adequacy of book keeping and adherence to established procedures
- ii. Effectiveness of internal controls
- iii. Effectiveness of supervision
- iv. Maintenance of up-to-date records
- v. Timely reporting

## G. Other Processes of Internal Audit

### a) Special investigation of any irregularities

In addition to the routine audit, Internal Audit may conduct special investigations as necessary upon detection of any irregularities during normal supervision or during the internal audit process. During the course of normal supervision or a routine internal audit, if any irregularities or embezzling (defalcation) come to light, the internal auditor is commissioned in writing by the management. The auditor then conducts a special investigation to determine: a) the extent of any losses suffered; b) the identity of the person or persons responsible; c) the system's weaknesses that facilitated such irregularities or embezzlement; and d) any recommendations for remedial measures through stricter supervision and the institution of more effective internal controls.

### b) Follow-up on previous internal audit recommendations

The internal audit also verifies compliance in line with any recommendations made in an earlier audit report. The auditor should report to the Board Audit Committee/Senior Management on any recommendations that have not been implemented.

## H. Internal Audit Techniques in Microfinance

The above sections note and emphasize the need for an effective internal audit department, as well as a fully implemented audit plan. Some of the internal audit techniques required for a microfinance organization to work effectively are listed below:

**a) Confidentiality of branch visits**

In some cases, it may be necessary for an audit team to make an unannounced visit to a branch. The lack of prior notice preempts adjustment of any known committed irregularities within the branch.

**b) Test check procedure**

Normally a huge volume of transactions takes place in a branch. It is virtually impossible for three auditors to check and verify all the transactions within the 10 days normally allocated for a branch audit. Therefore, the audit team adopts the “test check” technique in examining records. If the team finds the magnitude of either errors and irregularities or deviations from established systems to be significant, then a more detailed and in-depth audit is carried out.

**c) Compulsory stay at the branch**

The audit team is required to stay at the branch while it conducts an audit, to facilitate the collection of useful and often valuable information from various sources.

**d) Center audit**

The audit team leader and associates visit the Center and observe all Center activities as part of their audit. The team also talks to borrowers about paid-up loans, outstanding loan and savings balances, etc., as part of the verification of Center operations and proper implementation of procedures. Within Grameen, a branch visit results in the audit of 25 percent to 30 percent of all the centers in that branch.

**e) Verification of loan utilization**

The auditors verify the use of a loan mainly to ensure that it is indeed being utilized for the purpose stated in the loan application. A member is considered to have made socioeconomic progress if she or he can retain any assets acquired through the use of a loan lent by the institution and, furthermore, is able to generate additional earnings. After verification, the auditors write up their comments. The loan-use verification process provides indirect pressure on both staff and members to retain assets.

**f) Educative process of audit**

While conducting an audit, the auditors identify areas of weakness in the systems and any deviations or errors that may have occurred. Before leaving a branch, the audit team arranges a mandatory review discussion with branch staff. During the meeting, all aspects of the audit’s findings and recommendations are discussed in detail. The branch staff is given the opportunity to air their comments and to explain the reasons for any deviations from the systems and any errors found. They also are given the chance to affirm their acceptance of, and commitment to implement, the recommendations made in the audit report.

#### **g) Preventive controls audit**

The Internal Audit team generally recommends to management various ways to improve on any weaknesses that may be present in the systems and procedures, to prevent occurrence of any errors and irregularities. Furthermore, to motivate other field and branch offices to adopt preventive measures to avoid common errors, the Central Audit Department circulates to the zonal area and branch offices a list of those common errors an audit might have found. In this way, the internal audit process helps institute preventive controls.

#### **h) Decentralization of audit**

Decentralization of the audit function to the area level is one of the main features of a good and well-structured department in a large microfinance institution. Decentralization reduces pressure on the head audit office and minimizes costs. It also reduces the travel time of audit staff. But above all, decentralization makes it easier to take prompt action.

#### **i) Autonomy of audit**

The Internal Audit Department should always work under the direct supervision of the Board Audit Committee. This ensures that it is completely independent of executive and line management. At the area level, while area operations and audit operations exist in parallel, the audit team works independently without interference from operations. Each area audit office is accountable to the Central Audit Department.

## **I. Internal Audit Scheduling and Process**

### **1) ARRIVAL AT A BRANCH OFFICE (WITHOUT PRIOR NOTICE)**

After arriving at a branch office, the audit team leader meets and greets the branch manager and staff. Immediately the leader hands over to the branch manager the letter authorizing the branch audit. The audit team may then express a wish to receive the branch's full support and cooperation, to conduct an efficient audit.

### **2) INTRODUCTORY MEETING WITH BRANCH STAFF**

After the introductions, the audit team leader discusses the team's view with the branch manager on how the audit is to be conducted. During the discussion, the leader also mentions the records and information required to carry out the audit. That ensures the branch manager can readily provide those records and information.

### **3) IMMEDIATE AUDIT PROCESS**

The audit team ensures they arrive for the audit at the branch during office hours. The team should first check cash on hand and petty cash. Both should tally with the respective cash balance register, cash book and subsidiary ledger. The staff attendance register and control books also should be checked to determine whether these are up to date. It is the responsibility of the branch manager to provide the documents that the audit team requires. After the cash is counted, the audit team proceeds with the systematic audit, done by checking: a) supporting vouchers; b) collection sheets; c) books of accounts; and d) other documents as necessary to complete all items on the following list:

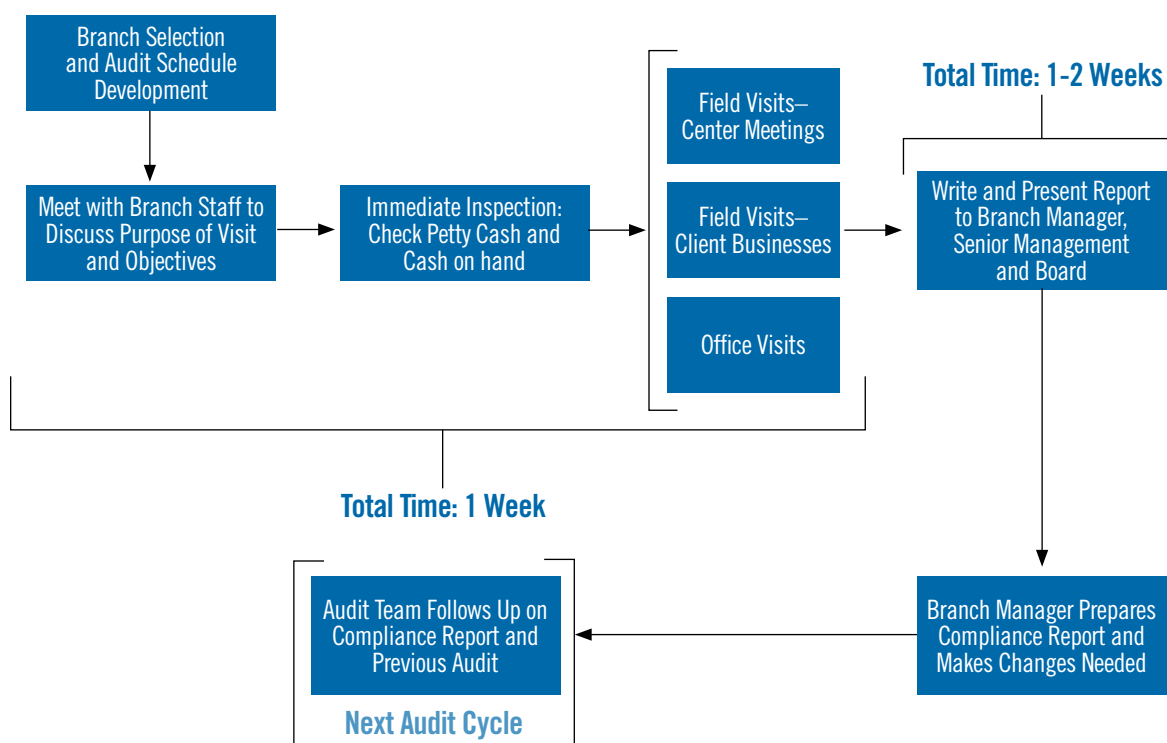
- a) Verification of supporting vouchers and documents
- b) Confirmation of bank balance and bank reconciliation
- c) Review of salaries and allowances
- d) Confirmation of proper ledger balancing and extraction of trial balance

- e) Review of client pass books for accuracy and consistency with loan registers
- f) Review of daily cash collection sheets and postings to the cash book
- g) Verification of proper posting of cash books to the ledger
- h) Verification of the financial statements for consistency with trial balance and branch records
- i) Review and verification of other assets in the branch, and that accounting of them is consistent with established policy
- j) Review leave approval and consistency with policy guidelines
- k) Review fund management procedures for adequacy and effectiveness
- l) Review profit-and-loss analysis and benefits to better decision-making
- m) Budget—review actual performance against budget and clarify reasons for any variances and actions taken to get back on track
- n) Books of accounts—confirm that all are properly maintained and are consistent with actual transactions in the field and with completed reports
- o) Approval of loan proposals—review and confirm whether in line with established procedures
- p) Center meeting—review and confirm whether in line with established procedures
- q) Loan utilization—review and confirm whether in line with loan applications
- r) Group formation—review and confirm whether in line with established procedures

#### 4) CLOSING MEETING WITH BRANCH STAFF

At the end of the audit, there should be a meeting where branch staff discusses the findings and recommendations with the internal audit team. They should exchange views and comment on all audit matters/issues. The Area Manager in charge of the branch should engage in the discussion. Any new information or suggestions that may arise during the discussion should be included as appropriate in the audit report.

Figure 8.2 The Internal Audit Process Map



## J. Areas of Internal Audit Verification in the Program

The internal audit sections above describe the objectives, duty, role and responsibility of Internal Audit, including the actual audit process. In applying the audit procedures to meet these goals, Internal Audit verifies implementation of established policies and procedures in various operational areas. Some of the relevant areas in a microfinance program are as follows:

**a) Accuracy of targeting**

The goal of microfinance is to reach the poorest of the poor, especially women. To ensure appropriate targeting, Internal Audit verifies proper implementation of the program's targeting policy.

**b) Loan utilization**

It has been proven that proper loan utilization/investment in income-generating activities helps borrowers raise their incomes. Doing so develops the capability of borrowers to increase their assets and capital investments, which in turn helps them to emerge from poverty. It is therefore important for the institution to ensure proper loan utilization. To meet this goal, the institution should develop policies and procedures that branch management can apply to that purpose. Internal Audit verifies proper implementation of such policies and procedures.

**c) Loan repayment rate**

It is important to achieve 100% loan repayment, for both the financial health of the program and development of borrower discipline and progress. Where the repayment rate is lower than 98%, it may mean that the program is not being implemented in line with the requirements. The Internal Auditor verifies that loan management is implemented in accordance with policy.

**d) Center meeting discipline**

If discipline and control are not well established during Center meetings (whether weekly or bi-weekly), there is a higher likelihood that borrowers will default. It is through peer pressure and support that the institution ensures proper loan repayment during effectively managed Center meetings that create the properly conducive environment. Internal audit verifies implementation of the policies in the management of Center meetings.

**e) Role of Center managers in member education**

Grameen-style programs do more than just lend money. And Center meeting represent more than just a venue for collecting loan installments. Indeed, the Center meeting creates a platform that can be and should be used for educating and motivating members. An internal audit will verify implementation of member education policies.

**f) Loan officer productivity**

The Center Managers (CMs) represent the main driving force behind a successful and financially sustainable program. If a CM's capacity is not utilized effectively, the program will struggle to achieve sustainability. The auditor verifies that the productivity of the loan officer is in line with expectations. Productivity is normally measured in terms of the number of borrowers per loan officer.

**g) Client desertion vs. retention**

The objective of any Grameen-style program is to help members move out of poverty. However, this will not happen over just one, two or even three loan cycles. Grameen Bank's experience has

shown that it takes the majority of members at least five or more years to move out of poverty. If a borrower joins the program only to leave a year later, then both the borrower and program have lost out. It is Grameen's goal that the borrower will remain with the program until he or she emerges from poverty and beyond that. High levels of client desertion indicate a program's weaknesses; a high retention rate indicates a program's strength. The internal audit verifies client drop-out and retention rates and reports on any appropriate actions to be taken.

**h) Overdue loan management**

Overdue loans indicate problems with repayment on the part of the borrower or with debt collection by loan officers. In view of the importance of loan repayment as noted above, it is critical that the auditor verifies proper management and zero tolerance for overdue loans.

**i) Operational self-sufficiency, financial self-sufficiency, operating efficiency ratio**

These ratios refer to the program's overall financial and operational sustainability. The internal audit verifies that management is analyzing sustainability in line with policy and approved budgets.

**j) Cash flow and funds management**

Efficient fund management helps the program utilize its financial resources effectively. The auditor verifies proper implementation of the funds management program in line with the policy guidelines.

**k) Administrative issues**

Internal audit also reviews and verifies administrative issues, such as recruitment policy, staff termination and retention, training incentive policy, performance evaluation process and salary structure, to confirm proper implementation.

**l) Impact and borrower improvement status**

Internal audit randomly selects borrowers to check whether their overall financial and socio-economic situation has been improved through the program, in line with the institution's goals. Within Grameen, the audit procedure includes implementing the 10-point poverty assessment tool.

**m) Other areas of operations requiring internal audit verification:**

- i. Outstanding loan balances, savings balances and interest income
- ii. Interest rates on loans
- iii. Borrower loan and savings passbook records
- iv. Annual plan and its implementation
- v. Monitoring of performance—actual vs. budgeted
- vi. Loan loss provisioning and write-offs
- vii. Bank reconciliation
- viii. Depreciation of fixed assets
- ix. Monthly and quarterly financial reports
- x. Accounting of financial resources received

## K. Internal Audit Reports

A report is required at the end of an audit assignment. Reports to the Audit Committee of the Board and management should be concise, clear and complete. The reports should be properly scrutinized and the Internal Audit staff should ensure that the findings and recommendations are supported by evidence in the Audit file.

The following guidelines should be followed in preparing clear and useful audit reports for management decision and action:

- i. Audit findings (i.e., the results of audit verification checks and tests) must be included if they are relevant to any reported point. Sufficient details should be included to enable management to fully grasp the problem—but not too much detail to pad and obfuscate it.
- ii. Before reports are submitted, they should be discussed in detail with those persons who were or are in charge of the areas discussed in the report, as well as with those responsible for taking action.
- iii. Where possible, their views should be incorporated in the report. This helps in achieve a balanced representation and usually saves time at a later stage. It also avoids important points of principle being swamped by arguments over details.
- iv. In many cases, after discussing the reports with management, immediate steps are taken to rectify any errors or to improve the system. However, the matters should still be covered in the report, with clarifications that explain the present situation.
- v. Where no action has been taken on an earlier recommendation, it is not necessary to repeat the details. However, the current report should include reference to the earlier report, noting that the matter remains outstanding and emphasizing the need for immediate action.
- vi. A lengthy or complicated report should be summarized to provide an overview (executive summary). This would be particularly relevant in the case of a report produced after a special assignment or investigation.

Following are a few points to be noted as a further guide in preparing audit reports:

- a) Use simple words whenever possible. Avoid jargon and slang.
- b) Omit superfluous words and phrases—e.g., “It should be noted that” or “Given the circumstances” add nothing.
- c) Avoid absolute or generalized statements, e.g., reporting that “the Executive Director signed no payment vouchers” is clearly untrue if even a single signed voucher can be produced. It would be better to report that “none of the payment vouchers examined by us were signed.”
- d) Avoid being too vague, e.g., stating that “a number of payment vouchers were signed” does not convey any idea of the gravity of the point being made. Be factual, e.g., “our tests indicate that about 20% of all payment vouchers were not signed.”
- e) Personal criticism does not improve future cooperation with line staff. For that reason, unless compiling a confidential report on suspected fraud, an auditor should attempt to be impersonal.

# SECTION 9



# SECTION 9: Business Planning<sup>1</sup>

## I. INTRODUCTION

It is important that a microfinance institution, whether a start-up or established entity, develop a business plan that serves as a “road map” to guide it in implementing its overall program. More specifically, the process of developing a business plan clarifies and defines the institution’s vision, mission and goals; formulates a strategy to realize the mission and goals, based on an analysis of the market, environment and institutional capacity; and creates an action plan with objective targets and projections against which institutional performance can be monitored. To the extent that developing the business plan involves staff across the organization and its board, it helps build ownership, consensus and staff motivation to work toward achieving the plan’s goals. Having a well-thought-out business plan also strengthens the institution’s negotiating position with donors, commercial banks and other funding agencies.

A business plan is commonly developed to cover a period from one to five years. Multi-year strategic plans are often for a period of three or five years and should ideally be updated annually. The annual plan, on the other hand, is a 12-month road map that a microfinance institution typically prepares during the last quarter of the current year for implementation during the following year. As the annual plan is based on recent developments (e.g., within the market, broader environment and institution itself) as reflected in the institution’s performance (e.g., the extent to which it has achieved targets in outreach, amount and quality of loans in its portfolio, profitability, efficiency, etc.), this is the plan on which MFIs spend the most time and energy during the planning process. The annual plan is also used as the basis for making periodic adjustments to the multi-year business plan. Finally, the annual plan serves as the basis for developing the institution’s annual budget.

## II. DEVELOPING A BUSINESS PLAN

The Microfin Handbook recommends the following key steps, in sequential order, in developing a business plan:

- A. Development of a detailed strategic business plan
- B. Development of an operational plan and financial model
- C. Refining strategic and operational plans
- D. Drafting a formal business plan document

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<sup>1</sup> This chapter draws heavily from *Using Microfin 4: A Handbook for Operational Planning and Financial Modeling*, Technical Tools Series No. 2, by Shirley A. Lunde, Tony Sheldon and Chuck Waterfield, published by CGAP in December 2006.

The next section is devoted to a detailed discussion of a strategic planning framework, as outlined in the Microfin Handbook, that we felt useful to include in these Guidelines. However, we only touch briefly on the topics of operational planning and financial modeling, as these are highly technical subjects best handled by more advanced guidelines such as those outlined by the Microfin Handbook, which can be downloaded from [www.microfin.com](http://www.microfin.com).

## A. Developing a Detailed Strategic Plan

Strategic planning requires an MFI to establish where it wants to go by assessing its current situation and developing an overall plan for the future, based on an analysis of the market, environment and the institution's capacity. Key activities involved in developing a strategic plan include:

- Articulating the institution's vision, mission and goals
- Defining markets and clients
- Conducting an environmental analysis
- Performing an institutional assessment
- Choosing an appropriate strategy (based on the above analyses)
- Defining the objectives and activities (with respect to products and services, institutional capacity, and financing and financial management)

### 1) ARTICULATING AN INSTITUTION'S MISSION AND GOALS

An institution's mission defines its guiding principles and organizational purpose. Grameen Bank's mission, for example, is to lift people out of poverty through microfinance and related services delivered in a financially sustainable way. Other MFIs may have a mission focused only on providing microfinance services to the unbanked in a sustainable way. These two missions may look similar but they are in fact fundamentally different. That would be reflected in the way the two institutions do business. For instance, Grameen uses a targeting tool to ensure that it caters its services to the poor when they join the program, while the other institution wouldn't see the need for such a tool since its mission does not require it to target only the poor. It is therefore very important that an MFI have a clearly articulated mission, as this will influence how it does business, the market it serves, the environment in which it operates and a host of other things.

In practical terms, however, a microfinance institution's mission is not likely to change from one strategic plan to another—and may in fact remain the same throughout the institution's lifetime. Grameen's mission, for example, has not changed since its founding.

The goals are measurable results that will be pursued by the MFI to achieve its mission, as stated in objective and quantifiable terms. Some of the key goals for Grameen Bank include ensuring that as many clients as possible move out of poverty within five years of joining the program, as well as ensuring that its branches achieve financial sustainability within a year following their establishment.

### 2) DEFINING MARKETS AND CLIENTS

Clients and the broader market drive the demand for an MFI's products and services, and therefore must be clearly understood and defined. Understanding the needs of its clients helps an MFI develop the necessary capacities—types of products and services, staffing, delivery systems, etc.—to better serve them and improve its performance in terms of outreach, efficiency and profitability.

