This document was prepared by Vishwas Satgar, Executive Director of the Co-operative and Policy Alternative Center(COPAC). 2003

Comparative Study- Cooperative Banks and the Grameen Bank Model

This document was prepared by Vishwas Satgar, Executive Director of the Co-operative and Policy Alternative Center(COPAC). 2003

Executive Summary

This study focuses on the Co-operative Banking model and the Grameen Bank model. It attempts to highlight their histories, institutional arrangements, the design of their saving and loan delivery systems and most importantly their strengths and weaknesses. Emerging out of this are a set of five general policy recommendations. In summary these recommendations are:

- The establishment of a Savings and Credit Co-operative for Midrand with specific institutional arrangements;
- The conceptual design of a savings and loan delivery system that is membership driven and underpinned by the achievement of financial sufficiency;
- Assessing the feasibility of using "smart card" technology;
- A public and community partnership to solidify commitment to this initiative; and
- A capacitation team that oversees a well defined capacitation process.

This document was prepared by Vishwas Satgar, Executive Director of the Co-operative and Policy Alternative Center(COPAC). 2003

Contents

This document was prepared by Vishwas Satgar, Executive Director of the Co-operative and Policy Alternative Center(COPAC). 2003

1. Introduction

While there is spectrum of micro-lending and institutional arrangements that span NGOs, associations and more softer options like loan guarantees, the focus of this study is on micro-lending institutions that have the potential to provide an alternative to the mainstream commercial banking system. These institutions are Co-operatives and the Grameen Bank.

Co-operative banking arrangements go back to the previous century and where first attempted in Germany. Today, in the world, there are about 35 000 co-operative credit unions with an estimated membership of about 95 million. In South Africa credit unions first emerged in the early eighties and where part of initiatives spawned by Catholic parishes in the Western Cape. By the nineties this urban based movement has grown in South Africa and is formalised under an umbrella organisation of Savings and Credit Co-operatives (SACCOs) known as SACCOL. SACCOL has 16 paid up and affiliated SACCOs. At the same time, in the nineties the Department of Agriculture began experimenting with pilot Financial Services Village Co-operatives (FSVC) in four provinces : Mpumalanga, Northern province; Eastern Cape and North West. Out of this experience has emerged five village co-operative banks and an umbrella organisation called the Financial Services Association.

Both the urban based SACCOs and the FSVCs have been targetting the poor and have attempted to provide credit and savings facilities to them. SACCOs are estimated to have an asset size of R9 million and FSVCs possibly about R4 million. SACCOs have endearvoured to provide a high volume of loans using a people centred risk assessment and loan recovery system. FSVCs have concentrated on providing a safe and efficient saving facilities to the rural poor, through a basic institutional infrastructure and low operating costs. In this study the terms “Credit unions”, “financial services co-operatives” and “village banks” all refer to co-operatives and are used interchangeably at times in this report.

The Grameen Bank[1] (GB) of Bangladesh was founded in the early 70's by its present managing director, Professor Mohammad Yunus. The GB grew out of a successful experiment which involved issuing micro-loans amounting to $27 to 42 destitute women, who used these loans to engage in micro enterprises. Presently the GB lends to more than 2.3 million people (95% women) and has a loan recovery rate of over 98%. The GB is unique among banks , since it is both a bank and a poverty alleviation organisation.

The GB has successfully reversed conventional banking practices by removing collateral requirements and has developed a banking system based on mutual trust, accountability, participation and creativity. The GB uses credit both as a cost effective weapon to fight poverty, by issuing employment creation loans and as a catalyst in the overall upliftment of the poor living under the most depressed socio-economic conditions.

The GB has inspired people and institutions throughout the world . In the last decade, more than 4000 people from 100 countries have participated in Grameen=s training/exposure

[1] Grameen means A Village but the term Grameen Bank is popularly known as the poor peoples bank

programmes. Some of these visitors succeeded in replicating the GB=s financial system to help the poor overcome poverty in their own countries. At present 233 Grameen replication programmes in 58 countries including South Africa have already been established.[2]

Many independent studies[3] have demonstrated the GB=s positive impact on its borrowers in terms of income, wealth creation, nutrition , housing , family planning and education of children.

This study is divided into three sections. The first, which follows below, sketches out the methdology of this study. The second section provides insight into the co-operative banking model and the third section focuses on the Grameen Bank model. The fourth and final section provides a set of policy recommendations to be considered by the Midrand Council.

2. Methodology

This research project drew on a wide range of academic literature that documents the institutional design, operations, successes and failures of Co-operative Banks and the Grameen Bank. This comprehensive **literature survey**, which has formed the core of the methodology, yielded both qualitative and also relevant tertiary and secondary quantitative data.

In addition the methodological design of this research project tapped into the wealth of practical experience that exists in South African co-operative banks. In this regard, use was made of unstructured and semi-structured **interviews**. Both executive officers of the umbrella co-operative organisations, in the urban and rural areas, where interviewed face-to-face, as well as, management staff in two village co-operative banks in Zeerust and one urban based co-operative bank, in the Cape Metropole.

In the third instance, this project accumalated a wealth of relevant information like model statutes and evaluation studies which where incorporated into this study through a **proper documentary analysis**.

