Reviews and resources

The Poor Always Pay Back: The Grameen II Story

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This account of the reforms to the original Grameen Bank model is presented by a senior staffer at Grameen Bank (Barua) and a US academic (Dowla) with long association to Professor Yunus and the Bank. While citing a range of academic analysis of microcredit, this combination of authors has produced, perhaps inevitably, a book which is a cross between a PR exercise and a manual. It does offer a rather selective and occasionally biased history of the terrain in Bangladesh. However, since these reforms to the Grameen Bank over the last few years are, in my opinion, long overdue, it is extremely useful for pro-poor bankers, supportive policy leaders of governments and policy-oriented academics and students to have this book on their shelves. It is also a case study for initiating and managing complex change among staff and clients of any large-scale service organization – so good for management studies too.

Given the famous original Grameen model of pro-poor lending via the principles of social collateral and group liability to reduce the transactions (including information) costs of the lender, it was a bold move by Grameen thinkers to accept the limitations of this earlier revolutionary product for societies like Bangladesh, where the poor are perpetually and collectively vulnerable to co-variant risk. There have been the standard criticisms of that original model in encouraging a generation of women into high-turnover, low-return, easy-to-enter, saturated petty-trading markets with implications for self-exploitation. There has also been the related controversy over the impact on gender bargaining in patriarchal households. However for the Grameen thinkers, it was the 'shock' of the extreme floods of 1998 which revealed the extent of covariant risk, as it seriously threatened Grameen's financial viability through non-repayment. This prompted their re-think about the nature of poverty in Bangladesh and the types of financial products required to engage with that understanding of poverty. The

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consequent move to a revised service technology and product diversification, as exemplified in Grameen II, is described (see Table 8.2, pp250–252 for the summary) and explained in the book.

It is a misrepresentation of history in Bangladesh, however, to claim pioneer status. What has actually happened is that Grameen has acknowledged that other microfinance competitors have had, for some time, a wider portfolio of financial products to engage with the complexity of poverty, and have now brought their own portfolio closer to those of their competitors. It is a pity that the authors cannot bring themselves to admit Grameen's follower rather than leader status on this transition, because the significance of this shift and the partial abandonment of its original innovative model is what makes Grameen a learning organization with a large-scale coverage of approximately 5 million clients.

Grameen has, then, made a virtue out of necessity. But, as the largest player in Bangladesh and as a global icon, it should nevertheless be welcomed into the wider microfinance world of diversified products. The shift from its original and exclusive focus upon small-scale or 'micro'-credit should be celebrated. Iffath Shariff and I argued for this in our 'Challenges for Second-Generation Microfinance' (UPL, 2001), following our conference in Dhaka in 1999; as well as in our earlier 'Who Needs Credit' (UPL and Zed Press 1997).

Some sceptics might say that the addition of the 'flexible loan' in Grameen II is simply institutionalizing and making more transparent a longer practice of re-scheduling outstanding, defaulted loans to uphold the central premise that 'the poor always pay back'. However, in the presence of covariant risk, there is a genuine problem for all in the sector of how to retain a positive relationship to borrowers in distress. Debt write-offs are bad news for everyone in terms of confidence, and punitive exclusion does not engage with the borrowers' ongoing poverty. Grameen II achieves re-entry of defaulters and loyalty of potential defaulters through intensive use of staff resources to persuade delinquents of their longer term interests as well as through further interlocking of repayment performance to incentives via raising of loan ceilings and access to other product entitlements.

In addition to the introduction of flexible loans, the main innovations of Grameen II are in the realm of savings, pension schemes, insurance, and education loans. These products engage with two key features of poverty in Bangladesh: covariant risk, associated with floods and crop failures; and the high discount rates of the poor in the context of a hostile political economy and consequent chronic insecurity and uncertainty. The authors make these connections strongly, though they could have made more of the argument that 'committed savings and pensions' schemes exogenously alter time preference behaviour among poor clients, while voluntary pension contributions reveal lower discount rates and a greater sense of optimism. Thus a shift from interlocked to voluntary pensions would be a good indicator of one of Professor Yunus's aphorisms that 'the poor always know best how to use their financial resources'. It would seem from the extent of interlocked schemes in Grameen II that faith in this aphorism has declined, and that Grameen now shares a conception, along with its competitors among MFIs and the more conventional banking sector, of its clients as requiring incentives and inducements! Likewise, the education loans for higher education and scholarships for secondary schooling, linked to loan performance or savings incentives, are not exactly a new

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idea in the world of Conditional Cash Transfers (CCTs).

In this product transformation, I wonder at a further supply-side issue. The 'beauty' of the original service technology was that transactions costs were essentially shifted to the clients via the group liability and social collateral arrangements, enabling the poor to be reached in large numbers while maintaining a viable supply operation. Professor Yunus always defended the narrowness of this original approach in such terms, and resisted the criticism that Grameen was not offering a wider portfolio of financial services as an agenda for others. Now that Grameen II has moved into this more diversified terrain, with a concomitant shift from group to individual transactions, requiring higher levels of individual information, does Grameen lose that original comparative advantage of lower staff-client ratios? Surprisingly, and counter-intuitively, the authors report a reduction rather than expansion of staff workloads in the new model, and indeed envisage a ratio shift from 1 staff per 400 clients to 600 in the near future. This seems incredible. Now it is true that over the time since Grameen started, computerized information gathering and data management have removed much of the laborious manual operation – but is that enough to compensate for and overtake the demands on staff time of the new approach?

Finally, there is some speculation towards the end of the book about securing higher returns on poor people's savings in wider capital markets. Again in 2001, Shariff and I explored these arguments as a way of not trapping poor people's savings and deposits into low returns via their localized recycling as loans for poor people in low productivity markets. And, influenced by von Pischke, we further argued the case for overcoming country-specific covariant risk (which is not just floods, but hyper-inflation, political collapse and financial chaos) by underwriting savings and insurance products internationally. The authors are right to remind us of these possibilities, and it would be good to see this aspect of globalization working for the security of the poor.

Despite my criticisms, this book is a useful contribution to forward thinking. It provides descriptive detail about its new products. It offers a detailed account of how change was engineered among staff and clients who were so acculturated by Grameen itself to the original model. It connects the rationale of the products to the central poverty problem of overcoming high discount rates among the poor, and thus reducing their insecurity. It acknowledges the responsiveness of Grameen's thinkers to the problem of covariant risk. But there remains a conundrum. The book devotes much space to how the dedicated staff of Grameen induced defaulters to pay back via persuasion and the new incentivized products. What meaning does that give to the proposition that 'the poor always pay back'?

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