For poverty-focused microfinance programs, the market consists of existing and potential clients who live below the poverty line (or close to it). Most Grameen-style MFIs cater their services almost exclusively to women, further delineating their market.

It is often useful to segment the market by community type (rural vs. urban), and type of business activity (e.g., vendors, artisans, farmers, fishermen). Segmenting the market makes it easier to conduct a market analysis, and to estimate market size (number of micro-entrepreneurs who operate in each segment), the projected demand for financial services, market penetration potential (the portion of the market an MFI can capture) and market trends (increase in the number of potential clients, demand for their products, etc.). This information provides a good base for estimating demand for an MFI's various products and services (as reflected in the assumptions that an MFI makes in the number of clients each loan officer can reach and average loan size, for example).

It is also useful to have a good understanding of client characteristics, in terms of their economic traits (such as number of children and dependents, the nature of their enterprises, past work experience, income and asset holdings) and personal traits (such as literacy, reputation in the community, gender, etc.). A good understanding of an MFI's current and potential clients helps it tailor its products and services to better meet client needs. For most Grameen-style programs, this information is captured in the benchmark data collected from all clients when they join the program. For the broader market (i.e., potential clients not currently served by the MFI), a market survey may be undertaken. However, this may not be necessary to develop a strategic plan and it is also often prohibitively expensive to do. As we will see later, Grameen Bank relies on its local-level staff to possess knowledge of their clients and the local market. It is on this basis that they formulate their annual and long-term projections while developing their business plans.

### **3) CONDUCTING AN ENVIRONMENTAL ANALYSIS**

The environments in which MFIs operate often change, some quickly while others only gradually. These changes often create opportunities or challenges for an institution. The strategic planning exercise presents an excellent opportunity to identify those changes that can have an important impact on the organization and in turn to attempt to exploit them (if they are opportunities) or mitigate them (if they are threats or challenges). Some of the most important factors to pay attention to in the environmental analysis include the following:

#### **a) Competition**

Competition, or the lack of it, is one of the most important factors that can influence an MFI's potential for growth and scale, the interest rates it can charge (or pay, in the case of savings), and the types of products and services it can offer. It is therefore important for an MFI to know and understand the current and future competitors for its products and services. Those may include other MFIs, money lenders, credit cooperatives and commercial banks that provide microfinance services. It is also useful, for instance, for an MFI to know the nature (e.g., types, size, pricing, terms) of the products and services those competitors provide, the profile of their typical clients and how these might affect its own operations during the period covered by the plan.

#### **b) Collaborators**

These refer to organizations with which an MFI may need to collaborate, including banks, local government agencies, educational institutions, national microfinance networks, international support organizations and others. They can provide resources (loan funds, staff, training, technical assistance, etc.) needed during the planning period. It is useful for an MFI to identify who the key potential collaborators are, what benefits it can expect, and how it might want to collaborate with them.

### c) Regulatory policies

Some regulatory policies that could have an important influence on an MFI's operations include interest rate caps, limits on an MFI's ability to mobilize savings, taxation, registration and licensing requirements. Their impact must be considered in planning.

### d) Other external elements

Trends and developments in the general economy, inflation, foreign currency exchange rates, incidence of poverty and infrastructure could have an important impact on an MFI.

## 4) PERFORMING AN INSTITUTIONAL ASSESSMENT

An institutional assessment analyzes an MFI's internal capacity to carry out the activities needed to achieve its mission. This is best done after assessing the market and the environment as described above. The key areas of operation that need to be examined, and questions that need to be asked, include:

### Credit and savings program

- Is the MFI providing adequate training for its loan officers upon joining the program as well as for officers upon promotion (e.g., to Branch Manager, Area Manager, Zonal Manager)? If not, how best should this be addressed (e.g., type of training required, who will provide the training, etc.)?
- Is the methodology for delivering products and services appropriate and consistent with the MFI's mission? For true Grameen-style programs, targeting the poor is a necessary part of the methodology. It is not uncommon for loan officers in Grameen-style programs to take shortcuts or skip altogether the use of the targeting tool when faced with the pressure to meet outreach targets set in the annual plan.
- Does the MFI have a way of tracking clients' progress out of poverty? Ideally, a Grameen-style program should incorporate a tool to accomplish this. While this can be expensive, there are cost-effective ways of doing this (see, for example, Grameen Foundation's Progress out of Poverty Index™, discussed in Section 4).
- Are the MFI's products appropriate for the clients it intends to serve? For Grameen-style programs that have operated for many years, clients who are in their tenth or later loan cycle often need a product (e.g., "micro-enterprise loans") that is very different from the traditional loans offered to those in earlier cycles.
- Are an MFI's repayment rates, portfolio-at-risk and client-retention rates at par with best-practice microfinance programs? If not, what measures are required to bring them up to standard?
- Is an MFI profitable or on track to becoming profitable?
- Is an MFI's recent growth satisfactory?
- Are clear credit policies and procedures in place? Is the operations manual adequate?
- Does the MFI closely monitor key performance indicators (e.g., caseload, loan portfolio size, PAR, profitability, etc.) for its branches? Loan officers?

### Human resources

- Does the MFI have an organizational chart and clear job descriptions for all positions?
- Are credit operations and finance manager positions filled by qualified staff? Do they need training to upgrade their skills and develop professionally?
- Is the capacity of the finance-and-accounting and MIS teams adequate for the planning period?
- Is the staff turnover rate comparable to best industry practices? If staff turnover rate is unreasonably high, what could be done to retain well-performing staff?

- Does the MFI have an effective incentive system that holds staff accountable for poor performance and rewards them for good performance?
- Is the compensation system competitive, to keep high-quality staff and minimize turnover?
- Does the institution have an effective performance-evaluation system that rewards staff adequately through salary increases and promotion for good performance?

#### **Administration**

- Does the MFI's management information system produce accurate, timely and comprehensive reports for accounting and loan tracking? Does it generate reliable and timely information for assessing its financial position and trends in key performance indicators? If it is not automated, what are the potential costs and benefits for doing so?
- Is the chart of accounts appropriate to the institution's needs?
- Are appropriate reports provided to different users at different levels (board, management, staff)?
- Is the Internal Control and Audit system effective to minimize corruption and fraud? Does the MFI have an effective Internal Control and Audit manual of operations?
- Is a formal audit performed by a reputable accounting firm each fiscal year?

#### **Financing**

- Is the MFI able to mobilize adequate funding for both its current and planned operations?
- Is the mix of funding sources (grants, subsidized loans, commercial, savings, retained income) appropriate?

#### **Financial management**

- Do financial statements present an accurate picture of the institution's fiscal health?
- Are budgets and cash-flow projections prepared and reviewed regularly?
- Does the MFI conduct periodic analysis comparing projected vs. actual performance?
- Does the MFI have a treasury management unit to ensure that funds are managed efficiently?
- Is the institution moving satisfactorily toward full financial sustainability/profitability?

#### **Board of Directors**

- Is the Board actively engaged in providing policy guidance and leadership? Does it have the capacity to provide sound policy advice?
- Does it hold the institution accountable for prudent use of resources through regular monitoring of operating performance?
- Does it provide ongoing guidance and advice to the executive director?
- Does the Board (or at least some members) have expertise in key areas important to a microfinance operation, such as banking and finance, accounting, management, law or social development?
- Does the Board (or at least some members) have the capacity to help the institution mobilize funds (grants, concessional loans, commercial loans)?
- Does the Board participate in developing the institution's business plans?

### **5) CHOOSING AN APPROPRIATE STRATEGY (BASED ON THE ABOVE ANALYSES)**

With the completion of the four previous steps (articulating your institution's mission and goals, defining your market and clients, forecasting the likely trends in the environment, and assessing your institution's capacity-building needs), an MFI is now in a position to outline an appropriate strategy. Such a strategy should focus on the following key areas:

- What products to offer and in which markets
- Key areas of institutional capacity to strengthen
- Clear objectives and activities to follow to achieve the MFI's goals for product development, market development and institutional development

The Microfin Handbook has provided a useful framework for thinking through the strategic direction that an MFI can take in terms of products and markets (Table 9.1).

Table 9.1 Product-Market Options<sup>2</sup>

	CURRENT MARKET	NEW MARKET
Current Product	Market Penetration	Market Diversification
New Product	Product Development	Product Development and Market Diversification

- Market Penetration Strategy.* This strategy would expand existing products in existing markets. This would be an appropriate strategy if current products are commensurate with projected client needs and current markets offer the potential for significant expansion.
- Product Development Strategy.* This strategy would enhance current products or develop new products for expansion in existing markets. This would be an appropriate strategy if the current markets offer the potential for significant expansion but existing products cannot meet projected client needs.
- Market Diversification Strategy.* This strategy would involve entering new markets with current products. This would be an appropriate strategy if existing products can meet projected client demand but current markets do not offer sufficient growth potential.
- Product Development and Market Diversification Strategy.* This strategy would involve entering new markets with new products. This would be an appropriate strategy if existing products are insufficient to meet projected client needs and current markets are insufficient to achieve the scale or profitability being planned for.

### Addressing institutional weaknesses

Most early-stage MFIs are likely to contend with many institutional weaknesses that are difficult to address at the same time. The strategy should prioritize those weaknesses that would have the most impact on strengthening the institution and show positive results in the most strategic performance indicators (e.g., profitability or reduction in PAR or client dropout rates, if these have reached undesirable levels). In some cases, the priorities would be obvious. Even so, they often require careful thought, the weighing of costs vs. benefits, and short-term vs. long-term needs. For example, if PAR has been persistently high for several years and is trending upward, this would obviously need to be the highest priority, since it poses an immediate threat to the survival of the institution. In such a case, institutional weaknesses directly related to high PAR (e.g., inadequate training of newly recruited loan officers, poor internal control and audit system, poor monitoring system) should be addressed and prioritized.

<sup>2</sup> Reprinted from page 493 of *Using Microfin 4: A Handbook for Operational Planning and Financial Modeling*, Technical Tools Series No. 2; Shirley Lunde, Tony Sheldon, and Chuck Waterfield, published by CGAP in December 2006.

## **6) DEFINING OBJECTIVES AND ACTIVITIES**

The final piece of the strategy consists of defining clear objectives and concrete activities to achieve these objectives, all with respect to products and services, and institutional capacity—including financing and financial management. If the strategy calls for staying in current markets but requires the development of new products, an MFI will need to indicate what activities must be undertaken to implement this part of the strategy. If the strategy has identified the need to provide more effective training for loan officers, develop a better internal control and audit system, and/or to diversify the sources of funding, an MFI will need to identify concrete activities to satisfy these needs

## **B. Developing an Operational Plan and Financial Model**

The operational plan represents the implementation plan to support a selected strategy. It lays out an institution's action plan to achieve its specific objectives as detailed in its strategy. It provides specifics regarding the exact types of products and services the institution plans to offer, their terms, the markets in which these products/services will be offered, specific activities prioritized to enhance institutional capacity and the various sources of financing that may be tapped.

The operational plan also includes developing a financial model that requires an MFI to make specific assumptions that would directly impact its projections. These include, for example, the number of loan officers, their caseload (number of clients serviced by each loan officer), the number and type of loans and savings products to be offered, the average loan size for each product type, default rates, etc. For any projections to be meaningful, these assumptions must be realistic. The financial model could be a simple Excel-based model or could make use of more sophisticated software—such as Microfin. Microfin increasingly has been recognized as one of the best financial modeling tools for microfinance institutions. Whether the financial model is simple or sophisticated, the important thing is that it should be able to generate realistic projections grounded in realistic assumptions.

## **C. Refining the Strategic and Operational Plans**

The strategy that an MFI has selected and the operational plan it has adopted may need further refinement to ensure compatibility. The strategy may require an operational plan that would require an institution to adopt changes that are neither feasible nor practical within the plan's time frame. For instance, the outreach or profit goals envisioned in a strategy, or an expansion plan to reach new markets, may be unrealistic. In such a case, an MFI may need to make some adjustments in its strategy so that it is operationally implementable.

## **D. Drafting a Formal Business Plan Document**

A formal business plan document is the end-product of the strategic planning exercise. This becomes the official road map for an institution during the three- or five-year plan period. While its main purpose is to guide the institution in how it operates during the planning period, such a document is invaluable for gaining the confidence of donors, banks and partner organizations, whose support the institution may need. Multi-year business plans should be periodically updated and revised as conditions change, and unexpected developments emerge. Mid-course adjustments are required to make the plan relevant, achievable and realistic. For example, at the end of the first year, it may show

that the outreach, profitability and market diversification goals have been set unrealistically high because of unexpected levels of competition or new government regulations that impede the opening of new branches, areas or zones.

### III. BUSINESS PLANNING AT GRAMEEN BANK

Grameen Bank periodically formulates a five-year strategic plan and an annual plan that follows the calendar year. The five-year plan is updated at the end of each year with the development of a new annual plan. Grameen's annual planning process is simple, highly structured and driven from the bottom up. It is grounded in the principle that local staff is closest to the clients and the local market, and knows best. This means that the Bank practices decentralized decision-making with regards to any plan targets, which in turned are based on the decentralized analysis of the clients, market and general environment. The Branch Plan, for example, results from the local knowledge, held by the loan officers and branch manager, of clients and potential clients in the immediate and surrounding communities served by a branch. They know the local market (clients, potential clients, competition, local economy and environment) better than anyone else in the entire Grameen organization. For that reason, they are in a better position to make projections for their Branch Plan. Similarly, the Area Manager knows best the local markets served by the branches under his or her purview, and the Zonal Manager knows best the local markets, economy and environment served by the Areas under his or her Zone.

The most important driver of the plan is the projected number of borrowers, both old and new. This drives most everything else in the business plan (loans disbursed, loans outstanding, repayments, savings, etc.). Figure 9.1 illustrates how this works.

At the start of the planning process during the last quarter of the year, typically around October, the Planning Section of the Central Account Department at the Head Office circulates a standard planning form (see Table 9.2) to all the Zonal Offices for onward distribution to their respective Areas and Branches. This form contains key planning targets (outreach, loan portfolio, savings, income, profits, etc.) that each Branch, Area and Zone are required to estimate for the plan period. Clear guidelines for calculating the plan targets are provided. Whenever necessary, the Zonal and/or Area Offices convene meetings to explain the planning process, forms and guidelines.



Figure 9.1 The Number of Borrowers Is the Primary Driver of Grameen Bank's Projections

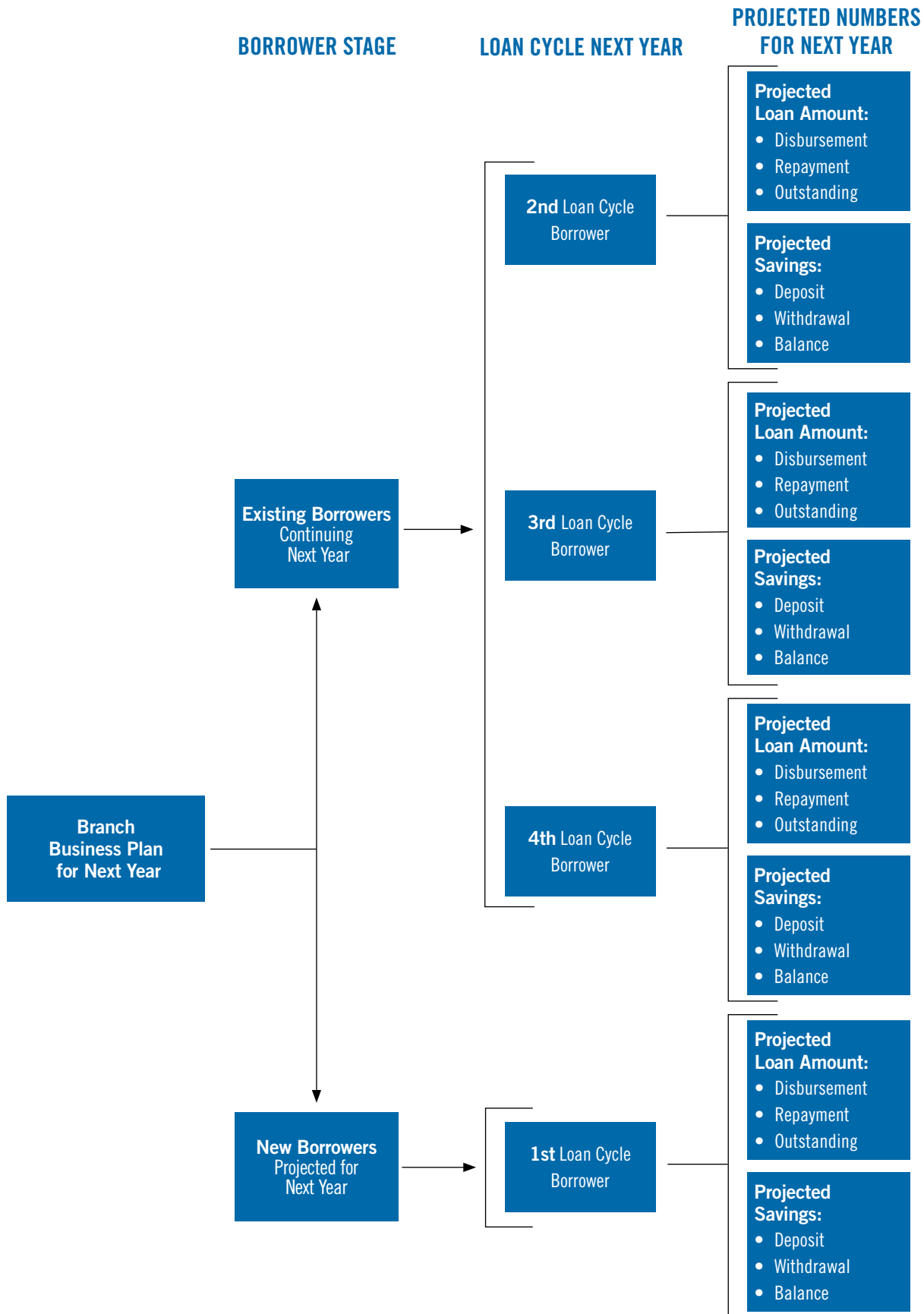


Table 9.2 Standard Annual Planning Template Used by Grameen Bank

Plan year: _____		Date submitted: _____		
Description		Actual figures on last yearly closing (Year: _____)	This year's plan/revised plan (Year: _____)	Plan for next year (Year: _____)
1	<b>Total loan disbursement</b>			
	a. General loans			
	b. Housing loans			
	c. Other loans & advances			
	Total			
2	<b>Loan repayment</b>			
	a. General loans			
	b. Housing loans			
	c. Other loans & advances			
	Total			
3	<b>Outstanding loans</b>			
	a. General loans			
	b. Housing loans			
	c. Others loan & advances			
	Total			
4	<b>Savings deposits</b>			
	a. Personal deposits			
	b. Short-term deposits			
	c. Long-term fixed deposits			
	d. GPS deposits			
Total				
5	<b>Savings withdrawals</b>			
	a. Personal deposits			
	b. Short-term deposits			
	c. Long-term fixed deposits			
	d. GPS deposits			
Total				
6	<b>Savings balance</b>			
	a. Personal deposits			
	b. Short-term deposits			
	c. Long-term fixed deposits			
	d. GPS deposits			
Total				
7	<b>Income</b>			
	a. Interest on general loans			
	b. Interest on housing loans			
	c. Other income			
	Total			

(continued on next page)

Plan year: _____		Date submitted: _____		
Description		Actual figures on last yearly closing (Year: _____)	This year's plan/revised plan (Year: _____)	Plan for next year (Year: _____)
8	<b>Expenditures</b>			
	a. Staff salaries, bonuses, allowances			
	b. Other operational expenses			
	c. Interest paid on savings deposits			
	d. Interest paid to GB general accounts			
	e. Depreciation			
	Total			
9	<b>Net loss / profit (7-8)</b>			
10	Capital expenditures			
	a. land			
	b. building			
	c. vehicles			
	d. furniture			
	e. electrical equipment			
	f. office equipment			
	g. others			
Total				
11	<b>New staff requirements</b>			
	a. male			
	b. female			
12	<b>Number of members</b>			
13	<b>Group formation</b>			
14	<b>Center formation</b>			
15	<b>Plant distribution</b>			
16	<b>Seed packet distribution</b>			
17	<b>Jackets (passbook)</b>			
18	<b>Water-purifying tablets</b>			
19	<b>Tube-well distribution</b>			
20	<b>No. of dowry-less marriages</b>			
21	<b>Center schools</b>			
22	<b>Center school students</b>			
23	<b>Book distribution</b>			
24	<b>Female workshops</b>			
25	<b>Male workshops</b>			
26	<b>Exchange visits</b>			

### **At the Branch level, the following process occurs:**

- a) The Branch Manager asks all loan officers in the branch to formulate and submit individual plans that estimate the number of new borrowers expected to be added to each loan officer's caseload. This single piece of information will generate all the other information related to those new borrowers (e.g., loan disbursements, repayments, outstanding loans, savings deposits, etc.; see Table 9.3). The BM reviews these estimates with the loan officers, works out final adjustments where appropriate and finalizes the numbers. These numbers will then be consolidated for all the loan officers in the branch for use in arriving at totals for all new borrowers.
- b) The Branch Manager next estimates the corresponding numbers for all existing borrowers (with allowance for dropouts), classified by loan cycle (since each cycle has a different average loan size) and based on the numbers at the close of last year as well as trends during the current year. These are then consolidated to obtain the totals for all existing borrowers.
- c) The final piece is the Branch Manager's plan, based on his or her knowledge of the local market and general environment, and completed in consultation with the loan officers and supervising Area Manager regarding the deployment of new loan officers to be added to the branch (if it is still under full capacity). This will generate the total numbers (number of borrowers, loan disbursements, repayments, savings deposits, etc.) that will result from the deployment of new loan officers.
- d) The sum of (a + b + c) above represents the consolidated totals for the Branch for each of the plan targets or indicators.
- e) The final projections from each branch are submitted to the Area Office under which it operates.