Finally, the methodology of this project incorporated sourced information from the **inter-net.** The Web-site of the World Council of Credit Unions was used extensively, as well as, the website of the South African Credit and Cooperative League of South Africa (SACCOL) Ltd. and other relevant readings where down loaded and used in the study.

[2] Source Internet Website, www.grameen-info.org

[3] Ibid.

Section - II

3. The Co-operative Model

This study focuses on Savings and Credit Co-operatives affiliated to the South African Credit and Co-operative League (SACCOL) Ltd. and village based Financial Services Co-operatives (VFSC) affiliated to the Financial Services Association (FSA).

3.1 A Brief History of Co-operative Banks

The first co-operative credit society, or "People's Bank" as it was known, was established by a German civil servant, Hermann Schulze-Delitzsch, in 1850. In 1864, Friedrich Raiffeisen, the mayor of Heddesdorf, Germany, formed the first credit union. Raiffeisen also established the first credit union central bank in 1876, and a year later, an organization for credit unions – a federation.

Since then the idea of co-operative banks or credit unions spread rapidly to other parts of the world. In 1971 this lead to the formation of the World Council of Credit Unions as a global representative of the movement, a provider of services and a forum for the exchange of information. By 1997, the World Council represented 85 national credit union movements with nearly 90 million credit union members, worldwide. The actual breakdown per region is as follows :

Region	Credit Unions	Members
Africa	**5, 582**	**2, 730, 147**
Asia	**13, 988**	**8, 566, 474**
Carribbean	**351**	**1, 026, 165**
Europe	**1, 251**	**2, 502, 062**
Latin America	**2, 035**	**5, 376, 194**
North America	**11, 290**	**72, 578, 656**
South Pacific	**342**	**3, 147, 181**
Regional Totals	**34, 839**	**95, 926, 879**

(Source : World Council of Credit Unions, Website)

There are 28 countries in Africa that have established credit unions. In May 1996, South Africa became the 28th African country to become a member of the African Confederation of Savings and Credit Co-operatives (ACCOSCA).

The SACCOL co-operatives, in South Africa, have their origins in the Cape Credit Union League (CCUL) which was formed in 1981. At this time various Catholic church parishes decided to form Credit Unions and the CCUL was formed to help them coordinate their activities and standardise their operations. Two major problems plagued these cooperatives : First, they paid out low interest on savings and hence members where not interested in saving but where only interested in the cheap loans. Second, most people where scared to take up leadership positions because of state repression during this period. In 1987, the CCUL extended its activities outside the Western Cape Region and formed itself into the South African Credit Union League. The problem of non-viable SACCOs still existed and in 1991, when the World Council of Credit Unions did an assessment of the viability of the movement, in South Africa, they found only three of the existing 47 SACCOs were viable. Consequently, a debated ensued within these SACCOs and the viable cooperatives argued that making a surplus and developing strong SACCOs was in members interests in the longer term, rather than short term gain of cheap loans only. Thus the Savings and Credit Cooperative League of South Africa (SACCOL) was born in 1993. Today, there are 21 Savings and Credit Co-operatives (SACCOs) that are based in urban areas within South Africa, with 16 being paid up members of SACCOL[4].

3.2 Overview of the South African Co-operative Models

Both the Savings and Credit Co-operatives (or SACCOs) and Village Financial Services Co-operatives operate through exemptions from the Banks Act of 1990.

Through a Government Gazette (Vol 354, No 16167, December 1994) the South African Reserve Bank recognises SACCOL as the representative of Savings and Credit Unions n South Africa. SACCOs, on condition they abide by the SACCOL constitution and SACCO statutes, receive an exemption from the Banks Act of 1990. According to David De Jong[5] the thrust of the exemption is fourfold :

(1) every SACCO must have a defined common bond of association like a village, town or city or workplace or occupation or religion;
(2) if it has an asset size less than 1 million it must be audited by an accountant and if it is over a million you need an external audit;
(3) SACCOs are not to be involved as a pension fund organisation and setting up an insurance product;
(4) SACCOs cannot be larger than R9.9 Mn in total asset size[6];

In 1998 the exemption for the operation of Village Financial Service Co-operatives was gazetted[7]. It provides the following common bond exemption under which co-operative village banks can operate :

(1) activities shall be performed solely in respect of its members;
(2) in pursuit of its objectives of providing services to its members, this shall be done in a defined geographical area not serviced by banks; and
(3) within the geographical area defined in respect of such village financial service co-operative.

In addition to this common bond exemption by the Registrar of Banks in the Ministry of Finance, the village financial services co-operative also has to fulfill two other requirements to come into existence. That is registration of village banks with the registrar of co-operatives, in the Department of Agriculture, and affiliation with the Financial Services Association (FSA), the umbrella association for the co-operative village banks, that provides the necessary monitoring and supervising functions.

[4] David De Jong, Interview : November (1999).
[5] Ibid.
[6] David suggests this is up for review with the Registrar of Banks
[7] See section 3. Wezi Ximiya also points in her interview that the exemption really stipulates a 10km radius. In other words, Village Financial Co-operatives can only be established outside of this 10km radius from a commercial bank.

The broad theoretical model of Savings and Credit Co-operatives (or SACCOs) is grounded in the following principles :

- it is owned and governed by members, who have shares in the co-operative and who have the same common bond: working for the same employer, belonging to the same church, labour union, social fraternity or living/working in the same community;
- membership is open to all in the common group and members vote and elect a board, to make overall management decisions, and also elect a supervisory committee to perform the function of an internal audit;
- Members save their money in the co-operative and make loans to each other at reasonable rates of interest. Interest is charged on loans, to cover the interest cost on savings and the cost of administration;
- SACCOs affilliate to SACCOL , an umbrella body that provides them with a host of services and training support.

From the data available, the membership and asset size of some of the SACCOL affilliated SACOs are indicated below :

Name of SACCO	**Year Formed**	**Membership**	**Asset Size (Rands)**
Cape Metropole Savings and Credit Co-operative	**1984**	**700**	**912, 000**
Cape Metal Employees SACCO Ltd.	**1994**	**1 500**	**3, 2 Million**
University of the Western Cape SACCO	**1993**	**530**	**1,1 Million**
Itireleng SACCO	**1994**	**350**	**1,6 Million**
Unilever Workers Credit Union	**1995**	**540**	**400, 000**
Umanyano SACCO	**1996**	**200**	**309, 000**
Alrode SACCO	**1995**	**275**	**430,000**
Saveline SACCO	**1995**	**200**	**191,000**
Campus SACCO	**1983**	**200**	**120,000**
CTCB SACCO	**1994**	**195**	**130, 000**
Anchor Tshiya SACCO	**1997**	**150**	**80, 000**

(Source : SACCOL, Website)

At a theoretical level, the village financial service co-operative model, operates according to the following principles :

- it provides basic banking services, like savings and credit facilities, to rural communities that are not served by the commercial banking sector;
- it is owned and controlled by local residents, who are shareholders and members;
- as owner-uses, the members organise, capitalise, operate and carry the risk of their bank collectively;
- every owner-user is entitled to use the bank's service and votes for members of the Bank's Board of Directors, which sets overall policy;

- Loans made by the bank must come primarily from the funds deposited in the bank by its shareholders. Loans are currently collateralised by the borrowers savings and those of other shareholders who agree to collateralise the individual loan;
- every village financial service co-operative has a link bank that stores the money of the village financial service co-operative in an account and the link bank provides support, training services and advice to the village financial service co-operative;
- all village financial service co-operatives have to be affiliated to the financial service assocaition that provides support, training and monitoring.

The village financial service co-operative model has the following profile in terms of membership and asset size :

Name of Co-operative Village Bank	Year Formed	Membership	Asset Size
Lehurutshe	**1999**	**70**	**33 269,63**
Lothlakane	**1995**	**253**	**214 026,35**
Motswedi	**1996**	**575**	**334 345,44**
Kraaipan	**1994**	**680**	**1 065 891,23**

(Source : Financial Services Association)

More recently, a fifth Co-operative Village Bank has been launched by the FSA but there is no data available.

4. Essential Features of the Savings and Loan Delivery System

4.1 Membership

Any person can become a member of a SACCO provided they fall within the common bond of the SACCO. To become a member of a SACCO a person has to pay a R30-00 joining fee and thereafter a share, priced normally at R100-00, has to be purchased. The purchase of shares cannot exceed more than 20% of all shares held by total membership. The other rights and obligations of a members are governed by the statute of the SACCO but in the main membership entitles a person to vote in a SACCO and also use the services of the SACCO. The main benefits to membership are the following :

- As a user-owner a member shares in the profits made according to patronage;
- A savings interest rate is always set above the inflation rate to protect the value of the money saved;
- Loan insurance is provided which limits the risk of the co-operative;
- Loans are provided easily but have to be repaid through stop order deductions.

In a village financial services co-operative a person becomes a member within the common bond provided they purchase a share at R10. One share entitles the member to one vote. Sometimes the by-laws can provide for additional votes, purchased for five shares each. The main benefits to a member in a village financial services co-operative are the following :

- Safekeeping place for cash;
- Savings opportunities;
- Credit access;
- The ability to transfer fund and receive remittancess;
- Retains wealth within the community and contributes to general economic progress;
- Attracts new capital into the village economy for general economic development.

4.2 Management and Administrative Structures

All members of a SACCO have one vote and this they use to elect a Board of Directors, consisting of between 9 –15 members. From within a Board an Executive Committee is constituted. The Board also appoints a Credit Committee and an Educational Committee. Alongside the Board the members elect a Supervisory committee which is merely a watchdog institution. The Supervisory Committee also appoints an auditor, that ensures the funds of the SACCO are managed properly. Each SACCO also has a statute which confers certain powers on the Board and which enables them to make policy and decide on the implementation thereof through the various committees.