### **At the Area level, the plan targets are derived as follows:**

- a) The projections from all of the branches under an Area are reviewed by the Area Manager for consistency and completeness, and may be referred back to the Branch Manager for any corrections or adjustments as appropriate. The numbers (e.g., outreach, loan disbursements, repayments, outstanding, savings deposits, etc.) are then consolidated to obtain the total numbers for all of the existing branches of the Area.
- b) The Area Manager then adds his or her estimate of the number of new branches that he or she plans to add (if the area has not yet reached full capacity), based on his or her knowledge of the local market and environment in the command area, and in consultation with the Zonal Manager. This will generate the total numbers (number of borrowers, loan disbursements, repayments, savings deposits, etc.) that will result from adding these new branches to the Area.
- c) The sum of (a + b) above represents the consolidated totals for each of the plan targets for the Area.
- d) The Area Manager then submits the Area-level projections to the Zonal Office under which it operates.

Table 9.3 Template for a Grameen Bank Loan Officer's Annual Plan

Plan year: _____		Date submitted: _____		
<b>Item</b>		<b>CURRENT Borrowers</b> (as of last month) Number/Amt. (in Taka)	<b>NEW Borrowers</b> (Plan year) Number/Amt. (in Taka)	<b>ALL Borrowers</b> Number/Amt. (in Taka)
1	Number of borrowers			
2	Number of groups			
3	Number of centers			
4	Amount of loans disbursed:			
	1st cycle			
	2nd cycle			
	3rd cycle			
	4th cycle			
	5th cycle			
	6th cycle			
	7th cycle			
5	Amount of loans recovered			
6	Loans outstanding			
7	Savings deposits			
8	Savings withdrawals			
9	Savings balance			
10	Number of housing loans			
11	Number of microenterprise loans			
12	Number of overdue loans			
13	Amount of overdue loans recovered			
14	Number of dropout members			
15	Number of mobile phones distr.			
16	Number of solar panels distr.			
17	New Center houses established			
18	New Center schools established			
19	Number of plants distributed			
20	Qty. of seeds distributed			

### **At the Zonal level, the plan targets are derived as follows:**

- a) The Zonal Manager reviews the projections from all of the Areas under his or her Zone for consistency and completeness, and may refer these back to Area Managers for any corrections or adjustments as appropriate. The numbers (e.g., outreach, loan disbursements, repayments, outstanding, savings deposit, etc.) are then consolidated to get the total numbers for all of the existing Areas of the Zone.
- b) The Zonal Manager then adds his or her estimate of the number of new areas he or she plans to add (if the Zone has not yet reached full capacity), based on his or her knowledge of the local market and environment in the Zonal areas, and in consultation with the Head Office's heads of operations and administration. This will generate the total numbers (number of borrowers, loan disbursements, repayments, savings deposits, etc.) that will result from adding these new Areas to the Zone.
- c) The sum of (a + b) above represents the consolidated totals for the Zone for each of the plan targets or indicators.
- d) The final projections for the Zone are then submitted to the Head Office for further consolidation.

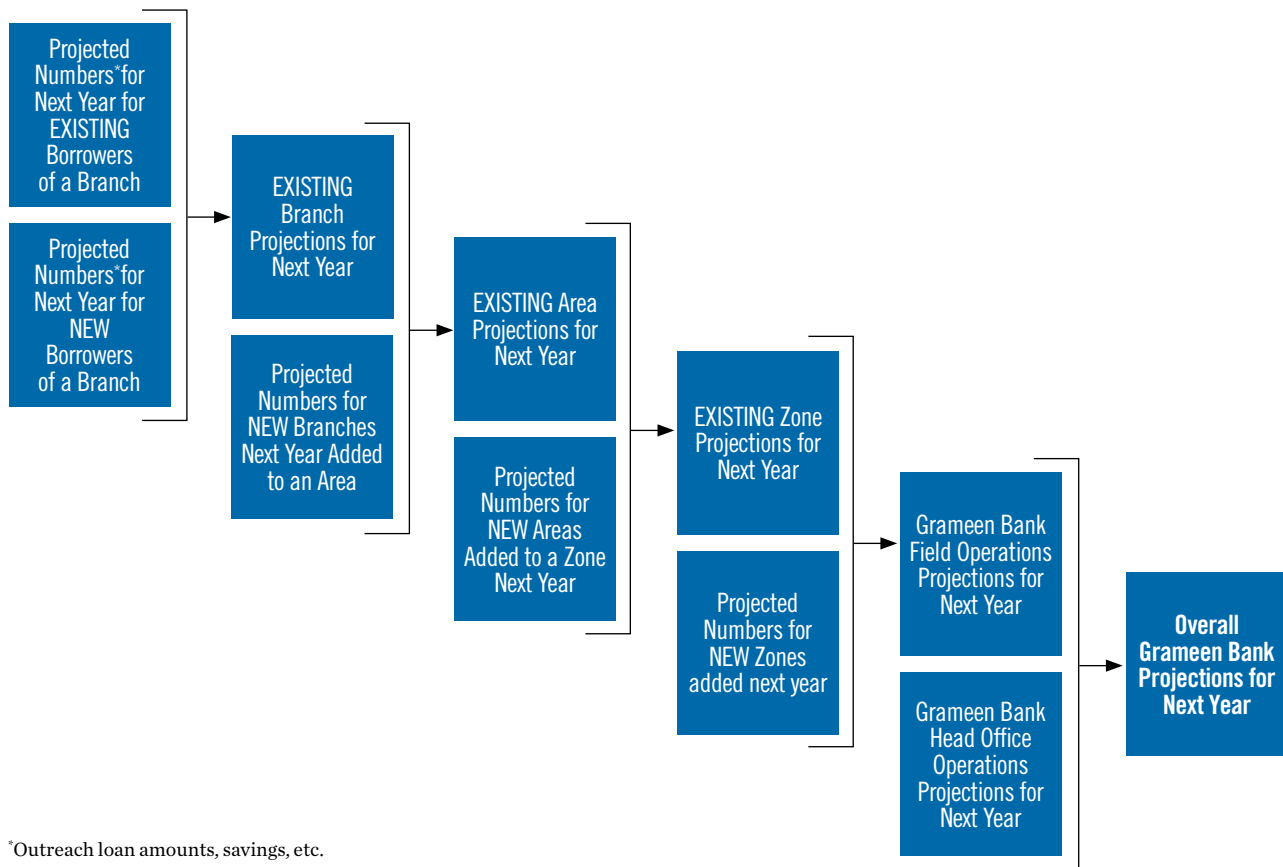
### **Head Office Level:**

- a) The Planning Section (under the Central Accounts Department, headed by a General Manager) at the Head Office reviews the projections from all of the existing Zones, in consultation with the Managing Director or Deputy Director for consistency and completeness, and may refer these back to the Zonal Managers for any corrections or adjustments as appropriate. The numbers (e.g., outreach, loan disbursements, repayments, outstanding, savings deposit, etc.) are then consolidated to obtain the total numbers for all of the existing Zones of the Bank.
- b) The Head Office (Planning Section at Central Accounts Department and the Managing Director/ Deputy Managing Director) then add their projection for the number of new Zones they plan to open, based on their knowledge of the overall market condition and environment for the entire country and in consultation with the Zonal Managers. This will generate the total numbers (number of borrowers, loan disbursements, repayments, savings deposits, etc.) that will result from adding these new Zones in the country.
- c) The sum of (a + b) above represents the consolidated totals for all of Grameen Bank's field operations for each of the plan targets or indicators.
- d) For the overall operations of Grameen Bank, the projections for Headquarter operations (administrative expenses, income, etc.) are added to obtain the overall totals.
- e) The resulting projections for all of Grameen Bank are then presented to the Board for final approval. Upon approval, the projections become the official business-plan projections for the Bank. The entire business-planning process is completed by the end of the last quarter of the calendar year.

- f) The approved business-plan projections are then circulated back to the Zonal Offices, Area Offices and Branch Offices, for implementation and monitoring. Each Zone, Area and Branch receives only the projections that relate to each, respectively (and not the business plan for the entire institution). The official projections serve as the yardstick by which all of the field staff of Grameen Bank, from the Center Managers (or loan officers) to the Branch Managers, and from the Area and Zonal Managers to their respective staff, are judged.

The annual business plan formulation sequence is illustrated in Figure 9.2.

Figure 9.2 Annual Plan Projections Sequence at Grameen Bank



\*Outreach loan amounts, savings, etc.

# SECTION 10



# SECTION 10: STARTING UP A GRAMEEN-STYLE PROGRAM

## I. INTRODUCTION

Starting up a Grameen-style microcredit program is a demanding process that requires a committed and dynamic leadership, a group of hard-working and well-supervised staff with a deep commitment to serving the poor, an assured funding source and, above all, a deep understanding of (and training in) the Grameen methodology. The previous sections have discussed the basic concepts and processes of the Grameen methodology, the products and services the program provides, the human resources required, and the operational and management systems needed to run a Grameen-style program. It is fitting that we conclude this book with a final section that outlines the steps and processes involved in starting up a Grameen-style program. These are not intended to be prescriptive (as adaptations to the local context and the specific circumstances are always required), but to simply provide some general guidance to those seriously interested in establishing a microcredit program. Most of the topics discussed here would have been covered in much greater detail in the earlier sections and the reader is advised to refer back to them as appropriate.

## II. INITIATING THE PROGRAM

### A. Identification of a Dynamic and Committed Leader

The Grameen Bank was founded and managed by Professor Muhammad Yunus, who had a vision and determination to serve the poor. Most replication projects have also begun with the vision of a single leader and sometimes a group of leaders committed to developing and managing a microcredit program. Experience has demonstrated that only the most committed and hard-working leaders will be able to build a successful microcredit program focused on the poor. The critical importance of dynamic and committed leadership cannot be overstated. Programs that begin with the idea of one person, and are then carried out by an “administrator,” have often not proven to be as successful. Before initiating a Grameen-style program, it is recommended that a suitable leader—one who would really drive the program’s development—be identified. Ideally, the leader should then form a core group (a kind of informal project management team) to help initiate the program. Members of this core group could include prospective Board members, program deputy directors, operations managers, etc.

### B. Initial Orientation and Exposure Program

Reading publications about Grameen Bank can be useful in understanding its methodology and philosophy.<sup>1</sup> However, don’t start a replication without proper training or exposure. There are many

<sup>1</sup> Refer to Annex 1.0 for a recommended reading list.

initial hurdles an organization must clear in setting up a Grameen-style program. Those hurdles frequently frustrate both management and staff. In addition, although the Grameen methodology is replicable in most parts of the world, it often requires some adaptation to the socioeconomic, cultural and geographical context of a specific country. Gaining full exposure to the Grameen methodology at Grameen Bank or at a successful Grameen-style program can help management to better prepare for these challenges.

It is recommended that key individuals involved in implementing a Grameen-style program should attend a Grameen International Dialogue Program, held several times throughout the year. The Grameen Dialogue is organized jointly by Grameen Bank and the Grameen Trust in Bangladesh, and is designed to immerse participants in Grameen Bank's field operations, philosophy and methodology, all through orientation sessions and several days of field visits to Grameen branches.

Following the exposure program by the top-level management in the Dialogue program, it is also highly recommended that mid-level managers (program managers and prospective branch managers) participate in a training program at Grameen Bank or a successful replication program in their region. At Grameen Bank, the overall organizational philosophy, working procedures, and first-hand exposure and knowledge are given top priority. The Grameen International Training Institute and Grameen Trust provide a 21-day "Grameen Basics" training program that focuses on providing an in-depth understanding of the philosophy and working procedures of the Bank, primarily at the branch level. Working on the ground at the branch level with Grameen staff and borrowers helps participants not only to learn the basic operations involved, but also to understand some of the challenges and rewards of this type of program. It also provides immeasurable motivation and insight for developing one's own program.

## C. Market Research and Business Planning

Initial market research is essential to helping both the program founder and stakeholders gain perspective on the scope and scale of poverty in the country and the specific region(s) in which they plan to work, as well as on the activities of other development programs and organizations. Before initiating a program, they must have some assurance that there is a real need for the program they are looking to develop. Ideally, they should conduct a market survey in the area that the program plans to cover (this could be a district, province or state). This survey should cover socioeconomic, demographic, financial and industrial data, development activities, cultural practices and any other aspects that might influence the program.

Business planning is a critical step in the development and implementation of a new organization. A three-to-five year business plan is essential in helping management determine the financial and human resources required to meet their programmatic goals. The business plan outlines the program's vision and mission, the market it plans to serve, the products and services to be offered, the proposed organizational structure, marketing and fundraising strategies, and the projected targets or goals of an organization. From the five-year plan, management can extrapolate further annual goals and develop effective systems to monitor progress on a quarterly, semi-annual and annual basis. A regular system of monitoring results can help management make necessary adjustments in its financial and human resources to keep the plan on track in meeting overall programmatic and financial goals. Ideally, the business plan is developed following the completion of a market study that shows that there is demand for the products and services of the microcredit program, and that it is feasible. (Details about the development of a business plan are discussed in *Section 9: Business Planning*.)

## D. Legal Structure and Registration Requirements

Before starting a Grameen-style program, an organization must register with the appropriate regulatory authority under the prevailing laws of the country.

The Central Bank of Bangladesh has regulated Grameen Bank since October 1983, when it became an independent bank. In the particular context of Bangladesh at that time, Professor Yunus found that it was necessary to create a formal commercial bank to carry out his vision of providing financial services to the poor. However, the vast majority of Grameen replications around the world are legally recognized as local non-governmental organizations (NGOs), or are microcredit institutions recognized under existing regulatory structures or special regulations drawn up by various countries in recent years.

Determining the legal structure of a new organization should take into account the particular environment in which the program will operate. Most start-up programs choose to initiate as NGOs since it is a significantly less complicated process and requires far less capital, time and organization. However, since NGOs are not formally regulated entities, only a few are legally permitted to mobilize savings from their own clients/borrowers, let alone the broader public. This can prove to be a major constraint for a microcredit institution that has the goal of reaching large numbers of poor and achieving financial sustainability, as savings are one of the cheapest sources of capital.

Savings also form a critical component of the mission of Grameen-style programs as they seek to help the poor build assets over the long term. Although many of the NGO Grameen replications are unable to mobilize and manage client savings, some still manage to provide a savings service to their members through formal banking facilities. At Center meetings, clients pay their installments, including savings, and field workers deposit these funds in commercial bank accounts in the names of individual group members. Unfortunately, under this arrangement, the program is not usually able to access these savings for any on-lending needs, nor is it able to provide a variety of savings products specifically designed for its clients.

In addition, without formal recognition as a regulated institution, many programs have difficulty accessing commercial and concessional loans from local and/or international lenders, thus leaving donations as the main source of financing. That can limit an organization, as donations are generally unpredictable and limited. Some organizations have contemplated legally forming as credit unions. A credit union is permitted to mobilize savings from the public and is generally overseen by a special regulatory body. However, many organizations have found it difficult to develop a poverty-focused program using the credit union structure, as a fundamental element of credit unions is their self-governance, which tends to move away from poorer clients as they grow.

The leadership of a start-up organization should research the laws and regulations of a country to determine which kind of structure would best serve its purpose. Often institutions begin operating as NGOs and only later transform into regulated entities.

## E. Governance

The Board of Directors should be a supportive force in the early development and subsequent evolution of a microcredit organization. The Board of Directors is primarily charged with providing policy guidance and overall governance, and has the responsibility of monitoring an organization's progress toward its goals and business plan. The Board should be responsible for approving the annual budget and for monitoring the implementation of this budget, ideally on a quarterly basis or, at least, every six months.

The number of directors, selection procedure, office terms and frequency of scheduled meetings can vary. The by-laws should spell them out, along with details about the powers and functions of the Board of Directors. If the program is registered with a legal authority, the Board of Directors should be recognized by that same authority. The Board of Directors should consist of people with a strong interest in poverty reduction/eradication and who are willing to set aside time to attend both regular and special meetings of the Board on a voluntary basis. It is especially helpful to select reputable Board members—those who have particular skills that would be useful for the program, such as financial managers/bankers, lawyers, marketing and communications professionals, local business community members or academics with expertise in economics, sociology, development or related fields. It also is advisable to include Board members knowledgeable about potential sources of financial and human resources, which can help support the program in its formative years.

Initially the Board of Directors should be small: a group of five is a manageable number and one that should enable the Board to easily arrange regular and special meetings. Many start-up organizations choose to meet frequently—once per month—during the first few years, to provide strong support and guidance to management.

## F. Development of Policies and Tools

Before attempting to register a new organization, or to initiate staff training or credit operations, it is essential that management develop a basic operations manual. The list below outlines a comprehensive operations manual that a start-up microcredit program should ideally have ready before it begins operations. However, a simpler version would probably be adequate, as long as it covers all essential operational procedures and could later be expanded as the program grows and offers more diverse products and services. The operations manual should be developed by an expert or consultant who is intimately familiar with Grameen or other solidarity lending-based methodology, all in consultation with program staff. Access to the operations manual of a successful poverty-focused microcredit program is highly useful as a reference in developing one's own manual.

Many organizations prefer to wait a few months or even a year before developing their policies, to have the freedom to experiment with new ideas and adjust as they go along. While there are some benefits to this kind of flexibility, it is strongly recommended that any new organization clearly outline an initial set of policies and procedures, and determine the period for which these policies will be effective (for example, a trial period of a year). Having basic clarity on these key policies from the beginning will provide clear guidance to management and staff in implementing the program and avoid any confusion and frustration. It also will help the organization make its final, more comprehensive policies at a later period.

Table 10.1 Suggested Contents of an Operations Manual

<b>GENERAL</b>	Name of the program Vision of the program Mission statement
<b>GOVERNANCE</b>	Board of Directors election policy Power and functions of Board of Directors
<b>ORGANIZATIONAL STRUCTURE</b>	Outline key positions and departments/units Organogram/organizational chart
<b>FIELD OPERATIONS</b>	Targeting methodology (client eligibility criteria) and tools Group training process Contents of group training Group recognition procedures Duties and responsibilities of leaders and members Loan proposal procedures Loan approval procedures
<b>PRODUCTS AND SERVICES</b>	Types of loan products offered Loan cycles, loan terms, loan sizes, loan ceiling Interest rates and recovery policy Savings mobilization and withdrawal policy Special development program for the client: education, skills development, etc.
<b>MIS AND MONITORING</b>	Management information system (MIS) Forms, formats, statements Reporting and monitoring systems
<b>ACCOUNTING, FINANCIAL MANAGEMENT AND PLANNING</b>	Accounting and book keeping procedures (chart of accounts) Loan-loss provision and write-off policy Default policy Year-end closing policy Code- or identification-number system Income and expenditures policy Profit-and-loss account policy Fund management policy and procedures Business plan and budgeting guidelines
<b>AUDITING</b>	External auditing policy
<b>HUMAN RESOURCES AND ADMINISTRATION</b>	Job descriptions of different positions Employee recruitment and training policy Internal inquiry/investigation procedures Salary structure Staff and borrower incentive policy Transportation policy

## G. Staff Recruitment and Training

Recruitment of the organization's first field workers, and their intensive and effective training, forms a critical part of the successful development of a new organization. While the concepts of the program are fairly simple, we cannot stress enough the importance of rigorous long-term training for field staff and managers. At this stage, the program leader/director should identify prospective branch managers and loan officers to undergo training and initiate the program. If the plan calls for establishing just one branch initially, this would involve recruiting a full complement of branch staff, namely a branch manager and seven loan officers. It is recommended that these posts be advertised in a widely circulated local newspaper to select the most suitable candidates.