At an operational level or on a day-to-day basis, the SACCO might initially be managed by a volunteer clerk, but as the SACCO expands the Board might decide to hire a manager. In the Cape Metropole SACCO, expansion has further taken place with the manager employing a receptionist and a data capturer. Within the Cape Metropole the manageress's[8] functions include the following:

Managing the administrative staff and ensuring the decisions of the board are implemented. I also make recommendations to the board. For instance, when a person is making a loan application I prepare all the paperwork for the credit committee but I also include my recommendations on the loan. Also, I have power to decide on loan applications that do not exceed R2000-00. I also control the deposits and ensure that every member gets a monthly statement

Every shareholder and member of the Village Financial Services Co-operative, has a vote to decide on the Board. The Board, comprised of (7-11) members, normally has seven portfolios comprised an executive of three (sometimes a Chariperson; secretary and treasurer) and a marketing portfolio, an auditing and investment portfolio, loans and security. In general and as derived from the statute, the board sets policy for the co-operative The board ensures regular audits to maintain proper financial management and control, processes loan applications through a loan committee and employs an administrator. The administrator acts as an operational manager and can employ other administrators. The functions of the administrator[9] include some of the following tasks :

Receiving cash deposits, filing deposit slips and withdrawal slips, tally receipts and payments then record in cash book each day, keeping proper ledgers for shares and savings, managing withdrawals, reporting to the board, working with the loan committee and interacting with the link bank.

4.3 Savings and Investment Policy

[8] Harriet Stewart, Interview: November, (1999).

[9] Charles Moiloa, Administrator Lehurutse Financial Services Co-operative, Interview: December, (1999). Also in Shadrack Kgosimang, Administrator Motswedi Village Bank, Interview: December, (1999).

In a SACCO members have to save monthly. A minimum of R50-00 per month is encouraged.

Most members are encouraged to save through monthly deductions of payroll.

SACCOs provide members with Life Savings insurance which gives members beneficiaries double their savings should they die.

Members save through different products[10], such as :

- Term Deposits – SACCOs are offering members one year fixed deposit accounts at interest rates varying between 12 – 15%;
- Xmas Savings – Most SACCOs, even the smaller ones, have introduced this product to their members. Members make 11 contributions in the year from January to November and receive an interest of up to 12% on their contribution;
- Educational Savings – members save from February to January with the purpose of meeting the educational needs of family members each year.

The interest given on savings products is built into the cost structure of loans given by the SACCO.

The FSA has ensured that the pilot FSVCs concentrate on building up a savings base in the start up phase, to the extent that loans have not really been a major priority. Savings has happened through a need that the people have in rural areas for a safe place to keep their money. A lot of money comes to the rural areas as wage remittances or government welfare transfers, mainly for pensioners.

A village bank savings book is issued to account holders, in which all transactions are recorded.

In the FSVC people save through open accounts and /or fixed deposits.

Currently a market related interest rate structure is paid on balances in open accounts ranging from 2.7% for balances ranging between R200-00 and R499-00 up to 11% for balances over R100-000[11]. The interest structure attempts to incentivise higher savings levels.

With the fixed deposits members have an opportunity for medium term investment and this provides the village bank with a more stable portfolio for investment purposes[12]. At least 80-90% of the savings investment portfolio is invested. This investment portfolio earns interest through investments that are made with the link bank. This is also an important source of finance for the FSVC. Every member receives a formal fixed deposit certificate when they make a fixed deposit. The current interest rates are also market related ranging from 11% for a three month fixed deposit, 11.5% for a six month deposit and 12% for a 12 month deposit.

[10] See SACCOL Website.
[11] Shadrack Kgosimang, Administrator Motswedi Village Bank, Interview: December, (1999).
[12] Schoeman J.H. (1996) at p. 4.

4.4 Loans Policy

It is one of the main objectives of SACCOs to provide loans to it members. The ideal model invests 80% of mobilised savings to members in the form of loans. Loans exceeding R2000-00 are processed through the credit committee. The major risk assessment criteria and conditions are the following :

- A person has to be member for at least six months;
- Loans given to members will not exceed a 3 to 1 ratio based on members savings and shares;
- An individuals saving record (particularly deductions through payroll), character and length of employment are also important;
- The maximum size of the loan is R15 000;
- If a member is having difficulties repaying a loan, this has to be discussed with the SACCO in order to provide for a workable arrangement.

Loans in a SACCO are provided for a host of purposes. Members can acquire loans from a SACCO for productive, income generating activities, a business idea or towards a house. Loans are also made for provident purposes such as school fees, funerals and weddings. Other loans are made to improve the quality of life of members by allowing members to buy furniture or appliances or other goods without having to carry expensive hire purchase agreements.

SACCOs also provide loan insurance which safeguards members in the case of death by ensuring that the loan of the member is paid up.

The interest charged by SACCOs on loans varies between 25 and 30%. This is more than the commercial rate charged by banks. Housing loans, for instance, are at 27% p.a. for a period of 3 to 5 years[13].

Generally the FSVC have not engaged in credit or loan practices. According to Wezi Ximiya[14] only one village bank has given out loans – this is estimated to be about 16 loans. In terms of the loan process the application is processed by a loans committee which uses the following risk assessment format[15] :

- To qualify the person has to be a member for at least 3 to 6 months;
- All loans will be subject to guarantees acceptable to the Village Bank, which will be in the form of collateral savings as well as guarantees provided by other members of the village bank;
- Own savings pledged as collateral will at least be 50% of the value of the loan;
- First loans will be subject to 100% collateral savings;
- Further loans may be granted for amounts in excess of the direct collateral savings, subject to acceptable guaranties provided by the applicant;
- The relation bewteen direct savings collateral and other guarantees will be subject to a credit evaluation by the Village Bank. The payment history of the borrower will be taken

[13] See Cape Metropole SACCO, Products Sheet.
[14] Interview : November (1999)
[15] Schoeman J.H. (1996) at p. 9.

into account, when extending new loans and the collateral savings and loan ratio will be determined accordingly;
- The borrower will have to take out life insurance for an amount equal to the loan;
- All late payments will be subject to interest charge for the period of late payment;
- Collateral savings and guarantees will be called upon in the event of payment in areas of 31 days;
- Extention of repayment will only be provided if the outstanding interest is paid on outstanding loans;
- All loans will be subject to a loan fee of 5% of the loan amount with a minimum R50.00;
- Loans will be granted to members on a monthly basis to the value not exceeding 1/6 of the total credit prortfolio
- Loans will be granted for periods not shorter than one month and not longer than 12 months.

The FSVC charges interest at 25% per annum for loans. This is lower than most private micro-lenders who use a cost structure of between 30% - 35%. Commercial banks borrow from the Reserve Bank at the repo rate, which is currently at 12.2 % and they lend out to borrowers. The biggest borrowing sector is for housing and currently the cost is 15.5%. Prime, which is the borrowing rate for businesses, is 16.5% currently. Others borrow at prime plus 2% which amounts to 18.5%. The FSVC charge a loan rate higher than commercial banks.

5. Training

SACCOL offers three[16] types of training to ensure capacitation and sustainability of SACCOs. These are structured as follows :

- ***Start-Up Manual*** - which has three components. The first deals with the nature of SACCOs, model statutes, bookkeeping and annual general meetings. The second component covers loans and investment policy, the central finance facility and insurance. A third component looks at computerisation, developing a business plan, employing staff to run a SACCO and registering your SACCO. The cost of a start-up manual is R499-00;

- ***Distance Based Education Modules*** – which SACCOL has developed in conjunction with the Centre for Continuing Education (CACE) based at the University of the Western Cape (UWC). The modules are targetted toward SACCO Boards and staff members development. The modules cover the following areas : Introduction to SACCOs; SACCO strucutres; Roles and responsibilities of Directors; Board/ Management Relations; Member Relations; Financial Statements; Financial Analysis; Financial Goals and Planning; Risk Management and SACCO Lending. This syllabus can be flexibly made up to suit the needs any interested institution. The materials can be purchased from SACCOL at R499 or outside individuals or organisations can buy the material R1,000. Individual modules are available to members at R100 each while non-members may purchase these at R200 each;

[16] See SACCOL Website.

- ***Centralised Training Sessions*** - which allows SACCOs to come together to share experiences. SACCOL holds centralised training sessions once a month on selected topics. SACCOs pay for their board members to attend these training sessions at a cost of R50 per person per session. SACCOs not able to attend a session can request on site training for R100 (min 6 people).

Training and back-up offered by the FSA and FSVC entails the following :

- Capacitation training and education – which includes educating the community on the need for the Village Bank, feasibility study, business planning and recruitment strategy;

- Training from link bank for risk assessment, management and investment opportunities[17];

- The FSA arranges training for administrators at technikons and other tertiary institutions.

6. Financing

6.1 Start-up costs

Ideally to start-up a SACCO some of the following costs have to be incurred :

COST ITEM	ESTIMATED COST
1. Start-up kit	**R 500 – 00**
2. Five day capacitation workshop (30/50 people) ▪ Transport and Accomodation Costs for Facilitator ▪ Facilitation @ R1000 per day	 **R 3000 – 00** **R 5000 – 00**
3. Training manager over two week period @ R1000 a day plus transport and accommodation in Cape Town	**R 15000 – 00**
4. Computer and software	**R 7000 – 00**
5. CUBIS software	**R 16000 – 00**
6. Safe (fire-proof)	**R 8000 - 00**
7.Desk/Chairs/Filing Cabinet	**R 15000 – 00**
8.Rental (Prime Space @ R4000 p.m)	**R 48000- 00**
Estimated Total Cost	**R 117 – 500**

In total, start –up costs for an ideal model, are estimated at **: R117 500**

However, in practice, when starting up SACCOs spend according to income earned, normally profits on loans. In other words, as profits increase they would attempt to expand and acquire equipment or premises or training and so on. At the beginning SACCOs normally work with volunteers from the board and might work out of a members house and hence start up costs are kept to minimum. In addition, SACCOL is flexible on the fees it charges for capacitation

[17] Wezi Ximiya, Interview: December (1999)

and training and depending on the group it is working with, it would charge accordingly. Also the software – CUBIS - is normally paid for through a monthly scheme of R1 per member every month. Normally furniture and equipment is also donated and rental for offices should not exceed R1000-00 per month.