Once recruited, the prospective program director and branch staff should then undertake training at a suitable training institution that provides practical training in running a poverty-focused microcredit program. Training should cover not only the operational details relating to methodology but also all data management-related activities (such as loan tracking, accounting, record keeping, reporting and other tasks that staff members perform at branch offices).

Grameen Bank offers training programs that are specifically designed for this purpose. Grameen Trust also has a training program for partner organizations that want to initiate Grameen-style microcredit programs. It organizes International Dialogue programs in collaboration with Grameen Bank three to four times in a year. The Dialogue provides participants with the opportunity to learn the philosophy, methodology and impact of Grameen Bank through lectures, group discussions and field visits. Grameen Trust also organizes management training programs on Grameen Basics, Grameen Generalized System (GGS), Grameen Audit and others. The Negros Women for Tomorrow Foundation (NWTf) and CARD programs in the Philippines also offer training programs for the field staff of start-up and existing programs. In other countries (e.g., India, Pakistan, Nigeria, Bolivia), there are reputable solidarity-based microcredit institutions that are willing to provide customized training on a fee basis. (*Section 5: Human Resources* provides more details on the subject of recruitment and training.)

## H. Funding

The initial business plan of the organization should determine how much financing will be needed for on-lending, capital investments and operational expenses. It is recommended that the founding leadership of the organization secure funding needed to cover at least the first two to three years of operations, and have a strategy for obtaining continued financing before reaching operational and financial sustainability. Having assured funding during the first two to three years enables management to focus on implementing operations properly and on acquiring the skills and self-confidence in doing them right without getting distracted by the uncertainty of where to secure the required funding during the start-up phase. For example, one of the earliest Grameen replication programs in the Philippines, ASHI, almost collapsed in the late '80s after a couple of years of pilot phase because the management needed to spend so much time mobilizing funding while trying to become proficient with implementing a Grameen-style program.

Raising the required start-up and ongoing capital for a new organization can be very challenging. In Asia, where the first Grameen-style programs started in the '80s and '90s, the initial capital of the pioneer replication programs were provided by donors and development agencies like UNDP

and Grameen Trust, or the government in the form of grants. Nowadays, it is becoming increasingly difficult to secure grants to start a microfinance program, but credible social entrepreneurs with a passion and commitment to poverty alleviation and a good business plan may still be able to find sponsors, philanthropists or donors willing to provide start-up funding. The key is to be able to raise sufficient capital to cover the operating deficits of the microfinance program until it achieves operational and financial viability. While the experience of CASHPOR Microcredit in India showed that this can be achieved in about five years, the period it will actually take an MFI to achieve financial viability could take longer or shorter than this, depending on many factors, such as staff deployment patterns, average loan size, the number of clients a branch is able to mobilize and the time it takes to do this, the number of branches a program is able to establish over time, portfolio quality, management capacity, etc.

The type of financing an MFI can mobilize varies as the institution progresses from being a start-up, reaching the stage when it is able to cover operating costs, and finally matures and becomes profitable. Grants and equity are the dominant source of funding during the start-up phase, in the first two to three years or so. As the MFI grows and achieves break-even status, and starts making a profit, financing can come from savings (from clients only, if the MFI is an NGO), from borrowing at below-market rates from commercial banks (with or without guarantees) and from some international development lenders. As an MFI achieves scale, maturity and a track record of profitability, it can then obtain financing at full commercial rates from banks and investors.<sup>2</sup>

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*The importance of ensuring that an organization will be able to provide ongoing services to the areas in which it will work cannot be stressed enough. Microcredit organizations that initiate service only to close after a few loan cycles often end up hurting their communities and families more than helping them. A basic commitment of a Grameen-style program is that new loans will be available to borrowers who have successfully completed their obligations; they can count on this access and plan their continued development on it. It is one of the fundamental commitments that contribute to on-time repayment and peer support in their groups.*

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### III. ESTABLISHING THE FIRST BRANCH

Once the preparatory steps have been taken and basic program infrastructure outlined above has been set up, the next step is to establish the first branch. The following steps are based on Grameen Bank's experiences in establishing a new branch. Replication programs can adopt these to their particular context and circumstances as appropriate.

#### A. Initial Site Selection

The very first step in determining a branch site is to conduct a simple market study to get a clear idea whether a particular area is suitable for a microcredit program. Within Grameen Bank, this initial

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<sup>2</sup> For a full discussion of the subject of financing microfinance, including a case study, see David S. Gibbons and Jennifer W. Meehan, *Financing Microfinance for Poverty Reduction*, Microcredit Summit, June 2002; and Jennifer Meehan, *Tapping Financial Markets for Microfinance*, Grameen Foundation Publication Series, 2004.

market study is often conducted by the Area Manager or their Program Officer (supervisory officer of the branch), or even a neighboring branch manager, by using a standard questionnaire. It can be a good idea to consider dispatching a person under consideration for the position of branch manager to conduct the survey. This way, the person can gain familiarity with the area in which she or he will be working.

All relevant geographical, socioeconomic, political, agricultural and demographic information of the area should be collected and submitted to the Head Office (in the case of a start-up program, to the management team). This information generally includes the following (for replication programs, adjust as appropriate to the local context):

#### **AREA, DEMOGRAPHY, INSTITUTIONS**

- Geographical map of the area
- Total population (by gender and age), total land area, number of villages (communities)
- Number of households below poverty line
- Density of population per square kilometer
- Literacy rate
- Educational institutions, government and community offices
- Social-economic conditions, with breakdown by social class and gender
- Socioeconomic condition of the landless (e.g., educational attainment, occupation, etc.)
- Cultural characteristics (superstitions, beliefs, norms, values)

#### **EMPLOYMENT, INDUSTRY, AGRICULTURE**

- Employment distribution by sector
- Daily wage rates by occupation: agricultural day laborers, handloom/textile industry, cottage industries, construction, transport, rural public works, etc.
- Major types of businesses and trading
- Major industrial products, description of cottage industries, marketing systems
- Prices of various agricultural and other products
- Agricultural products: chief agricultural products, cropping intensity, irrigation systems, share-cropping system, nature of communications and transport
- Marketing facilities for local products

#### **AVAILABILITY OF FINANCIAL SERVICES AND DEVELOPMENT PROGRAMS**

- Providers of financial services (banks, co-ops, NGOs, money lenders, etc.)
- Types, levels and rates of interest in private money lending
- Other development programs and scope of their work

#### **OTHER**

- Major natural disasters during the previous five years (floods, epidemics, etc.)

### **B. Securing Baseline Information**

The researcher should gather the above information for the entire proposed area. In Grameen Bank, this process typically takes one to two weeks to complete. The operational area of a branch stretches out typically in a 20-kilometer radius from the potential location of the branch office. In countries where population density is much lower, this radius obviously must be larger. The important thing to keep in mind is the number of clients/members that you ultimately need for your branch to gain



viability within a reasonable period of time. Grameen Bank aims to establish branches that service approximately 3,000 or more clients per branch. GB management found that in Bangladesh it could usually and easily reach this number of people within a radius of 10 to 20 kilometers. In other areas—for example, rural Latin America—a radius of 30 to 35 kilometers is more reasonable to achieve this kind of scale. Each replication program must perform a careful analysis of the location and density of the poor population in its program areas, to determine the optimum radius and number of clients to be served by each branch.

Some data can be collected from local statistical or government offices. Information on the availability of sources of rural credit should definitely be gathered through interviews with the local population.

In Grameen Bank, the three major means of collecting baseline information include the following:

- a) Visits to existing government agency offices in the area (if necessary, visits to their main offices).
- b) Visits to target-population communities, and resident interviews.
- c) Meetings with local leaders (such as political, government, educational, community, religious and sport leaders) and with others who can provide useful information about a community. Meeting these leaders is also a great opportunity to inform them about the microcredit program.

### **C. Initiating Contact with the Community**

The data collected through the survey process will be very useful in helping management to decide whether a proposed area is feasible for establishing a microcredit program. If the data show that the proposed location is favorable for operations, Grameen Bank formally posts a branch manager in the community.

The branch manager is often posted at this time without any staff. For the first few months, he has no office and no vehicle. Usually he resides in a rented house near a local school, commercial bank or other central area. He is often a stranger in the area and every day walks many kilometers to talk with the local poor, especially women. He introduces himself to local elites, and government and NGO officials. He identifies the areas with large concentrations of poor households by gauging the condition of dwellings and other indicators. He visits every village and holds small meetings with the poor. He holds formal and informal meetings at each corner of the village, publicizing the Grameen methodology.

This process is possible in Bangladesh, where rural communities are very close-knit and densely populated. However, in other parts of the world, Grameen replication programs have adjusted this to fit their context. The most important thing to remember during this stage is that the branch manager should be the first person to make contact with the communities. In doing so, he or she should not travel in an expensive vehicle (traveling by motorcycle or bike in most areas would be appropriate). In general, the branch manager should project the image of someone who cares about the community and is introducing a program designed to help it and its members. The branch manager should make sure to personally visit all of the communities where the program hopes to operate.

The key steps below outline the process that Grameen Bank follows when introducing the program to a new area:

- **Initiate contact with the local elite:** Organize meetings with political leaders, teachers from different educational institutions, religious leaders and local government officials. Their opinion will be helpful in understanding the local community. However, their opinions should not be the deciding factor in deciding whether a program should be set up in a proposed locality.
- **Publicize the proposed microcredit program among the target group:** Organize several small meetings in the proposed area, to educate the target population about the objectives, goals and working procedures of the proposed microcredit program. At least 50 to 60 such meetings should be arranged in and around the locality. During these meetings, invite people to attend a later and larger meeting to be organized shortly thereafter (for more on the “Projection Meeting,” see below). That community meeting formally explains and launches the program.

During these small meetings, the BM will briefly explain the highlights of the Grameen program. These include:

- Objectives of Grameen
- Exploitation by private moneylenders (discuss the interest rates they charge)
- Comparison of GB interest rates with those of commercial banks and other MFIs
- Emphasis on collateral-free loans without need for co-signatories or references from the wealthy
- Loan types and repayment system
- Savings products
- Concepts of “group” and “Center”
- Weekly Center meetings
- No donations, gifts, entertainment or money required to get loan (typical in Bangladesh)
- Invite all to attend the “projection” meeting to be held in near future

### “PROJECTION” MEETING

The Projection Meeting is often considered the official formal inauguration of a new Grameen branch in a locality. The meeting should be held in an open, central location. Senior bank management explains the microcredit program’s objectives and working procedures during this meeting. They also should formally introduce the branch manager and encourage direct communication with him or her.

The date, time and place of the meeting should be well publicized in all villages and markets well before it takes place. Everyone in the community should be invited to attend, to ensure total transparency about the operation of the organization. It is to the program’s advantage that everyone in the community knows about and supports the objectives of the microcredit program for the poorest, so they can potentially help safeguard and promote it.

The decision to set up a branch is made during this meeting. The number of attendees from low-income families, their eagerness and their response all help determine whether there is sufficient interest in the program. If it appears that there is not enough interest from poor households in the area, then the branch should not be started. It is only after a Projection Meeting confirms sufficient interest that any branch activities should get underway.

## D. Setting up the Branch Office and Field Operations

Following the Projection Meeting (assuming the results are favorable), the next step is to set up the first branch. Until a branch office has been formally established, all activities can be conducted temporarily in the place of residence of the future branch's workers.

Setting up a new branch typically involves the following steps:

### a) Selecting a branch office location

A suitable branch office should be located so it is fairly central to the proposed area to be covered. It should have access to transportation and other infrastructures (e.g., banks). After locating a suitable office, furniture and other necessary office equipment and supplies should be purchased.



018. A Grameen Bank branch office

### b) Opening a bank account

The program should open a bank account at a commercial bank. The choice of the bank should be determined by its proximity to the branch and the terms and conditions offered. The bank should be close, so that daily collections (repayments and savings deposits) can easily be deposited shortly after Center meetings. The savings account should be easily accessible and provide competitive interest income. Finally, the bank should be responsive to the requirements of the microcredit program. That means the commercial bank should make it possible for the microcredit program to make timely deposits and withdrawals in sufficient amounts to ensure funds are efficiently managed and borrowers are able to receive their loans on time. To this end, the program management should maintain cordial and friendly relations with the bank.

### c) Deployment of books of accounts, forms and required documents at the branch office

All of the branch office account books (e.g., cashbook, general ledgers, etc.), forms (e.g., collection sheets, membership forms, loan applications, etc.), registers (loan disbursement and repayment, master group registers, etc.), passbooks, etc., as required in the operations manual should be prepared and be ready for use by the staff at this stage. (Details of the branch office accounting and related work are discussed in *Section 6: Introduction to the Grameen Branch-level Accounting System*.)

### d) Selecting initial Center locations and start of group formation

After the successful completion of the Projection Meeting, the location of the first Centers should be determined. Those locations should be relatively distant geographically from the site of the branch office—but not too far. Usually after the initial Projection Meeting, interested prospective clients from different villages offer to set up a Center and areas. Project management should not refuse these requests. Instead they should welcome them and offer to schedule a visit to the villages that express an interest in initiating a Center.

The Branch Manager should select the first three villages or areas where the first three Centers will be set up during the first month. It is recommended that of the seven CMs to have been trained, one be deployed at the branch office to act as the cashier/accountant while the other six work together (ideally in pairs) to establish the first three centers. Special care should be taken in selecting the members among the groups that will make up the first three Centers, as they can serve as a model to other groups formed in subsequent months.

In subsequent months, each CM assumes individual responsibility for the Centers as they take shape. They continue to hold this responsibility until they have established the required number of Centers expected by the program. (Details about the nature of groups and Centers and how they are formed are discussed in *Section 2: Basic Concepts and Processes of the Grameen Methodology*.)

#### **e) Scheduling and holding Center meetings**

After a Center is formed, the members and CM agree on a weekly Center meeting time, day and venue. From thereon, they are required to regularly attend and actively participate in these meetings. The activities (e.g., loan proposals, collection of repayments and savings, etc.) that take place in the weekly Center meetings are discussed in detail in *Section 2*.

#### **f) Loan disbursements**

Usually one to two weeks after the Projection Meeting, the first loan disbursements are made to members of groups who have completed and passed their Continuous Group Training and have since established their own Centers. Senior management (the director and branch manager in the case of a new start-up program) should attend these first loan disbursements as it is an important event in the history of the branch. Loan disbursements generally take place at the branch office where the borrowers sign the necessary documents and receive the loan passbooks. (Loan proposal, approval and disbursement processes are discussed in detail in *Section 2*.)

#### **g) Loan utilization verification**

Within seven days of loan disbursement, the Center Manager, Center Chief and Group Chairperson must verify that loan funds have been invested in an income-generating project as described in the approved loan proposal. This is done by visiting the project financed by the loan. Loan verification is an important part of the Grameen methodology, as it ensures proper use of the loan and serves as an integral part of fostering credit discipline among members. The Branch Manager also performs this function as part of his supervisory duties. (The loan utilization verification process is discussed in detail in *Section 2*.)

### **E. Branch Office Operations**

The branch office serves as the “control room” of the program and acts as a bridge between the head office and clients. This is where information/data about clients, loan portfolios, savings and related branch activities are received and processed. It is also where reports are generated for management information and control, and loan disbursements are made. The main functions at the branch office are performed by the staff, namely the Center Managers, Cashier/Accountant (this function is normally performed by the Second Signatory at Grameen), and Branch Manager. (Details about branch-level record keeping, accounting, monitoring, and internal control and audit are discussed in sections 6, 7 and 8.)

A summary of these functions, by staff category, is provided below (see Annex 5.2 for full job description of the various staff positions in a Grameen-style program).

### **CENTER MANAGERS (LOAN OFFICERS):**

After completing their field duties in the morning (conducting Center meetings, visiting member projects and homes, etc.), Center Managers report back to the branch to perform their daily office duties. These include:

- Counting the money collected during the day and reconciling this with the collection sheet
- Making entries in the daily book
- Handing over the money collected to the cashier
- Making entries in the loan and savings ledgers
- Preparing the next loan disbursements (if any)

### **CASHIER/ACCOUNTANT (SECOND SIGNATORY):**

The branch office daily duties of the cashier/accountant include:

- Disbursing loan releases (in coordination with the BM)
- Collecting cash from CM
- Checking and signing collection sheets
- Making entries in the cashbook
- Depositing/withdrawing money at commercial bank
- Preparing debit/credit vouchers for the day's transactions
- Making entries in the general ledger and subsidiary ledger
- Making entries in the income and expense registers
- Maintaining adequate cash in hand

### **BRANCH MANAGER:**

The daily office duties of the Branch Manager include:

- Forwarding loan proposal endorsements to Area Manager
- Disbursing loans (in coordination with the cashier)
- Managing bank accounts
- Verifying and signing vouchers, collection sheets, related documents
- Checking, verifying and signing entries in control books
- Communicating with higher officials/offices
- Preparing audit compliance

### **WEEKLY, MONTHLY, QUARTERLY, SEMI-ANNUAL AND ANNUAL ACTIVITIES**

In addition to the daily activities of the branch staff described above, staff should also perform recurring tasks on a weekly, monthly, quarterly, semi-annual and annual basis, as related to their specific individual responsibilities. On top of this, the staff must work collectively to generate statements for the entire branch, also on a weekly, monthly, quarterly, semi-annual and annual basis. (For details on branch office management, please refer to *Section 6: Grameen Branch Accounting System*, *Section 7: Monitoring, Reporting and Management Information System*, *Section 8: Internal Control and Internal Audit*, and *Section 9: Business Planning*.)

## F. Structure of a Grameen Bank Branch and Center

Grameen Bank operates a highly standardized and decentralized branch and Center organizational structure, established over three decades of experience. Typically, a mature Grameen branch includes 75 centers, handled by seven full-time Center Managers, a Second Signatory/Assistant Branch Manager and a Branch Manager. Each Center Manager is expected to handle 10 to 12 centers, with each Center comprising an average of eight to 10 groups, with five members per group. Thus, the Center Manager typically manages a minimum of 500 to a maximum of 600 members. For the entire branch with seven CMs, this means a branch would typically have from 3,500 to 4,200 members.

Figure 10.1 shows how the members of a typical Grameen branch are organized into groups and centers, while Figure 10.2 shows the staffing structure of a typical branch:

Figure 10.1 Structure of a Grameen Bank Branch, Center and Group



**75 CENTERS X 10 GROUPS PER CENTER = 3,750 MEMBERS PER BRANCH**



## CENTER MANAGER WORKLOAD

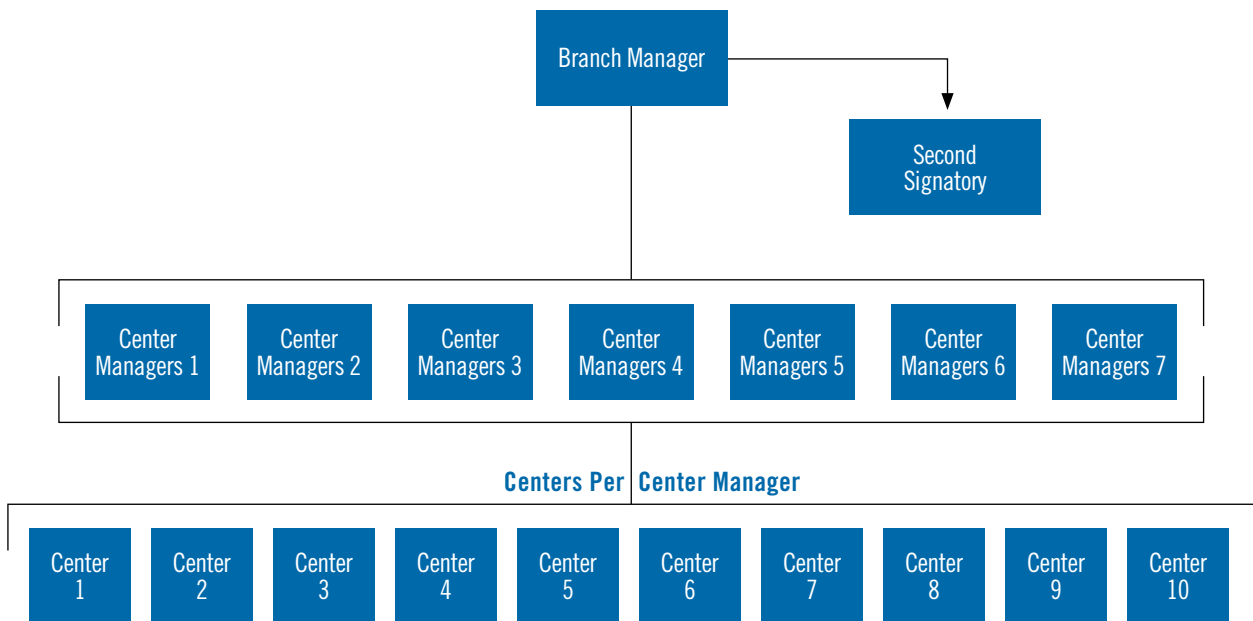
Replication programs vary in their structure depending on the density of population, incidence of poverty and other local factors. Grameen Bank has weekly Center meetings, which means that Center Managers can only manage as many centers as they can fit into a five-day work week. Grameen's management has decided, based on its experience, that two centers per day is the optimum number, as it allows Center Managers sufficient time to visit member homes and businesses regularly, which is part of their daily responsibility. In the initial years of Grameen, the number of members in a Center was much smaller (around 30 to 40); only in recent years have the centers begun to reach up to 50 or even 60 members each as operational efficiency has increased (partly due to MIS automation).

Many replication programs have found that a maximum of six groups (30 members) per Center should be considered so that Center meetings do not last more than one hour. Fundación San Miguel, in the Dominican Republic, has chosen to have a maximum of four to five groups per center, due to the lack of available meeting spaces able to accommodate centers of more than 25 people. However, the organization also chose bi-weekly meetings, which means that each Center Manager is able to attend to 20 centers of 20 to 25 members each (or 400 to 500 members per CM).

The following factors should be considered in determining the optimum number of groups per Center and the number of Centers per branch:

- What is the population density and poverty levels in the proposed area? How many communities are within a 10-kilometer radius? A 20-kilometer radius? What is the estimated demand for the program? The denser the incidence of poverty, the more groups a Center can accommodate.
- Will Center meetings (to collect repayments and savings deposits) be held weekly or bi-weekly? Where the distance between client homes is considerable, one may consider holding bi-weekly meetings at smaller-size centers to enable the Center Manager to have a sufficient caseload.
- In general, in the communities where an MFI will be working, are their suitable areas where 20, 30 or 40 people could conduct a meeting? (Consider all public places, including churches, community centers, homes of borrowers or neighbors, secluded outdoor areas.)
- How many members can Center Managers reasonably handle? As CMs need to make frequent visits to the homes/businesses of their members, management needs to ensure that the number of Centers and members is manageable. Based on the experience of many Grameen-style programs, an experienced CM can reasonably manage 400 to 600 clients, depending on the density of the target population and whether the Center meeting is held weekly or bi-weekly. Newly recruited CMs may start by handling fewer members (say 100) during their first year, gradually increasing this to the optimum caseload by the end of the third year as they gain experience and skill.
- What is the branch's supervision capacity? Be sure to create a supervisory structure of the branch and Head Office/Area Office for all Center Managers. A newly recruited branch manager can manage much fewer centers than can an experienced one. Similarly, a newly recruited Center Manager can handle much fewer numbers of groups/clients per Center than an experienced one.

Figure 10.2 Branch Office Staffing Structure



**Center Manager workload =**  
**10-12 centers of 10 groups of 5 members each = 500 to 600 borrowers**

## IV. ESTABLISHING THE HEAD OFFICE

Generally most Grameen replication programs start their operations with a branch office that also serves as the Head Office. This approach not only minimizes start-up establishment costs but also ensures that the program director is closely involved in program implementation, supervision and management. The office space requirements for the Head Office at this stage are minimal, so a room or two for the program director and an assistant should suffice.

At some point after the first branch is already well established and the program is making preparations for setting up additional new branches, the Head Office will require its own separate space. That space is to house the headquarters staff and infrastructure for the various units/departments that provide support to and oversight of branch offices in the field. Initially, when the program is just beginning to grow and is adding another branch or two, the Head Office staff may include only the program director, who also serves as the operations manager, a manager for finance and administration, and a director for staff recruitment and training.



As the program grows larger, the Head Office must adequately service the requirements of the program. At this stage, the Head Office requires more specialized and separate departments, such as Credit Operations, Finance and Administration, Monitoring and Evaluation, Internal Control/Audit, Human Resources (recruitment, training, performance evaluation, staff policies, etc.), MIS, etc. Many programs often operate a Research Department that examines how to be more responsive to client needs in terms of products and services, methodology, impact and other issues of interest. (An organogram for a mature microfinance program is provided in *Section 5: Human Resources*.) Specific functions of the Head Office in terms of Monitoring and Reporting, MIS, Internal Control and Audit, and Business Planning are described in detail in sections 7, 8 and 9.

## V. DEVELOPING A GROWTH STRATEGY

### A. Growing the Branch

In some countries and regions, the formation of new groups can be a rapid process. It is an exciting moment whenever a new organization starts to form groups and sees demand grow for its program. However, new programs should limit how quickly they grow, based on their supervision and daily operational capacity. The establishment of a strong Grameen-style program starts with the very first groups and Centers. Forming too many groups and Centers too fast often leads to laxity in client selection and inadequate training of prospective members. This in turn can lead to deterioration in credit discipline in groups and Centers and, ultimately, in the quality of the branch (e.g., it can lead to high default rates). The deterioration in quality often does not become apparent in the first few loan cycles but only much later, when the branch is in its third year or later.

The rate at which new groups are formed is determined by the population density of potential clients and the experience of the Center Manager. In the context of most countries in Asia where its member institutions operate (Philippines, Indonesia, Malaysia, Vietnam, India, Nepal), CASHPOR has recommended the following rate of formation of new groups by a newly recruited Center Manager<sup>3</sup>:

- One group per month for the first year (or five members per CM per month)
- 1.5 groups per month for the second year (or seven to eight members per CM per month)
- Two groups per month for the third year and onwards (or 10 members per CM per month)

At this rate, a branch with six CMs deployed from the start would have a total of 360 clients at the end of the first year, 900 at the end of the second year, and 1,620 by the end of the third year. It will take the branch about four years to reach full capacity at 2,400 clients, assuming each CM has a caseload of about 400 clients.

The CASHPOR rate of group formation is probably a conservative estimate. In many excellent Grameen-style programs (e.g., SHARE in India and Al Sol in Mexico), Center Managers have been able to form new groups at a much faster rate (three to four groups per month per CM after a year), and thus grow their branches to full capacity faster while maintaining high quality. Within Grameen Bank, to establish a new branch a CM has to form six groups per month for two years. After two years, a CM only has to form two groups per month. (Ref: Forming a Group, Circular no. 101 (policy)/2007-1957 dated February 23, 2007.)

<sup>3</sup> *Draft Training Manual on Scaling-up Outreach to Branch Viability*, produced by CASHPOR and published by Grameen Trust, Dhaka, Bangladesh (October 1995). This manual is also an excellent reference on modeling branch viability.

The downside of growing slowly is that it will take the branch longer to achieve operational and financial viability, as the total amount of loans outstanding (and therefore interest earnings) will also grow slowly. The bottom line is to grow as fast as the number of well-trained Center Managers allows, and no faster than the population density of potential clients allows, without compromising the quality of those groups formed.

## B. Growing the Program

It is important for the program to have a strategy for growth. A slow-growing program will take a longer time to achieve operational and financial sustainability than a faster growing one. This will affect the program's potential for attracting financial support from donors, investors and commercial sources of funds. Of course, a slow-growing program will also have more limited outreach and impact on poverty than one that grows fast. On the other hand, a slower pace of growth may enable the program to acquire more experience and skill, confidence and time to set up robust systems, policies and procedures (e.g., MIS, training, internal control, etc.). This can prepare a program for rapid growth later.

So how fast should a program grow? Ideally, the rate at which a program grows should be thought through and incorporated in the annual and business plans before the program starts operation.

Among the key factors that determine a program's capacity to grow are:

- Availability of funds to finance operating expenses and on-lending capital
- Availability of field staff and the speed with which they can be trained and deployed
- Population density of the target clientele
- Demand for the products and services the program offers
- Readiness of the systems, policies and procedures for rapid growth

Programs that have been able to mobilize the funds required for rapid expansion may want to consider other growth strategy options for establishing their work. If funding is not a constraint, a program may consider the option of simultaneously opening up three branches in different locations. This has the advantage of pilot testing the methodology under three different conditions in terms of geography (different environments related to economic activity, market potential, competition, etc.) and the managerial skills of the various branch and Center managers. This approach can enhance the chance of successfully launching the program methodology in at least one branch. That could serve as the model for the establishment of further branches later.

Another option is to use the services of international programs run by institutions with a track record of successfully operating a poverty-focused microcredit program. Grameen Trust, for example, has a long history of helping organizations establish Grameen-style programs in many countries (Myanmar, Kosovo, Turkey, Zambia, Costa Rica, Guatemala) through their Build-Operate-Transfer, Build-Operate-Manage and Build-Operate-Own international programs. The huge advantage of this option is that all required expertise and experience, staffing, training capacity, ready-made operating and management systems, policies, procedures and funding are available from the onset. With this option, there is no need to "re-invent the wheel" and the risk of failure is minimized. The disadvantage is that it generally requires a substantial amount of up-front capital that most start-up programs do not have.

## VI. CONCLUSION

This section provides an overview of the process involved in starting a Grameen-style program. The reader should refer back to the first nine sections for details on methodology, products and services, human resource requirements, operational and management systems, and planning. The guidelines provided, however, should not be used as a “cookbook,” because as conditions are different from one country to another, or even from one region to another within the same country. While we tried to provide as much details as possible in these guidelines, one could expect some information gaps—important information that has not been spelled out as one might have wished. As the reader comes across these gaps, our advice is to use common sense and, if possible, visit and consult with the management and staff of successful poverty-focused microfinance programs in your area. Keep in mind that the many social entrepreneurs who now have established successful microfinance programs around the world did not have the benefit of any kind of guidelines, training programs, financing, networking and other opportunities that are now available.

In the course of establishing and operating a microcredit program, challenges are to be expected. These could take the form of a sudden spike in delinquency rate, high client drop-out rate, major staff turnover, a funding shortage, a leadership vacuum or perhaps a political interference, to name just a few. Any of these can cause serious problems and threaten the survival of the institution. But they can also be resolved by getting to the root of the problem, and by prudent management, patience and hard work. Ultimately, the clients win when a program overcomes these challenges and, in time, achieves operational and financial sustainability, affecting the lives of the poor positively. This is what a Grameen-style microcredit program is all about.

# EPILLOGUE

## EPILOGUE

Both the number of microfinance institutions (MFIs) and the clients they serve have experienced rapid growth in the last decade and a half. As of December 2009, the Microcredit Summit reported there were some 3,552 microfinance institutions serving almost 155 million poor clients. That latter figure is more than 10 times the number of clients who had access to microfinance services in 1998. Many more MFIs are expected to be established around the world in coming years, encouraged both by the success of established institutions and the increased international recognition of the microfinance movement following the award of the Nobel Peace Prize to Professor Muhammad Yunus and Grameen Bank. Furthermore, those MFIs already in operation plan to scale up to meet the still large and yet-unrealized demand for microfinance products and services by low-income families. Along with these developments, there is a growing need by both new and established MFIs for new ways to acquire the knowledge and skills required to run and manage their programs effectively. Grameen Bank and its international arm, the Grameen Trust, have responded to this need. They provide opportunities to gain exposure through visits to Grameen's field operations through the Grameen Dialogue Program, as well as through management training programs organized for MFI staff members.

While the Guidelines draw on the individual expertise and experience of the authors and contributors, it would not have been possible to produce it without extensive use of existing documents owned or published by Grameen Bank, Grameen Trust, CASHPOR and others. We have tried to acknowledge the sources of information used in the Guidelines whenever appropriate and are grateful for being able to incorporate them.

We also recognize the limitations of these guidelines. We hope to receive constructive feedback from those who will use them—whether at the field, branch or Head Office level. We hope one day to produce a second edition of this document that will address many of its acknowledged and present limitations.

The Grameen approach is a pioneering and effective methodology for providing financial and related services to the poor, especially women. It has been widely tested by hundreds of MFIs in more than 100 countries around the world, and has been proven to work even under such diverse socio-economic, religious and political environments. It has been tried successfully in capitalist, communist, socialist, Muslim, Christian, Hindu, developed and underdeveloped economic, political and religious contexts. The approach has been copied, modified or improved upon by MFIs that wanted to adapt it to local conditions. Given all that, we still felt that documenting the Grameen methodology in the form of guidelines would help adoptors and adaptors of the Grameen approach gain even more familiarity with, and knowledge of, how and why it works. It is then up to each reader to make the necessary adjustments to suit the approach to the local context. It is our hope that these guidelines will only make that task easier.

# ANNEXES

## Annex 1.0 Recommended Reading List

### Documents on the Background of Grameen Bank

1. *Banker to the Poor: Micro-Lending and the Battle Against World Poverty*, Muhammad Yunus, Public Affairs, USA, 1993.
2. *Grameen Bank At a Glance*, Muhammad Yunus, October 2008.
3. *Give Us Credit: How Muhammad Yunus's Micro-Lending Revolution is Empowering Women from Bangladesh to Chicago*, Alex Counts, Random House, New York, 1996
4. *The Poor Always Pay Back: The Grameen II Story*, Asif Dowla and Dipal Barua, Kumarian Press, Inc., 2006

### Training Documents

1. CASHPOR and Grameen Trust Publications:
  - *Tracking Financial and Operational Performance*, Jennifer Meehan and David S. Gibbons, June 1999.
  - *Draft Training Manual on Creating and Maintaining Credit Discipline*, edited by David S. Gibbons and Wayne Tomlinson, May 1995 (Published by Grameen Trust, Grameen Bank Bhaban, Mirpur 2, Dhaka 1216, Bangladesh)
  - *Repayment Crises and Rehabilitation Strategies*, edited by David Gibbons and Alex Counts, June 1997
  - *Draft Training Manual on Scaling-Up Outreach to Branch Viability*, David Gibbons and Wayne Tomlinson, eds., October 1995 (Published by Grameen Trust, Grameen Bank Bhaban, Mirpur 2, Dhaka 1216, Bangladesh)
  - *Cost-Effective Targeting: Two Tools to Identify the Poor*, David S. Gibbons and Anton Simanowitz with Ben Nkuna, edited by Helen Todd, June 1999.
  - *Draft Training Manual on Internal and External Audits*, Ratan Kumar Nag and David S. Gibbons and the Grameen Trust, February 1998
2. *Using Microfin 4: A Handbook for Operational Planning and Financial Modeling, Technical Tools Series No. 2*, CGAP/World Bank, December 2006
3. *Financial Ratio Analysis of Micro-Finance Institutions*, SEEP Network, 1995 (Published by PACT Publications, 777 United Nations Plaza, New York, NY 10017
4. *Financing Microfinance for Poverty Reduction*, David S. Gibbons and Jennifer W. Meehan, Microcredit Summit, June 2002; and *Tapping Financial Markets for Microfinance*, Jennifer Meehan, Grameen Foundation Publication series, Grameen Foundation, Washington, D.C., 2005.

## Annex 2.1 The Grameen Generalized System

*The following is taken from Professor Yunus' document entitled, "Grameen II: Designed to Open New Possibilities." The complete document may be accessed through the Grameen Bank website: [www.grameen.com](http://www.grameen.com)*

### The Grameen Generalized System (GGS)

Under Grameen Bank II, gone are the general loans, seasonal loans, family loans and more than a dozen other types of loans. Instead, GGS has been built around one prime loan product—the Basic Loan. In addition, there are two other loan products: 1) the housing loan, and 2) the higher education loan. Both run parallel to the basic loan.

All borrowers start with a basic loan (in Bangla it is called the “shohoj” or “easy” loan). Most borrowers continue with this basic loan, cycle after cycle, without any difficulty, and satisfactorily meet all their credit needs. But life does not proceed smoothly for most humans, let alone poor women. Some borrowers will run into serious problems and face difficulties, somewhere in the loan cycle, in repaying the basic loan on schedule. Understanding this reality, in GGS, the basic loan comes with an exit option. It offers an alternative route to any borrower who needs it, without making her feel guilty about failing to fulfill the requirement of the basic loan. This alternative route is provided through the “flexible loan.” In Bangla, it is called the “chukti,” or “contract” or “renegotiated” loan, because the Bank, group and borrower have to go through a process of renegotiation to arrive at a new contract with a fresh repayment schedule whenever a borrower enters into a flexible loan. (Details of the basic loan and the “flexible loan” are discussed in *Section 3: Financial Products of Grameen Bank*.)

### “Custom-made Credit Service”

Grameen Bank II has created a methodology that can provide custom-made credit to poor borrowers. The Grameen Classic System (GCS) is still a powerful methodology that has demonstrated its ability to deliver microcredit in all types of countries, economies and cultures. It has done its job in making microcredit a serious business. GGS starts where the Classic System left off.

GCS is a “single-size-fits-all” kind of methodology. This feature gives GCS the simplicity that was most needed for the implementation of an idea previously totally unknown to the world. Now microcredit has matured. The world is ready to afford a methodology that can provide custom-made microcredit to the poor. GGS allows loans of any duration—three, six, nine or any other number of months or years. In its reduced form it can be as simple as GCS.

GCS was designed to be operated mechanically. GCS limited the scope for the exercise of judgment by the foot-soldiers of microcredit. GGS is different. It allows a staff to be creative. A staff member can design a loan product to make it best fit a client in terms of duration, timing, scheduling installments, etc. The more staff becomes creative, the better “music” they can produce. The institution can identify the levels of creativity among its staff members. GGS allows space for the growth of the staff. A first-level user of GGS can use it almost as GCS by restricting it to one-year loans only. As the user gathers experience, she or he can widen the number of options offered within GGS. Besides duration, size of weekly installments also can be varied. A borrower can pay more each week during peak business



season, and pay less during lean periods. In an extreme case, each installment can be of a different size. At the other extreme, all installments can be exactly equal, as in GCS. Once agreed upon, a repayment schedule is signed by both the lender and the borrower, before the loan is disbursed. The borrower is obliged to follow the schedule during the loan period. If she fails, she is required to take the detour and move to a flexible loan.

### “The Poor Always Pay Back”

The central assumption underlying GGS remains the same as it was behind GCS—the firm belief that poor people always pay back their loans. On some occasions, they may take longer to pay back than originally stipulated, but repay they will. There is no reason for a credit institution dedicated to providing financial services to the poor to grow uptight because a borrower could not pay back the entire amount of a loan on a date fixed at the disbursement of the loan. Many things can go wrong for a poor person during the loan period. After all, the circumstances are beyond the control of the poor people. There is no reason why the sky should fall on anybody’s head because a borrower took longer to pay back a loan. Since she is paying additional interest for the extra time, where is the problem? Microcredit programs should not fall into the logical trap of conventional banking and start looking at their borrowers as some kind of “time-bombs” ticking away and only waiting to create trouble on pre-fixed dates. The poor are not going to create any trouble. It is the designers of institutions and rules who keep creating trouble for them. One can benefit enormously by having trust in them, admiring their struggle and commitment to create a decent life for themselves. It is very easy to appreciate the architecture of GGS if one keeps in mind this central assumption behind the system.