The estimated start-up capital for a FSVC is about R30 000 and this is provided by the FSA. This amount is divided up as follows :

Risk Fund	R10 000
12 Month Salary	6 000
Fireproof safe	8 000
Filing Cabinets / Chairs/ Table	6 000
Total	**R 30 000**

In short, it is much more cheaper to set up a FSVC. Also the fact that the local village authority, probably a chief, gives the property or premisses for the village bank which reduces costs dramatically.

6.2 Operational Costs

According to David De Jong, in an ideal model economic viability can be assessed using the following assumptions :

Start –up with 800 members
Average saving R100-00 p.m
Annual Savings per member R1200-00
Total Savings Mobilised p.a. R960 000

If lend 80% (R768 000) at interest rate of 25 %, should generate about R190 000 income before expenses. If pay members 8% on savings, then amount left over to cover expenses is calculated as follows : 25% on loans subtract 8% on savings equals 17% of R190 000. This equals about R32 300. After subtracting this from R190 000 this leaves approximately R157 700 left to cover all other operating expenses. Expenses in a well managed SACCO should not exceed 10% of income. Normally non-financial or operating expenses include the following items:

Salaries and benefits
Rent and utilities
Depreciation
Committee expenses
Telephone
Postage
Stationery
Comp.Acc. System
Training
Bank Charges
Promotion
Transport Allowance
Audit Fees
Other

Based on this simple model total operating expenses should come to about R15770. After subtracting this from total income this leaves the SACCO with a surplus before tax and deductions for loan loss at R141 930. In short, economic viability will hinge on a number of factors, that is , the number of members in the SACCO; the average savings per member; the interest rate on savings; the interest rate on loans and the percentage operating expenses constitute of gross profit.

According to Wezi Ximiya a FSVC is only opened once it has between 2 to 300 members. At the same time, with a strong emphasis on savings mobilisation rather than loans, financial viability particularly the capacity of FSVC to meet their operating expenses, has been achieved within a 12 month period or less. From experience, Wezi Ximiya[18] points out that it took Kraaipan 18 months to achieve a critical mass, then subsequently the next FSVC took 12 months and finally the third took 6 months. The key to sustainability is mobilsing saving which in turn is re-invested, thus earning interest which covers the operating expenses of the FSVC.

7. Main Weaknesses and Strengths

7.1 Main Weaknesses

Failure to Mobilise Depositors – without an ongoing recrutiment and mobilisation drive for depositors both the SACCOs and the FSVC can run into problems. Savings are the life-blood of the institutions and enable lending. Therefore concerted attempts to broaden the membership base and ultimately savings volumes is imperative;

Failure of the link bank – within the FSVC model the village bank is conceived more as a compliment to the commercial banks and does not attempt to replace them. In this regard it is expected that the link bank would provide a host of supports and training. In practice this kind of support and training has been uneven and has not played a decisive role in most of the village banks;

Information technology - is not widely used in the FSVC. While this may not be an immediate necessity it does inhibit expansion and the development of more sophisticated products;

Government Support is Limited – both the SACCOs and the FSVC have come into existence through exemptions to the Banks Act and registration under the co-operative legislation. However, to a large degree the regulatory framework has been restrictive, particularly for FSVC. Also government has not considered providing cheap money to the co-operative banking movement through the Reserve Bank, as being a priority. At a simple level government would not even keep any of its accounts with anyone of these institutions.

7.2 Main Strengths

People Centred Banking Practices - In the SACCOs, while they charge a loan rate above commercial banks they still operate in a less rigid framework in terms of cost recovery. In that, the members given the loan can negotiate flexible repayment if they are experiencing

[18] Interview : December (1999).

difficulties without having their collateralised savings called in. With the FSVC the priority is to pay back the interest owing for the period missed in terms of repayment and this then allows some kind of flexibility vis-à-vis collateralised savings, guarantees and assets. In short, however this kind of people centred lending practice distinguishes the SACCOs and FSVC from commercial banks;

Members Include Institutions – members of the SACCOs and the FSVC are not just individuals but also organisations and institutions like stokvels, burial societies, trade unions, local governments and even other co-operatives. In this regard the co-operative banking model can broaden its depositor base and also make the linkage with savings and investment in development;

Operating Costs are Low - compared to commercial banks hence the co-operative model can easily achieve self sufficiency, in terms of profits made on loans or even savings portfolio management;

The Co-operative Value is an Asset - in that lending to members who know each other puts pressure to pay back and this lowers the default or delinquency rate dramatically. All that is required to ensure a member defaulting starts repaying, is a few phone calls and one or two letters as reminders and this normally leads to some kind of arrangement being reached with the co-operative. In short, the co-operative value of working together and sharing the risk collectively translates into an asset which reduces the risk assessment;

Increasing Financial Self Sufficiency – since 1997 the SACCOL has not been supported by donor funds. This is largely due to the expansion of a central financial facility (CFF) which is a central fund where SACCOs deposit ten per cent of their assets. From this 10%, one percent is invested in shares and the other 9% is considered as a compulsory deposit. The SACCOL invests the pooled funds centrally and can negotiate higher returns for member SACCOs. The main objective of the CFF is to invest money back into the SACCO. At present 50% of this fund is invested in financial institutions and 50% is available to SACCOs in the form of loans. In short, the CFF operates as a Reserve Bank to the SACCOs and allows them to obtain cheaper money for loan purposes. Similarly, the FSVC through building up their savings base and stable investment portfolio are able to provide loans in a more self sufficient way without seeking finance elsewhere to lend to members.