## Annex 2.2 Guidelines for Member Case Studies

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*The case study process is a key part of the training of field staff and it is highly recommended that programs develop guidelines specific to their own context and integrate that assignment in all training programs.*

*This section has been reprinted from the Grameen Bank Training Guide. The rationale for this assignment is to initiate the trainees in the experiences of poverty in its worst manifestation and the kind of work and determination it takes to overcome it. Grameen Bank’s Managing Director, Professor Muhammad Yunus, gave the following instructions to the first batch of 20 training officers in 1981. They have been given to all trainees since.*

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To:  
**Trainees, Grameen Bank**

From:  
**Dr. Muhammad Yunus**  
Managing Director, Grameen Bank

Date:  
May 20, 1981

First report to your Manager and give your identity. You must live in the area in which the GB branch operates. You may ask the Manager for assistance regarding accommodations. If he does not help you, you must arrange your own accommodations. While selecting a poor woman for a life history, ask the Manager and the Center Managers, particularly female Center Managers, for their assistance. Prepare a preliminary list of probable women, along with their socioeconomic characteristics, then go and talk to them. After adequate discussions, prepare a final list of candidates. Get Form I (giving the socioeconomic background) of the women you select from your Manager.

### **Caution**

Be friendly to all. Never look down on anyone for any reason. Always praise the local diversity. Be especially respectful to call, and always treat, the woman you select for your interview as a lady. Be attentive and gentle toward her husband and children. Remember that you have got your job because of them. Moreover, you are taking time away from her that she could have used otherwise to earn some money. So be grateful to all concerned.

### **Select women who:**

- a) Have completed repayment of their first loans.
- b) Fall into one of the following groups of women: unmarried, divorced, deserted by her husband, widow or a housewife.
- c) Have changed their lives with a small amount of money by making a large profit. They used to be beggars and could not afford to buy food for daily subsistence. They used to be unwanted women but now are leaders.
- d) Formed their groups under great hardship and are now known for their leadership qualities.
- e) Earn a livelihood through innovative means: struggling, hardworking women who go to the marketplace and to towns to trade.

### **Guide to interviewing a struggling woman**

#### **a) Birth information:**

Approximate year of birth; number of family members (mother, father, siblings, grandparents); financial position of her father, including landholdings; other household details; incidence of any diseases at an early age.

#### **b) Childhood (to age 10):**

Childhood memories; schooling situation; education experience of brothers and sisters; relationship with her parents; household work and responsibilities; any income-earning work performed; financial position of her parents; prices of essential commodities at that time; description of Eid festivals; any accidents or diseases before marriage; anxiety over her marriage.

- c) **Youth (up to age 16) :**  
Amount of dowry at her wedding; household activities after marriage; her role in the family; any important event which marked her youth.
- d) **Marriage and family life:**  
Details of marriage; relationship with father-in-law, mother-in-law, husband, brothers-in-law, sisters-in-law; relationship with her own parents; length of married life and situation at breach of marriage; economic situation of husband and father-in-law (landholdings, etc.); any litigation; when her husband was separated from the joint family and how.
- e) **Children:**  
Approximate date and details of each child's birth, diseases and food intake; joys and sorrows of rearing children; oppression by husband, father-in-law and mother-in-law; sources of income.
- f) **Number of marriages:**  
Number of times married; circumstances each time; reason for break-up of first marriage; how did she get remarried; who arranged; events following each marriage.
- g) **Relationship with village elders (Murobbi):**  
Description of the relationships; their role during the good and bad days of the woman's life.
- h) **Hard times:**  
Circumstances where became indebted or had to sell land; illness and disease; marriage of daughters and sisters-in-law; situation during 1974 and other famines; situation during 1980 and other floods (particularly 1988); memories of 1971 War of Liberation.
- i) **Relationship with moneylenders:**  
Loans that the woman or her friends and relatives have taken from money lenders; experiences of such transactions; oppression by moneylenders; her opinions about money lending.
- j) **Condition before joining GB:**  
Her socioeconomic and family position before joining; when and how did she hear about GB and what were her reactions; whom did she consult, how long did she wait before joining; what were her concerns before joining; formation of her group; anxiety about group formation; her opinion about the group, Center and GB rules; who received the first loans in her group; when did she receive hers; how much was it for; how did she decide on that amount and what was it for.
- k) **After joining Grameen Bank:**  
Opinions of family and others (e.g., village elders, neighbors) about her joining; opinions after she received the money; on its utilization; daily income and expenditures; daily profit/loss; did she receive any help in her activity and if so, from whom; problems with repayment; relationship with group members and centers; how many Center meetings has she missed and why; how did she repay the loans; feelings after full repayment; what did she use the money in the Group Fund for; how did she take a second loan, in what amount and for what purpose; what happened after full repayment of the second loan; her opinion of GB; what is she doing to sustain GB activities. What opinions did she hear in the village once GB started work there and what changes has she seen? Does anyone dislike GB and if so why?

**D) Other information:**

Description of homestead and children; her occupation; her husband's daily food intake; who purchases the food; types of clothing, furniture, domestic animals (chickens, cows, goats); describe her meals over the last week (meal by meal); what did she buy with the profit she earned over the last year (lungis, sarees, children's clothes, tin for roofing, utensils, quilt, mats, cow, radio, etc.); expenditures on the marriage of her children, their education, repair of her house. What is her perception of family planning?

**Annex 3. 1 Field Visit Reporting Format for Area Manager/ Program Officer**

BRANCH NAME:		DATE:		
1	Accounting-related information: up-to-date or not	Yes	No	Comment
1.1	Do vouchers match cashbook and clean cashbook?			
1.2	Have all approved loans been disbursed properly? Check randomly.			
1.3	Were all itemwise loan balances updated? Do these match the subsidiary ledger balances?			
1.4	Have all disbursed loans been posted in the collection sheet and loan ledger?			
1.5	Do all collected amounts match daily collection register amounts?			
1.6	Does all recoverable interest income match the ledger balance?			
1.7	Do all savings balances match the subsidiary ledger balance?			
1.8	Does the subsidiary ledger sub-item account balance match the general ledger balance?			
1.9	Is the withdrawal register up-to date?			
1.10	Are all loans and various savings ledger postings updated?			
1.11	Do the vault and cash register amounts match the cash-in-hand amount?			
2	Fund management (provide info on visiting day)			
2.1	Is the servicing bank (commercial bank) passbook maintained and are all postings updated?			
2.2	What is the latest balance of STD (short-term deposit)?			
2.3	What is the current/checking account balance?			
2.4	What is the cash-in-hand balance amount?			
2.5	Is the branch's fund received and remittance amount justified?			
3	Field-related information			
3.1	How many Center meetings/special meetings did you visit?			
3.2	How many and what kinds of loan utilization cases did you check?			
3.3	What kind of organizational problems did you observe in the Centers you visited?			
3.4	How many passbooks did you check? Of them, how many were updated?			
3.5	Did you observe any problems in the Centers you visited?			
3.6	How many groups did you recognize?			
3.7	How many groups have not been recognized?			
3.8	How many replacement members did you recognize?			

*(continued on next page)*

BRANCH NAME:		DATE:		
4	Register and books of accounts			
4.1	How many and what types of registers did you check?			
4.2	Which registers were not updated?			
5	Miscellaneous			
5.1	Comments on order and cleanliness of the branch office			
5.2	Is branch's filing system correct?			
5.3	Overall comments on today's branch visit: A B C			
5.4	Have instructions and guidance recommended following previous visits been implemented?			
5.5	What types of instructions and guidance were provided on today's visit? A B C			
_____		_____		
Signature (Visiting Officer)		Date		
Zonal /Area Manager's comment on above information: _____				
_____				
_____				
_____		_____		
Signature (Zonal Manager /Area Manager)		Date		

## Annex 5.1 Grameen Bank Training Questions for Field Staff

### 1. How and why was the Grameen Bank methodology developed?

Bangladesh is a poor, semi-tropical/monsoonal and overpopulated country just 55,813 square miles in size. It has an estimated population of 164 million people, a per-capita income (GDP) of US\$640 and an annual growth rate of more than 6%. Grameen Bank began there as an experimental project in 1976. Before then, there was no other bank or organization to provide loans to the poor without collateral or a mortgage. Banks simply did not trust poor people. They considered the poor eligible for charity, not credit. Professor Muhammad Yunus generated a system to deliver loans to the poor that used social pressure to replace the need for collateral. Yunus's system initially was rejected by the government and commercial bankers in Bangladesh. Eventually, the Central Bank of Bangladesh authorized the commercial banks to lend money for the Grameen Bank project.

### 2. What are the basic features of the Grameen Bank methodology? (Note: see also *Section 2: Basic Concepts and Processes of the Grameen Methodology*)

- Small and collateral-free loans to the poor to be used for self employment.
- The Bank goes to the village to deliver services to the poor; borrowers do not come to the Bank.
- Five individuals form themselves into a group and six to eight such groups form a Center.
- Both groups and Centers must be recognized by the Bank authority.
- Members undergo a seven-day group training process. Only upon successful completion of the training is a group recognized by the Bank authority.
- Borrowers pay back loans with interest in bi-weekly installments within the contract period.
- Loans must be utilized for income-generating activities.
- Borrowers themselves ensure the proper utilization of loan money through mutual support. They also ensure repayment through peer pressure.
- Members attend weekly Center meetings to pay their installments and deposit savings.

### 3. What are the key success factors of Grameen Bank?

- a) Nearly 100% of loans are invested in income-generating activities
- b) Nearly 100% attendance rate at the weekly Center meetings
- c) Small loans and weekly collection system
- d) Internal group peer pressure and peer support
- e) Intensive pre-lending foundation training for the borrower
- f) Decentralized administrative structure
- g) Strong credit discipline
- h) Attractive incentive, reward and retirement plans for staff
- i) Attractive loan products and services designed for members
- j) Borrower ownership of the bank
- k) Honest and strong leadership of top management
- l) Flexible loan term and repayment schedule
- m) Lower interest rates in the market
- n) Multiple savings opportunities for borrowers, with attractive interest rates
- o) Close supervision
- p) Very effective Internal Audit and Control systems

- q) High level of accountability of program managers
- r) Socio-developmental agenda/program for the borrowers
- s) Series of motivational programs for the staff
- t) Intensive staff training courses
- u) Very transparent and corruption-free staff recruitment process
- v) Pilot testing opportunity for any kind of innovative idea or concept from the staff
- w) Poverty-reduction assessment tools
- x) Well represented and transparent Board of Directors

#### 4. What are the values, beliefs and spirit reflected in GB staff's day-to-day operations? What inspires staff to address challenges?

- At all levels, every GB staff member acts as a “teacher, rather than a banker or money lender.”
- We have to be creative. To be creative, we must observe everything carefully and think about what we see.
- Every problem has a simple solution. A problem and its solution are two sides of the same coin; they are always together.
- A problem is only the half-truth. A problem and its solution make up the whole truth.
- If you do not find a solution to a problem, it is because you do not understand the problem.
- If you comprehend the problem properly, you are halfway to a solution.
- A solution is born in the womb of the problem. Test-tube solutions do not last long.
- A solution cannot be found separated from the problem itself.
- You must immerse yourself totally in the problem before you can start touching the surface of the solution.
- As you go deep into the problem you come close to the solution.
- I cannot solve your problem, nor can you solve mine. If it appears that I have solved your problem, it was only because I made your problem mine.
- Look for the solution where the problem is. It is intermeshed with the problem itself.
- Each problem may have many solutions. But there is one that is the best. Keep trying for the best.
- A problem is a state of a particular configuration of events. To avoid it, you have to find another configuration of events.

#### 5. What are the four basic principles of the Grameen Bank Approach (GBA)? Why has GBA chosen these four concepts as its principles?

- 1) Discipline
- 2) Unity
- 3) Hard work
- 4) Courage

- 1) **Discipline:** GB believes that discipline is the central driving force in getting a job done well. Without discipline, no one can successfully perform a task—nor should they expect any results from it. Discipline is essential to every facet of human life. At home, school or work, discipline is essential to success. There is discipline in the universe as well. The sun rises in the east and sets in the west, without exception. Through this process, nature is teaching us discipline. Discipline means doing something by following all established rules and procedures that are universally recognized and practiced. GB's philosophy and goal is to achieve the goal of poverty alleviation, improve the living condition of its members and elevate them to a socially dignified position. It is

impossible to reach those goals in the absence of discipline. That is why GB tries to teach discipline to its members and staff as a means of accomplishing that task.

- 2) **Unity:** GB believes that “Unity is Power.” Any significant accomplishment in the world is done by collective effort. No human being individually can bring about a huge success in society. Without unity, people cannot free themselves from slavery, exploitation, barbarism, deprivation and all other sorts of social injustice. That is especially true with the poor, who live in an isolated and helpless situation, without many friends and relatives. When they fall into a difficult situation and suffer hard times, nobody comes forward to help or rescue them. Rich relatives keep their distance from poor relatives in need. And the poor are illiterate and lack knowledge; only unity can solve this problem through the sharing of knowledge and experience. To this end, GB forms group of five people and centers of 30 to 40 people, so that the poor can join to share knowledge and experience and improve their socioeconomic and cultural standing.
- 3) **Hard work:** The GB approach believes that hard work (diligence) brings prosperity, and laziness brings poverty. If we look back on those people in our society who have become rich and worthy, we see a long history of hard work. Without hard work, no one can be successful. So, if people are satisfied with their present condition and don’t want to lift themselves out of poverty, then they don’t have to work hard. On the other hand, if people want to improve their living conditions, they must work hard. Money/credit alone cannot bring prosperity to a borrower without diligence. That is why hard work is central to the GB philosophy.
- 4) **Courage:** The GB philosophy strongly believes that borrowers, especially poor women, always face barriers throughout their lives. Whether inside or outside the home, women face neglect and cannot exercise basic human rights because of a lack of courage and education. Women often don’t have the courage to protest against the injustice, inequality and suppression they experience. Within that perspective, GB encourages its members to be courageous so that they can establish their rights within the family and society at large. GB also believes that “money is power” and that wielding power also means being courageous. On the other side, poverty is the enemy in life. The poor are constantly engaged in fighting that enemy. If they are not courageous, they will not prevail in this struggle. Within the GB structure, members wield money like a weapon, practice regimental discipline, stay united through association and, as a result, fight poverty with courage.

## 6. What is the GB mission statement?

The GB mission statement is very clear and transparent. The GB mission statement is, “Poverty alleviation through microcredit.” GB has come a long way. It is now widely known that there is no political, religious or business objective to this program; its lone goal is to bring financial freedom and self-sufficiency to its members.

## 7. Why is group training essential for the Grameen Bank Approach?

*(See also Section 2 for more details)*

The five-member GB Group is the core and foundation stone of the GB Approach (GBA). Group formation represents important, ground-level work. Group Training (GT) is the part of that process. United, well-trained and motivated members can build a strong group, Center and branch. A comprehensive group training curriculum, implemented by the Center Manager, helps build those qualities. GT is equally important for both the borrower and the institution.



- a) **GBA** does not require any collateral. It works with illiterate, rural poor men and women with no experience with financial transactions or institutions. That inexperience means they need to learn how to receive, invest and pay back loaned money; how to calculate interest; and how to keep transactional records. They also need to know the mission, vision and objectives of the program. During GT, borrowers get to know each other's behaviors, aptitude, punctuality, financial habits, personal strengths and weaknesses, family status, etc. That is important in fostering solidarity and understanding.
- b) Since GB staff members do not know potential clients before forming a group, GT gives Center Managers (CMs) an opportunity to understand and judge whether members are eligible for the program. GT allows a CM to watch borrowers very closely and carefully; observe their personal strengths and weaknesses; and detect their behavioral patterns, aptitude, punctuality, work habits, etc. That helps the CM decide whether to include the candidate in the program. It is a filtering or screening process. GT also ensures compliance with targeting criteria.

### **8. Why are groups and Centers required in the Grameen Bank Approach?**

The poor lack money and organization. The poor people are isolated and alone in society. They have few friends and close relatives. Fighting poverty is not easy; the poor need money, intelligence, association, courage, discipline, organizational back up, etc. Without them, poverty alleviation is impossible. Given this, the group of five people meets the need of association. Once the poor band together to form a five-person group, they gain the opportunity to share their experiences—good and bad—along with their problems and challenges. They can exchange intelligence and business tips, and explore new ideas and techniques to invest their money and increase profits. That is in the group's common interest: when one member defaults, hard times can befall the entire group. Because of that, the group fosters success and responsibility. Before forming a group, each member was a single person; the group makes the member part of a wider federation—the Center. When a member faces problems, often 30 to 40 people that make up the Center will come forward to rescue or support her.

### **9. Why is the weekly Center meeting important in GBA?**

Attending weekly Center Meetings is an obligatory part of GBA. During group training, members understand and agree to abide by all rules and regulations. During GT, it is clearly explained to all potential clients that anyone who doesn't feel comfortable with the rules should not join the group. So why are Center meetings held? And how do members and the Bank alike benefit?

1. Meetings are held to collect loan installments. Without a Center meeting, the borrower would have to go to the bank to pay loan installments. The borrower would then incur transportation costs and spent significant amounts of time getting it done. Consequently, the Center meeting approach saves time and money.
2. Attending weekly Center meetings is a great opportunity for borrowers. They can share their experiences with their fellow members. They have opportunity to learn from their loan officer/ Center Manager. And because loan officers often discuss matters involving health, development and social issues, Center meetings provide continuous training to borrowers.
3. At Center meetings, loan officers interact with borrowers and learn of their business progress, challenges, developments (both good and bad) and what measures have been taken to solve any problems.

4. Center meetings keep loan officers from going door to door to collect installments, which would be time-consuming, expensive and inefficient. In such a case, a loan officer would be able to manage at most 20 borrowers per day.
5. GBA does not use any mechanism other than the Center meeting to collect installments from the borrower. If and when someone does fail to pay back, only the Center meeting mechanism can enforce credit discipline and maintain the chain of order. The Center meeting applies an indirect social or mental pressure on borrowers to pay their installments in a timely manner. Center meeting also creates peer support, which helps ensure repayment punctuality.

### **10. Why are loans installments collected weekly?**

Basically, the success of GBA depends on its loan delivery and collection system. GB provides small loans and collects payments on those loans on a weekly basis. A convenient loan delivery and recovery structure makes the GB microcredit program successful. If there were no weekly collection system, then borrowers would not pay back the entire loan amount. It has been proven that managing a small number of installments over a short period is easier than managing a larger number of installments over a longer period. Poor people may easily accumulate a small amount of money, such as Tk.100, over a week's time; they cannot however accumulate Tk. 5,000 in a year. Money commonly does not stay in the hand or pocket for long; either you spend it or deposit it in the bank. But the poor cannot do the latter. They don't have frequent access to commercial banks with the tiny amount of money they do hold. GB takes advantage of this opportunity.

If GB did not accept weekly installments but instead did so only on a monthly, semiannual or annual basis, it is safe to assume the repayment rate would be 30% to 40%, if not less. If repayment rates were low, then GB would have to stop loaning out the money it collects. Worse, borrowers would lose the opportunity to borrow further. Within a few years, the program would close. Therefore, it is easier to manage tiny weekly installments paid by small businesses. Tiny businesses produce daily income, but that equally tiny income cannot be accumulated to pay installments on a semiannual or annual basis. That is why the weekly tiny-installment collection system makes the GBA microcredit program successful.

### **11. Why should the borrower attend the Center meeting?**

Borrowers attend Center meetings based on the promise they make upon entering the program. If they do not do so, then they lose the opportunity to pay their weekly installments without spending on additional transportation costs or incurring any additional time or effort. The meetings also enable borrowers to meet fellow members, share experiences, learn valuable lessons and more. All of that ultimately bestows upon them social dignity and a growing sense of self-esteem. Being a member of a big group in a village means becoming a powerful member of society.

### **12. What should be done when borrowers do not pay their weekly installments?**

Clients agree to comply with some basic terms and conditions upon joining the program. These include paying weekly installments regularly and punctually at the Center meeting place attending Center meetings in a timely manner, utilizing/investing their loans in proper income-generating projects and paying interest rates as set by the bank. If someone does not comply with the rules after joining the program, then there is something wrong. There are two major reasons why a borrower would fail to comply with the rules.