Section - III

8. The Grameen Bank

8.1 The Vision

The dual vision of offering a banking service to the poor and of poverty alleviation is accurately captured by the following list of objectives that the GB leadership presented to donors in 1988[19].

- to extend banking facilities to the poor;
- to eliminate exploitation by money lenders;
- to create small enterprise opportunities for the unemployed and underemployed
- to bring disadvantaged people within the fold of some organizational format which they can understand and operate and can find some socio-political and economic strength through mutual support;
- to reverse the age old [poverty] cycle of "low income, low savings, low investment, low income"into an expanding system of "low income, credit, more income, more credit, more investment, more income".

Note that the objectives begin with the specific input of credit facilities for the poor and move through the intermediate goal of elimination of exploitation by moneylenders, expansion of self employment and empowerment through group formation, to a new state that transforms the downward cycle of poverty into an expanding spiral of growth and development.

8.2 Overview of the Grameen Bank Model

The GB views credit as a cutting edge tool for affecting those inequalities that confine the poor to a poverty cycle and for releasing the inherent capacities of people. The GB sees access to credit as a form of social power which has been denied to the poor because they lack collateral. Professor Muhammad Yunus argued that the conventional banking system is A anti-poor, anti-women and anti-illiterate@ and thus has contributed to maintaining the status quo between the rich and poor (1998: pp 75-80) . Thus microcredit issued to small groups, enables them the opportunity to purchase equipment and other inputs and engage in micro enterprises of their choice, thus empowering them to escape from the vicious poverty cycle.

The GB is based on the voluntary formation of small groups of five people to provide mutual, morally binding group guarantees in lieu of the collateral required by conventional banks. Women were initially given equal access to the schemes, and proved to be not only reliable borrowers but also astute entrepreneurs as well. As a result, they have raised their status , lessened their dependency on their husbands and improved their homes and the nutritional and education standards of their children. Today 95% of the borrowers are women.

Intensive discipline, supervision and servicing, characterise the operations of the GB, which are carried out by Abicycle bankers@ in branch units with considerable delegated authority. The rigorous selection of borrowers and their micro enterprises by bank workers, the powerful

[19] Holcombe Susan. **Managing To Empower.** London & New Jersey (1995).

peer pressure exerted on borrowers by group members and the repayment scheme based on 50 weekly instalments ,contribute to the operational viability to the rural banking system designed for the poorest of the poor. In addition savings are encouraged . Under the scheme 5% of the loan amount is credited to a group fund and 25% of the interest payment is contributed towards the groups emergency fund, which provides insurance coverage against default, disability, death and other accidents. The GB lends at a commercial interest rate of 20% per annum.

The success of the above approach shows that a number of objections to lending to the poor can be resolved if careful supervision and management are provided. For example , many believed that the poor cannot find viable micro enterprises, however Grameen borrowers have successfully done so. Many believed that the poor would not be able to repay, however repayment rates reached 98%. It was thought that the poor rural women were not bankable, in fact, they account for 95% of the GB borrowers. Many believed that the poor cannot save, group savings has proved as successful as group lending. It was believed that the rural power structures will make sure that such a bank failed. To the contrary the GB has grown from fewer than 15000 members in 1980 to 2.34 million (2.24 million women) in 1998. Group savings has reached $162 million of which $152 million was saved by rural women[20].

It is estimated that the average household income of GB members is about 50% higher than the target group in the control village and 25% higher than the target group nom-members in the GB villages. The landless have benefited most, followed by marginal landowners. Thus there has been a sharp reduction in the number of GB borrowers living below the poverty line, 20% compared to 56% for comparable non-GB members. There has also been a shift from agriculture wage labour (considered to be a socially inferior) to self employment in micro enterprises. This shift in occupational patterns has had an indirect positive effect on the employment and wages of other agricultural waged labour[21]. Thus the GB initiatives have grown to the point where it has made an impact on poverty alleviation at the national level.

9. Essential Features of the Savings and Loan Delivery System

9.1 Exclusive Focus on the Poorest of the Poor

Exclusivity is ensured by:

- establishing clearly the eligibility criteria for selection of target group and adopting practical screening techniques to exclude those who do not qualify. Since mixing of different income groups tend to result in the higher income groups ousting the low ones.

- Women are given priority, since their empowerment has a greater positive impact on the family and they have proven to be disciplined and astute entrepreneurs.

- The delivery system is geared to meet the diverse socio-economic development needs of the poor housing, education, nutrition, family planning, economic development etc.

[20] Statistics taken from Grameen Bank website
[21] Ibid.

9.2 Borrowers Organised into Small Homogenous Groups

- Organising the primary groups of 5 members and federating them into centres has been the basic building blocks of the GB=s credit delivery system.

- On the outset the emphasis is on building strong grassroots borrower organisational structures, this is the means of empowering and enabling borrowers to develop the capacity for planning and implementing micro level development decisions.

- Centres are functionally linked to the GB via the field workers , who have to officiate at compulsory centre meetings on a weekly basis and present weekly reports to their superiors.