- In the case of an accident (due to external factors), the borrower may lose control of the situation. If the accident involved a house fire, theft, flooding, damage to a business, etc., then GB should attempt to help the borrower overcome that hardship by providing an additional supplementary loan or by allowing access to savings. In the case of financial hardship, GB staff offers some flexible options under the GB II system, which allows a borrower to exit from a current loan terms and conditions, and enter into a new agreement. This can include rescheduling a loan, extending its terms, lowering installment amounts, freezing existing loans and offering fresh loans.
- In intentional cases, where a borrower can pay but somehow does not, GB handles the situation differently. GB staff seeks to learn why the borrower is reluctant to pay back a loan. Staff members visit the client's house to talk to the borrower, her husband and other family members. If the staff members learn some reason for the delinquency (misbehavior, poor treatment at the hands of Bank staff or, most typically, clashes with other members), then they attempt to mitigate the issue. In such cases "Motivation" is the only way to get a borrower back on track. Working side by side, GB staff and group/Center members may also take measures, such as the application of group/Center pressure, halting of subsequent loan disbursement, intervening with family members, etc.

### 13. What are the three mandatory rules of GBA?

In the GBA system, there are many rules and regulations enforced at the field level. To maintain strong credit discipline, and for the sake of the greater interests of Center members, all these rules are essential. However, there are three rules that are most crucial, especially in evaluating borrower performance during the membership period. They are:

- a) Punctual attendance at the weekly Center meeting.** Punctual attendance is important because weekly Center meetings form a crucial part of GBA. By attending Center meetings, clients benefit in many ways, such as by gaining an opportunity to:
  - Pay loan installments without incurring any transportation costs
  - Meet other fellow members
  - Share business knowledge and skills
  - Exchange positive experiences and views
  - Expand their knowledge about health, nutrition, etc.
- b) Repayment of weekly installment.** The benefits of the weekly repayment system are as follows:
  - Small amounts are easier to manage than larger amounts
  - Small installments are easier to pay from the daily income
  - The system allows borrowers to accumulate a huge amount of running capital
  - No money is spent, nor is any time or labor wasted, in paying weekly installments
- c) Investment of loan money in proper income-generating projects.** As we know, the central theme of microcredit is not only to break the age-old vicious cycle of "low income ... low savings ... low investment ... poverty, but to break it and form a progressive and expanding system of "low income ... credit ... investment ... more income ... more investment ... more income ... poverty alleviation."

The ultimate goal of GBA is poverty alleviation. Poverty alleviation is possible by generating income and forming assets. To this end, it is critical to invest loan money in proper income-earning projects. That way, loan installments are paid from income, not from capital. If the business runs well and grows, cycle after cycle, a borrower's capital increases accordingly. Eventually, that larger pool of capital can generate more and more income, lifting the borrower out of poverty.

#### 14. What should be done when borrowers do not invest loan money properly?

GBA requires borrowers to invest loan proceeds. The group, Center, and CM all play a role in ensuring that this happens. The measures they can take are either preventive or curative. *Preventive* means that within a week of disbursing a loan, the group Chairperson, Center Chief and Center Manager, either individually or collectively, visit the borrower at home and ask about her loan investment progress. The BM, program officer or area manager also randomly or occasionally visit the borrower at home and check on her loan utilization. If she has invested the loan proceeds, then they certify and sign the loan utilization form. If she has not, then they remind her to do so within a given timeframe. *Curative* means if a borrower fails to invest her loan proceeds within a timeframe, then they apply group and Center pressure on her to do so as soon as possible. If she cannot because of external factors or personal reasons, then she is advised to pay back the loan or deposit the proceeds into her personal bank account. That way, any cash sitting idly in a borrower's hands cannot be misused. During Center meetings, GB staff always educates and motivates borrowers to invest loan proceeds in proper income-generating projects, as stated or recorded in the original loan proposal.

#### 15. What should be done when a Center does not reach the optimum number of members?

A complete Center has formed six to eight (and in some cases more than eight) groups within a year. If it has not done so, GB staff takes steps to make it happen. In such a case, GB staff members motivate and activate existing Center members to do so. An incomplete Center is not eligible for all types of GB products, services and opportunities. GB staff members explain these types of reward-based loan products and also describe how to take advantage of them. GB staff members encourage centers to be completed as quickly as possible. That eventually increases CM productivity and helps bring financial sustainability to the branch and the entire program.

#### 16. What is the importance of the group recognition test?

- To ensure strong group quality
- To ensure uniformity
- To check knowledge of the program's rules and regulations
- To ensure targeting criteria are properly applied and to prevent non-poor/non-qualified women from joining the group

#### 17. What ideal relationship should be built up between borrowers and the Center Manager?

- Teacher-student
- Guider-follower
- Not borrower-money lender
- The CM should prove to be a well-wisher and family friend
- CMs also should prove their honesty, neutrality, punctuality and trustworthiness
- CMs should prove themselves leaders in the poverty-reduction movement

#### 18. What are the poverty-measuring indexes used by Grameen Bank?

Within the GB system, group members must be the landless and assetless poor. Landless means “no member of a household owns more than half an acre of cultivable land.” Assetless means that “the value of one's possessions does not exceed that of one acre of medium-quality land at prevailing local

rates.” These are the basic poverty-measuring indexes stated in the GB by-laws. To enforce the poverty-measuring indexes, GB officials physically verify the following items, which easily show the economic condition of any proposed group member:

- Existing housing condition and its assessed approximate present market value
- Household furniture and its approximate market value
- Jewelry (gold/silver) and its approximate market value
- Approximate amount of capital invested in current business
- Current monthly earnings of family members
- Domestic animals owned by the family member and their approximate market value
- Properties that are mortgaged by or for a member

### **19. What are the essential criteria for group eligibility?**

- A group must consist of five homogeneous people
- Group members should be part of the target population
- Group members should live in the same village/community and be like-minded individuals of similar age, socioeconomic and educational background
- Family members and relatives should not be included in the same group
- Group members should know each other and have mutual trust in one another
- There should not be more than one member from any one household
- The group must have a chairperson and secretary and three other members
- Group members must undergo seven days of group training before they are recognized by the assigned senior-level staff member

### **20. What are the important issues that should be discussed with members before starting group training?**

- Objectives, mission, vision of the program
- Loan vs. charity/endowment
- Merits and demerits of loans
- Group formation criteria
- Mandatory attendance at Center meetings
- Loans disbursement and repayment processes
- Obligation in proper loan utilization
- Responsibilities of group members, chairman and secretary
- Interest rate/savings related issues

### **21. What steps are needed before starting formal Group Training (GT)?**

- Visit potential borrowers at home and assess their eligibility by applying poverty-measuring indices
- Organize a meeting with the husbands or guardians of potential members
- Gather other necessary information from neighbors

### **22. What obstacles may arise during Continuous Group Training?**

- More than five people may be interested in joining a new group
- A self-formed group includes a mix of poor and non-poor, or blood-connected or other close relatives
- A member drops out during training and no one steps forward to fill the empty slot

### **23. What decisions should be considered in the Group Training process?**

- When GT should be started
- Who will conduct GT
- How long GT should continue
- What contents should be included in GT

### **24. What would you propose as a curriculum for a seven-day Group Training?**

*(please see Section 2 for a discussion of this topic)*

### **25. What criteria should be considered when initiating a new group?**

- Perfect understanding/knowledge of program procedures
- Maximum proximity of member houses
- All eligible criteria for group formation should be verified at recognition
- No more than two groups within the same center should be recognized at a time

### **26. How and why can group membership be cancelled?**

- If a member has been absent from the Center meeting for five consecutive weeks
- If a member has not been present for more than five weekly meetings during any 10-week period
- If a member does not deposit weekly savings for six consecutive weeks
- If a member has utilized her loan money for an unauthorized purpose or has not utilized it at all
- If a member incites other members against the program

**Note:** Membership is considered cancelled once all money due from a member has been recovered.

### **27. What does “ensuring quality” mean within the GB system?**

- Peer pressure is utilized within groups to ensure the timely repayment of loans
- Mutual support and respect among group members
- Group solidarity
- 100% loan recovery
- Loan utilization capability of borrowers
- Problem-solving capacity of borrowers

### **28. What are the potential problems with a GB-style microcredit program?**

- The Center is not selected in a proper place
- Group members are not selected carefully
- Group training is not properly conducted
- Negligence in checking loan utilization
- Loan proposals are not made properly
- Loan money is used for consumption purposes
- Loan money is lent to others
- Loan money is stolen
- Misuse of loan funds
- Merchandize purchased from the loan funds damaged or stolen
- A borrower uses loan money to pay for a serious illness in his/her family

- Quarreling among group members
- Absence of peer group pressure and peer Center pressure
- Lack of strong leadership by the Center Manager
- Negligence by program staff
- Weaknesses of Center chief lack of leadership
- Dishonesty of staff
- Corruption or bribe-taking by the Center chief or promoter
- Misunderstanding about building the Center house
- Bestowing undue largesse on any particular member
- Unexpected interference from the spouses of borrowers
- An unprofessionally close relationship between staff and borrowers
- Blood connections among group members
- Outsiders interference with the program
- Loan amount too low or high for loan activities
- Loan amount inconsistent with loan purpose
- Unhealthy competition among borrowers
- Uneven group-fund loan disbursement
- Installments paid on behalf of an absent member
- Mismanagement of joint enterprise loan
- Claims to refunds of personal savings and group-fund savings
- Weekly Center meeting held on government holidays
- Excessive meeting duration
- Loan approval or loan disbursement takes excessively long
- Center does not follow the GB loan-cycle model for loan disbursement
- The rate at which a Center initiates new groups is faster than its capacity to manage its groups
- Unprofessional and rude behavior by staff toward borrowers
- Accounting mistakes made by the Center in recording weekly transactions
- Center Chief and Group Chairs not rotated according to schedule
- Not enough time spent during weekly Center meetings to motivate borrowers
- Disciplinary action not taken in a timely manner
- The use of a particular borrower's house to conduct weekly Center meeting
- Borrower houses are too far from Center location.
- Weekly repayments are accepted outside of Center meetings
- Center chief is irresponsible
- Police or local administration involved in loan recovery
- Excessive control by the Center chief
- Unnecessary delay in recognizing new groups
- Accepting excuses in lieu of repayment
- Not frequently rotating staff among Centers, thereby allowing the possibility of corruption
- Borrowers severely affected by a natural disaster or accident

## **29. What are the symptoms of problems with the microcredit program?**

- Borrowers do not attend Center meetings on time
- The rate of absenteeism increases
- Borrowers begin to pay token (partial) installments rather than full installments required to pay down principal
- Borrowers do not pay weekly loan and interest installments at all
- Borrowers call a strike and refuse to attend Center meetings or pay installments

### 30. What are the processes for resolving potential problems within a GB-type microcredit program?

- Analyze the problems and determine the causes
- Arrange a special meeting with the members of a problematic Center
- Arrange a workshop for the borrowers (one to three days)
- Transfer staff from a problematic Center to other centers
- Special loan disbursement to affected members
- Change the management structure of the Center by re-delegating responsibilities
- Postpone granting new loans for a period of time
- Move the Center house to a new location
- Postpone special loan facilities for a period of time
- Distribute refundable relief materials among affected members
- Show sympathy and help members as much as possible
- Increase personal contact and develop personal relationships
- Dismiss disruptive members, groups and Centers
- Charge a penalty fee for absences in meetings
- Freeze current loans and disburse new loans
- Reorganize group and Center

### 31. What forms and formats are used by the Grameen Bank to keep track of its accounts?

*(See also annex tables in sections 6 and 7 for sample forms)*

Grameen Bank uses many different forms to keep accurate records of its operations and daily activities. Replicators do not need to use the same forms and record-keeping procedures, but it is suggested that information be gathered and tabulated according to generally accepted accounting practices. Below is a list of the basic forms used by GB:

- Group membership application
- Center loan proposal
- Loan proposal and approval
- Loan disbursement
- Loan and interest installment collection
- Meeting attendance information and savings collection
- Debit/credit voucher
- Weekly statement
- Monthly statistical statement
- Monthly income and expenditure statement
- Monthly affairs

### 32. How are the basic ledgers and registers used by the Grameen Bank?

*(See also annex tables to Section 6: The Grameen Branch Accounting System)*

Grameen Bank uses ledgers and registers to maintain its historical records. Replications don't need to maintain all the books of entries that the Grameen system uses, but some historical record-keeping is highly suggested. The following ledgers and registers can be used by replication programs:

- Master Group Register
- Loan Ledger
- Savings Ledger
- Day Book



- Cash Book
- Clean Cash Book
- General Ledger
- Subsidiary Ledger
- Consolidated Loan Disbursement and Recovery Register
- Dead Stock Register
- Salary Register
- Borrower Passbook
- Savings Passbook

### **33. What information is generated by the Grameen Management Information System and how?**

*(See also Section 7: Monitoring, Reporting and MIS for more details)*

- Attendance and absences at Center meetings
- Payment, non-payment information on loan and interest installments
- Loan disbursement, recovery, outstanding loans and savings, loan-analysis information
- Income, expenditures, loss, profit
- Group formation, Center formation, group recognition, group dissolution and replacement
- Fund receipts, withdrawals, deposits, transfers, bank balances, etc.
- Overdue loans and defaults, loan amounts, rate of recovery
- Budget and planning, monitoring reports
- Staff position, staff evaluation report

### **34. What kinds of documents must be kept for historical records?**

- Regulatory documents
- Administrative documents
- Account-related documents
- Audit and inspection reports
- Travel, meeting and conference documents
- Training documents
- Statements
- Operating documents
- Evaluation and monitoring records
- Budget and business plans
- Special development documents

## Annex 5.2 Recommended Job Descriptions and Qualification Requirements for Key Staff Positions in a Grameen-style Program

### A. CHIEF EXECUTIVE OFFICER

#### General

The CEO is responsible for working closely with the partner organization and potential Board of Directors in establishing a poverty-focused, Grameen-style microcredit program. She or he will be responsible for staff recruitment and supervision; providing training assistance to the field staff on the Grameen Bank microcredit methodology; setting up the program office and operating systems; developing program policies, rules and procedures; financial planning and management; planning for program expansion to increase outreach and financial sustainability; mobilizing financial resources from national and international donors, and technical resources for program development and expansion; and ensuring efficient day-to-day operations of the program. In the initial phase of the program, the CEO will be directly involved in identifying the target clientele, motivating potential borrowers to join the program, group training and recognition. The CEO reports to the Board of Directors, and plans and prepares the agenda for Board meetings.

#### Specific duties and responsibilities include:

##### 1. Administrative

- Developing program rules, procedures, policies and operating systems
- Hiring, training, promoting and developing of staff
- Managing the operating-capital and on-lending funds
- Ensuring that account books and financial statement reports are submitted and up-to-date
- Developing yearly expansion plans and targets with respect to outreach, loan disbursements, staffing requirements and financial viability
- Making institutional arrangements regarding the safe placement of client savings

##### 2. Supervisory

- Supervising, monitoring and evaluating program activities, staff performance, loan and savings performance, and budgets
- Monitoring branch budgets and progress against targets
- Conducting regular audits of books of accounts
- Supervising the work of Branch Managers and field staff in group and Center formation, weekly meetings, loan approval and disbursements, loan utilization and effective implementation of poverty targeting methodology

##### 3. Development

- Organizing training to upgrade the knowledge and skills of the Branch Managers, and office and field staff in running a poverty-focused microcredit program
- Organizing appropriate types of workshops and meetings for staff and client development
- Developing core values for staff and clients to motivate them in their work

##### 4. External Environment

- Fostering collaboration with other microcredit programs and NGOs, commercial banks, government agencies and donors to promote the work of the program
- Promoting harmonious relationship with the program communities and society at large, to ensure support for program implementation and expansion

## Qualifications

- Highly motivated, with a strong commitment to working with the poor, especially women
- Knowledge and understanding of microcredit as a strategy for poverty reduction
- Strong organizational, planning, management and leadership skills
- Ideally has at least two years' experience with a poverty-focused microcredit or related program in a developing-country context
- Fluency in local language and working knowledge of English
- Preferably holds graduate degree in finance, management, economics or development
- Computer-literate (word processing, spreadsheet, etc.)

## B. PROGRAM OFFICER

### General

Reporting to the Area Manager (CEO), the Program Officer assists in all responsibilities of the Area Manager, and is authorized to perform all the Bank Manager's duties in the case of her/his absence. In addition, the Program Officer is responsible for oversight of all records and financial accounts of the branch's transactions. The program officer may also act as delegate on the behalf of the Area Manager at various meetings, workshops and seminars, as well as represent the Branch to other organizations.

### Duties and Responsibilities

#### 1. Administrative

- Oversees and reconciles all financial records, including daily transactions
- Reviews all requests for staff travel allowance and per diem, and submits to Area Manager for final approval
- Manages bank account, shares signing privileges with the Area Manager, reconciles branch records with bank account statements
- Prepares financial statements and periodic branch reports

#### 2. Supervisory

- Conducts the Group Certification Test in the absence of, or when delegated by, the Area Manager
- Reviews loan proposals
- Endorses favorable proposals and submits them to the Area Manager with recommendations and remarks

#### 3. Developmental

- Supervises group discipline and activities related to group decisions and community development, visits each group regularly and discusses observations with field staff

#### 4. External Environment

- Represents the Branch in any capacity at the request of the Area Manager

### Qualifications

- Highly motivated, with strong commitment to working with the poor, especially women
- Knowledge and understanding of microcredit as a strategy for poverty reduction
- Strong organizational, planning, management and leadership skills
- Ideally has at least two years' experience with a poverty-focused microcredit or related program in a developing country context
- Fluency in local language and working knowledge of English

- Preferably holds graduate degree in finance, management, economics, or development
- Computer-literate (word processing, spreadsheet, etc.)

## **C. ADMINISTRATIVE OFFICER**

### **General**

The Administrative Officer reports to the Program Officer and is responsible for regular administrative tasks, such as correspondence, making deposits and the procurement of office forms and supplies. In addition, the Administrative Officer is responsible for the entry of financial data into accounts books, and preparation of monthly and bi-annual financial reports (supervised by Program Officer). The Administrative Officer may hold bank account signing privileges at the discretion of the Chief Executive Officer in the absence of the CEO or the Program Officer.

### **Duties and Responsibilities**

- Responsible for incoming and outgoing mail, and keeping copies of all correspondence on file
- Drafts monthly reports expenditure and income statements under supervision of the Program Officer
- Notifies Program Officer/CEO and requests funds to be sent to branch offices when needed
- Enters financial records of all transactions, income and expenditures into accounts books
- Responsible for creating and procuring all administrative forms for the program, and procuring all supplies for the head office
- Drafts bi-annual financial reports for the program under the supervision of the Program Officer
- Aids the Program Officer in monitoring and evaluation activities for the program
- Responsible for preparing payroll, and accounting for staff leave for the central office
- Drafts correspondence on behalf of the Program Officer or CEO

### **Qualifications**

- Highly motivated, with a strong commitment to working for the poor
- Excellent organizational, planning, management and leadership skills
- Bachelor's degree in finance, management, economics or development
- Computer-literate (word processing, spreadsheet, etc.)

## **D. Accounts Officer at Area Office**

### **General**

The Accounts Officer reports to the Area Manager and is responsible for the up-to-date and accurate maintenance of accounting records for the Area Office and all branches under the Area Office, including loan disbursements and repayments. The Accounts Officer is also responsible for consolidating weekly, monthly and yearly financial reports, and forwarding them to the Zonal Office.

### **Duties and Responsibilities**

#### **1. Administrative**

- Maintains accurate daily accounts for all monetary transactions for area office
- Prepares monthly, bi-annual and annual closing statements for Area Office financial transactions
- Receives funds from the Zonal and branch offices, and either deposits or remits to branch offices as necessary

## Qualifications

- Strong commitment to working with the poor, especially women
- Bachelor's degree in accounting

## E. BRANCH MANAGER

### General

Reporting to the Chief Executive Officer, the Branch Manager (BM) is responsible for the day-to-day operations of the branch, ensuring that the branch office and field staff are performing their duties and responsibilities efficiently, that the administrative and logistical support systems are functioning effectively, and that target low-income clients are reached and satisfied with the services provided by the branch. The BM administers and supervises his branch so that the plans and targets with respect to outreach, loan disbursements and repayment, savings mobilization and financial viability for the branch are met at the end of each planning period.

### Duties and Responsibilities

#### 1. Administrative

- Ensures that account books are in order, and up-to-date financial statement reports are submitted
- Manages branch fund requirements and utilization
- Maintains all office equipment, supplies, communication and transport facilities
- Submits weekly, monthly, quarterly, half-yearly and annual reports on loan disbursements and collections, savings mobilization, fund management and attendance in Center meetings
- Undertakes fieldwork, complementing the work of the field staff in group and Center formation and group training, attends Center meetings and makes spot checks on loan utilization
- Develops branch-level plans and targets with respect to outreach, loan disbursements and collections, savings mobilization and financial viability

#### 2. Supervisory

- Supervises, monitors and evaluates the job performance of branch office and field staff, and recommends to the CEO appropriate incentives for good performance, or disciplinary or corrective action
- Supervises, monitors and evaluates the financial performance of the branch against budgets and plans
- Supervises the work of field staff in group and Center formation, weekly meetings, loan processing, loan utilization checks and effective implementation of poverty targeting methodology
- Motivates the staff and clients to maintain a high standard of performance

#### 3. Developmental

- Organizes appropriate types of workshops and meetings for branch staff and client development

#### 4. External Environment

- Promotes harmonious relationships with community leaders where the branch operates, to ensure their support for program implementation and expansion

### Qualifications

- Highly motivated, with a strong commitment to working with the poor, especially women
- Excellent organizational, planning, management and leadership skills
- Bachelor's degree in finance, management, economics or development
- Computer-literate (word processing, spreadsheet, etc.)

## **F. ACCOUNTS OFFICER (BRANCH OFFICE)**

### **General**

The Accounts Officer reports to the Branch Manager and is responsible for the up-to-date and accurate maintenance of accounting records for the branch, including loan disbursements and repayments. In addition, the Accounts Officer performs field work functions by supervising some of the Centers and forming new groups and Centers during the first two to three years of the branch. Along with the Branch Manager, the Accounts Officer serves as a joint signatory for the branch.

### **Duties and Responsibilities:**

#### **1. Administrative**

- Maintains accurate daily accounts for all monetary transactions within a branch
- Reviews all account entries made by other Center Managers
- Prepares monthly, bi-annual and annual closing statements for branch financial transactions
- Receives cash from field officers and external account holders
- Along with Branch Manager, deposits all funds into the vault or nearest commercial bank
- Prepares vouchers and forms for daily transactions involving disbursements and collection of loan repayments for Branch Manager's review
- Operates all of the branch accounts of the microcredit program, which are kept in a local commercial bank
- Acts as a co-signatory on records, vouchers, documents, paychecks, ledgers and registers

#### **2. Supervisory**

- Serves in the capacity of Branch Manager in the case of his/her absence

#### **3. Developmental**

- Maintains contact with fieldwork by conducting one to two Center meetings per day, depending on the volume of work at the respective branch office

### **Qualifications**

- Strong commitment to working with the poor, especially women
- Bachelor's degree in accounting

## **G. CENTER MANAGER (CM)**

### **General**

Working with low-income people, especially women, in high poverty-density communities, the CM reports to the Branch Manager and is responsible for the recruiting and training of new borrowers, formation of new groups and centers, and the supervision of weekly Center meetings to receive and review loan proposals, collect repayments and savings, and take attendance records at weekly Center meetings.

### **Duties and Responsibilities**

#### **1. Administrative**

- Reviews loan proposals from borrowers and endorses those forwarded to the Branch Manager for further processing
- Keeps daily books of accounts to record and monitor loan recovery, disbursement, interest collection and savings deposits
- Collects loan payments and savings deposits from borrowers during Center meetings, for turnover to the Branch Office

## 2. Supervisory

- Conducts and supervises weekly Center meetings (typically two a day, five days each week)
- Gives recommendations to the Branch Manager on the disbursement of loans to qualified borrowers
- Monitors borrowers for appropriate utilization of loans
- Motivates borrowers to repay loans in a timely manner, make deposits and attend Center meetings regularly
- Organizes special meetings to overcome repayment difficulties faced by borrowers

## 3. Developmental

- Conducts continuous training sessions to familiarize borrowers on the rules, regulations and policies of the program
- Recruits new borrowers

## Qualifications

- Strong commitment to working with the poor, especially women
- Good leadership qualities and ability to motivate people
- Minimum high school (post-secondary) diploma or equivalent, and preferably holds a bachelor's degree

## Annex 6.1 Daily Transactions Record Book (“Day Book”)

Date	Center No.	Total No. Groups	Total No. Members	Members Present at Center Meeting	Members Absent from Center Meeting	Loan Installment		Interest	
						Due	Collection	Due	Collection
1	2	3	4	5	6	7	8	9	10

Number of Loan Installments		Savings Collection				Loan Disbursement	Personal Savings Withdrawal
No. installments paid	No. installments not paid	Weekly Savings	Personal Savings	Penalty	Total		
11	12	13	14	15	16	17	18

Center Manager	Accountant/Cashier	Branch Manager
19	20	21
Signature _____		

## Annex 6.2 A Model Chart for Voucher Preparation

<b>Money Received from Head Office</b>
Bank account (1100) Debit
GB General Account (3300) Credit
<b>Loan Disbursement</b>
Loan account (1300) Debit
Bank account (1100) Credit
<b>Interest Recovery</b>
Bank account (1100) Debit
Income (9000) Credit
<b>Personal Savings Collection</b>
Bank account (1100) Debit
Personal savings account (3100) Credit
<b>Personal Savings Collection</b>
Salary account (5000) Debit (Net payable part of salary)
Bank account (1100) Credit
<b>Bonus Payment</b>
Bonus festival/incentive (5200) Debit
Bank account (1100) Credit
<b>Electricity Bill Payment</b>
Utilities (6001) Debit
Bank account (1100) Credit
<b>Telephone Bill Payment</b>
Telephone (5800) Debit
Bank account (1100) Credit
<b>Depreciation Charges on Furniture</b>
Expenditure–Depreciation (7707) Debit
Provision for Depreciation Assets–Furniture (3507) Credit
<i>N.B. All other depreciation charges would be booked as above</i>
<b>Adjustable Shortage Money (in case money is lost for an unidentifiable reason)</b>
Suspense account (2020) Debit
Un-adjustable account—Credit
<b>To nil Expenditure account</b>
Profit and Loss account (3600) Debit
All Expenditures (5000-8510) Credit
<b>To Adjust Profit (in case of operational profit)</b>
Profit and loss account (3600) Debit (balance figure of profit and loss account)
General account (3300) Credit (Income over expenses)

<b>Money Paid to Head Office</b>
GB General Account (3300) Debit
Bank account (1100) Credit
<b>Loan Recovery</b>
Bank account (1100) Debit
Loan account (1300) Credit
<b>Weekly Savings Collection</b>
Bank account (1100) Debit
Group Fund (3100) Credit
<b>Personal Savings Withdrawal</b>
Personal savings (3103) Debit
Bank account (1100) Credit
<b>Deduction from Salary</b>
Debit salary account (5000) Debit
Applicable account (varies from country to country) Credit
<b>Gas Bill Payment</b>
Utilities (6002) Debit
Bank account (1100) Credit
<b>Water Bill payment</b>
Utilities (6004) Debit
Bank account (1100) Credit
<b>Furniture Purchase</b>
Assets–furniture (1500) Debit
Bank account (1100) Credit
<b>Money from Unknown Sources</b>
Bank account (1100) Debit
Sundry account (4535) Credit
<b>Closing Accounting (income account should be zero)</b>
All income (9000-9910) Debit
Profit and Loss account (3600) Credit
<b>To Adjust and Transfer Loss (in case of operational loss)</b>
General account (3300) Debit (Expenses over expenses)
Profit and Loss account (3600) Credit (balance figure of profit and loss account)



## Annex 6.3 Master Group Register

Center Name:					Group Number:				
Center Number:					Cumulative Group Number:				
Loanee No.	Name	Age	Father's/ Husband's Name	Village	Date of Recognition	Date Of Leaving	Signature		Remarks
							CM	BM	
1001									
1002									
1003									
1004									
1005									
1006									
1007									
1008									
1009									
1010									

**Note:** In case of replacement of a member in a group the above format should be followed.

## Annex 6.4 Loan Ledger

Name:				Description:						
Father's/Husband's Name:				Amount of Loan:						
Village:				Date of Disbursement:						
Center No.:				Condition of Repayment:						
Group No.:				Purpose of Loan:						
Loanee No.:				Signature of Branch Manager:						
LOAN LEDGER										
Week No.	Date	Description	Disbursement	Loan		Interest		Signature		Remarks
				Deposit	Outstanding	Deposit	Cumulative	CM	BM	

## Annex 6.5 Savings Ledger

Name of Account holder:				Account No.:		
Address of Account holder:				Date of Opening:		
Loanee No.:						
Group No.:						
Center No.:						
Date	Description	Deposit	Withdrawal	Balance	Signature	
					SA	BM

SA= Senior Assistant, BM= Branch Manager

## Annex 6.6 Cashbook

Date:							
Voucher No.	Accounts Code	Received From	Amount	Voucher No.	Account Code	Paid to	Amount
<b>Total</b>				<b>Total</b>			
Cash in hand (Total received–total paid):							
_____				_____			
Manager				Cashier			

## Annex 6.7 Clean Cashbook Format

Debit Amount		Account Code	Name of Account	General ledger page	Credit Amount	
_____ Manager				_____ Second Signatory		

## Draft Page of Clean Cash Book

Debit	Credit

## Annex 6.8 General Ledger

Account Code:					
Name of Account:					
Date	Description	Debit	Credit	Balance Debit/Credit	Signature

## Annex 6.9 Subsidiary Ledger

Account code:							
Name of Account:							
Date	Description	Voucher No.	Debit	Credit	Balance Debit/Credit	Signature	
						2nd Signatory	Manager

## Annex 6.10 Consolidated Loan Disbursement and Recovery Register

### A. Cumulative Loan Disbursement Information

Date of Disbursement	Name	Loanee No.	Group No.	Center No.	No. of Loan Cycle	Disbursed Amount	Cumulative Disbursement

### B. Cumulative Loan Recovery Information

Date of Full Paid	Name	Borrower No.	Group No.	Center No.	No. of Loan Cycle	Full Paid Amount	Cumulative Full Recovered Amount

## Annex 6.11 Dead Stock Register

Name of Item:				Rate of Depreciation:			
Purchased Price							
Date	Description	Voucher No.	Number of item	Unit Price	Total price	Adjust	Balance
1	2	3	4	5	6	7	8

Depreciation				
Date	Depreciation	Adjust	Balance of Depreciation	Comments
9	10	11	12=(10-11)	13

## Annex 6.12 Salary Register

1	Name	Title	Basic Salary	Allowances				Total Allowances
				5	6	7	8	
2	3	4	5	6	7	8	9	

Total Salary and Allowances	Deduction				Total Deductions	Net Pay	Signature	Comments
	11	12	13	14				
10=(4+9)	11	12	13	14	15	16 (10-15)	17	18

**Note:** Allowances and Deductions columns are to be used if applicable.

## Annex 6.13 Loan Passbook

Name:								
Borrower No.:								
Group No.								
Center No.								
Week No.	Date	Description	Disbursement	Recovery			Loan Balance	Signature
				Loan	Interest			
					To date	Cumulative		

**Note:** The borrower's personal information should appear on the cover page of the Passbook and should be bound and used in multiple loan cycles. Loan utilization procedure and information should be provided in the loan passbook.

## Annex 6.14 Savings Passbook

Name:					
Loanee No.:					
Group No.:					
Center No.:					
Date	Deposit				
	Weekly savings	Penalty	Interest	Personal Savings	Total
	1	2	3	4	5
Withdrawal			Balance	Signature	
Personal Savings	Total				
7	8		(8-6=) 9	10	

## Annex 7.1 Weekly Fund Flow Statement

Week No:										
Date:										
Description	Closing balance from previous week	Day 1	Day 2	Day 3	Day 4	Day 5	Day 6	Total this week	Average this week	Comments
A Cash in hand										
B Bank deposits										
C Total (A+B)										
D Total collections										
E Total disbursements										
F Funds received from HO/ZO/AO										
G Funds transferred to HO/ZO/AO										
H Outstanding loans										
<b>Grand Total</b>										
Branch Manager					Second Signatory					

## Annex 7.2 Statement of Weekly Loan Disbursements and Collections

Branch:													
Area:													
Zone:													
Week No.:													
Date:													
Name Center Manager	Loan disbursement (General/Housing/others)			Loan Repayment General			Loan Repayment Housing Loan			Loan Repayment Others			Comment
	General	Housing	Others	Due	Actual	%	Due	Actual	%	Due	Actual	%	
<b>Total</b>													
Branch Manager					Second Signatory								



## Annex 7.3 Attendance at Center Meetings, Savings/Installment Payments and Defaulting Loanees

Branch code:										
Date:										
Name of CM	Attendance & Savings				General loan		Housing loan		Other loan	
	Total no. of members	Attendance	%	No. of members depositing savings	No. of loanees	No. who have paid Installment	No. of loanees	No. who have paid Installment	No. of loanees	No. who have paid Installment

Defaulters General loan					
25 weeks		38 weeks		52 weeks	
No. of loanee	Amount of loan	No. of loanee	Amount of Loan	No. of loanee	Amount of Loan

**Note:** If there are more loan products in addition to general loan, add additional columns to the right of the table.

## Annex 7.4 Monthly Affairs Report

### A. Assets, Liabilities, Income and Expenditures

Branch:						
Area:						
Zone:						
Code	Account name	Summation		Balance		Comment
		Debit	Credit	Debit	Credit	
1000	Property/Assets: Cash and Equivalents					
1100	Balance with Other Banks					
1300	Loans and Advances					
1400	Staff Advances					
1500	Fixed Assets					
1600	Recoverable Interest					
2000	Other Assets					
<b>Total Expenses</b>						
3000	Liabilities					
3100	Savings					
3300	Interoffice Transactions					
3500	Provisions and Reserves					
3600	Profit and Loss Account					
4500	Other Liabilities					
<b>Total Income</b>						
<b>TOTAL</b>						

## B. General Ledger Balance Statement for Income and Expenditures

Branch:						
Area:						
Zone:						
Month:                      Year:						
Code	Account name	Summation		Balance		Comment
		Debit	Credit	Debit	Credit	
9000	Income: Interest on Loans					
9300	Interest on Deposits					
9900	Other Income					
<b>Total Income</b>						
5000	Expenses Salaries					
5100	Allowances					
5200	Bonus					
5300	Pension and Gratuity Scheme					
5400	Expenses for Interest					
5500	Travel and Convenience Expenses					
5600	Motor Operating Expenses					
5700	Advertisement					
5800	Postage, Telegram and Telephone					
5900	Rent and Taxes					
6000	Utilities					
6100	Printing Stationery					
6200	Maintenance					
6300	Insurance					
6400	Entertainment					
6500	Liveries and Uniform					
6600	Laundry Expenses					
6700	Subscription					
6800	Welfare and Recreation					
6900	Books and Journals					
7000	Computer Expenses					
7500	Legal Fees					
7700	Depreciation					
7800	Interest on Interoffice Transactions					
8000	Monitoring and Evaluation Expenses					
8500	Other					
<b>Total Expenses</b>						
<b>Difference Between Income and Expenses</b>						

**Note:** Another statement, called the “subsidiary ledger balance,” provides details by accounting subtitle and accounting subcode.

## Annex 7.5 Monthly Operations Statement

Month:					
Year:					
Description	Cumulative as of Previous Month	Current Month			Cumulative as of Current Month
	A	B	C	D=(C/B)	E=(A+C)
		Target	Actual	%	
1	Number of Groups Recognized				
2	Number of Active Members				
3	Number of Borrowers				
	1st Cycle				
	2nd Cycle				
	3rd Cycle and Beyond				
4	Number of Centers Formed				
5	Number Member Dropouts				
6	Loans Disbursed				
7	Loans Repaid				
8	Loans Outstanding (6-7)				
9	Number of Fully Paid Borrowers				
10	Amount Fully Paid Loans				
11	Amount Due Current Month				
12	Amount Collected Current Month				
13	Repayment Rate				
14	Current Loan (6-10)				
15	Loan Interest Collection (start of year)				
16	Number of Dropped Installments				
17	Amount of Dropped Installments				
18	Personal Savings Deposits				
19	Compulsory Savings Deposits				
20	Other Savings Deposits				
21	Total Savings Deposits (18+19+20)				
22	Total Savings Withdrawals				
23	Savings Balance (21-22)				
24	Current Center Meeting Attendance Rate				
25	Bank Balance				
26	Total Operating Income				
27	Total Operating Expenses				
28	Profit (Loss )				
29	Number of Defaulting Borrowers*				
30	Amount of Overdue Loans				
_____ Manager		_____ Second signatory			

\* Those who have exceeded their loan term but have not paid off the entire loan amount due.

## Annex 7.6 Quarterly Budget Monitoring Report

Code No.	Account name	Approved budget for the year	Current quarter			To date		
			Quarterly approved budget	Actual expenditure	Percentage difference	Quarterly approved budget	Actual expenditure	Percentage difference
1	2	3	4	5	6=(5/4*100)	7	8	9=(8/7*100)
5000	Salary							
5100	Allowance							
5200	Bonus							
5400	Interest Expenses							
5500	Travel							
5600	Motor Operating Expenses							
5800	Postage, Telephone							
5900	Rents, Taxes							
6000	Utilities							
6200	Repairs							
6300	Bonds							
6401	Entertainment							
6501	Clothing							
6601	Laundry expenses							
6701	Donation							
6801	Welfare and Recreation							
6901	Books and Journals							
7101	Bank Charges							
7501	Legal Expenses							
7801	Interest on GB Account							
7700	Depreciation							
	Total Current Expenses							
1500	Capital Expenses							
1501	Land							
1502	Building							
1503	Leasing and Development							
1504	Transportation							
1505	Office Equipment							
1506	Electric Equipment							
1507	Furniture							
1509	Building under Construction							
_____ Manager			_____ Second signatory					

## Annex 7.7 Quarterly Plan Monitoring Report

Branch:							
Area:							
Quarter No. (1/2/3/4):							
Date:							
Name of Indicators	Plan for Current Year	Plan for Current Quarter	Actual Achievement: Current Quarter		Plan: Cumulative up to Current Quarter	Actual Achievement: Cumulative up to Current Quarter	
			Number	%		Number	%
1	2	3= (2/3)	4	5=(4/3*100)	6	7	8=(7/6*100)
1 New Group Formation							
2 New Members							
3 Replacement Members							
4 Total Members							
5 New Center Formation							
6 General Loan Disbursement							
1st Cycle							
2nd Cycle							
3rd Cycle							
4th Cycle							
5th Cycle and Beyond							
7 Housing Loan Disbursement							
8 Microenterprise Loan Disbursement							
9 Other Loan Disbursement							
10 Total Loan Disbursement							
11 Loan Repayment							
12 Loans Outstanding							
13 Loan Repayment Rate							
14 Savings Deposits							
15 Savings Withdrawals							
16 Savings Balance							
18 Interest Income							
19 Center House Building							
20 Center Meeting Attendance Rate							

(continued on next page)

Name of Indicators	Plan for Current Year	Plan for Current Quarter	Actual Achievement: Current Quarter		Plan: Cumulative up to Current Quarter	Actual Achievement: Cumulative up to Current Quarter	
			Number	%		Number	%
1	2	3=(2/3)	4	5=(4/3*100)	6	7	8=(7/6*100)
21 No. of Defaulting Borrowers Removed/Cleaned Up							
22 Amount of Overdue Loans Recovered							
23 No. of Plants Distributed							
24 No. of Seed Packets Distributed							
25 No. Oral Saline Packets Distributed							
26 No. Savings Accounts Opened							
27 No. of Member Dropouts							
28 No. of Broken Groups Completed							
29 No. Incomplete Centers Completed							
30 No. of GPS Accounts Opened							
31 No. of Beggar Members							
32 No. of Rural Mobile Phones Distributed							
33 No. of Higher Education Loans Distributed							
34 No. of Scholarships Distributed							
35 No. of Solar Panels Distributed							
35 No. of Poverty-free Members							
_____ Manager				_____ Second signatory			