- A policy of replacing traditional collateral with social collateral , by making a group of five borrowers responsible for each other=s loans. Group pressure forces members to conform to the payment agreements.

9.3 Loan Conditions Specially Tailored for the Poor

The key to the Bank=s success was the achievement of a simple to operate loan mechanism that all borrowers understand almost immediately:

- Very small amounts of loans given without any collateral.

- Loans payable in small 50 weekly instalments spread over a year.

- Access to larger subsequent loans dependent on repayment history

- Individual, self chosen , rapid income generating activities, employing skills that the borrower is already equipped with.

- Close supervision of credit utilisation by the group as well as the bank staff.

- Stress on credit discipline and collective borrower responsibility (peer pressure)

- The adaptation of financial services to suit local demand through >regular door-to-door banking=

- Compulsory (borrowers are compelled to save a minimum of 67cents[22] in SA currency per week) and voluntary savings schemes to minimise income fluctuation risks that usually confront the poor. Savings implies that borrowers are paying a higher effective interest rate thus allowing the GB to charge only 20% on micro enterprise loans .

- Transparency in all bank transactions most of which occurs at centre meetings.

---

[22].$1=45.45 taka =R6.15, borrowers are forced to save 5taka per week

9.4 Undertaking Social Development Programs to Address Basic Needs of the Poor

This is reflected in the Asixteen decisions"[23] adopted by the GB borrowers. This helps to:

- raise the social and political consciousness of the newly organised groups

- focus increasingly on women from poorest households, whose survival urges has a far greater bearing on the development of the family.

- empower the poor to take care of their own basic needs - housing, sanitation drinking water, education, family planning etc.

- The development of a broader social upliftment programmes, which includes the building of houses and schools, undertaking of large economic projects eg. Textiles, fisheries and telecommunications.

9.5 Design and Development of a Credit Conducive Organisation and Management System Capable of Servicing the Poor

- The system has evolved gradually through a structured learning process that involves trails and errors and continuous adjustments. Special training programme has evolved, to screen, train and develop highly motivated and progressive staff members, so that decision making and operational authority is gradually decentralized and administrative functions delegated at the zonal level downwards.

- A dedicated and committed workforce achieved both through rigorous practical management training programmes and market related remuneration packages .

- The management style of top and middle management not only supports but also empowers field workers and branch managers. At the branch level workers enjoy considerable delegated authority.

9.6 Expansion of the Loan Portfolio to Meet Diverse Development Needs of the Poor

As the general credit programme gathers momentum and the borrowers become familiar with credit discipline, other loan programmes are introduced to meet the growing social and economic development needs of borrowers. Apart from housing projects which are well established, such programs include:

- credit for building sanitary latrines

- credit for installation of tubewells that supply drinking water and irrigate kitchen gardens

- credit to buy agricultural inputs for seasonal cultivation

[23] See Appendix A.

- finance projects undertaken by the entire family of a seasoned borrower.
- Loans for the purchase of equipment and machinery

9.7 Strategic Market Orientated Credit Policies

Apart from the above policies , the following also contribute significantly towards GB=s success

- market related interest rates that cover costs, GB charges 20% interest pa., of which 5% is contributed toward a group fund to cover risks.
- A moderate subsidy dependent index (the amount by which interest rates need to be raised in order to remove subsidies).
- Protection of loan funds from inflation by depositing dormant funds in commercial banks that earn competitive interest rates and by engaging in bond trading.

Some researchers have posited the notion that the Grameen Bank=s success lies in its organizational policies. The organizational structures may be split into three hierarchical levels viz.,the local people=s organization ie. centres, the field organization comprising branches and area offices and support organizations comprising of zonal offices and headquarters

9.8 The Organisational Structures and Functions

New recruits are required to form into a group of at least 5 members then each prospective member has to undergo training in order to understand what the Bank is all about. Before gaining acceptance into the Bank each member has to separately undergo an oral exam (85% of rural women are illiterate), if any member fails then the group=s acceptance into the bank is stalled until exams are retaken. This process not only ensures that the most desperate qualify for loans, since the moderately well off will avoid such difficulties, but also encourages group participation and empowerment of women. Moreover this approach commits them to the GB before they could borrow. Loans are first extended to only two group members , if they pay regularly for the next six weeks , then loans are granted to a further two members, the group leader receives her/his loan last.

Branch Formation and Management

Six groups (each group has 5 members) constitute a centre which meet weekly. A branch typically served a cluster of 120-150 centres . Each branch was managed by a team of 6 workers (2-3 trainee assistants , an accountant and a branch manager). Branches are supervised and supported by the area offices , zonal offices and the headquarters. A branch worker served 10 centres 5 days a week. During mornings the branch worker attends two centre meetings and collected savings/loan installments. He/she then visits the same centres in the afternoon to check on the utilization of loan monies and the performance of all ongoing loan activities. Moreover each case of nonpayment of savings/loan are followed up.

Branch Supervision

The Branch Manager makes supervisory visits to different centres and checks the physical utilization of loan monies for at least 20% of all loans. Furthermore he/she makes on the spot checks on the performance of Branch Assistants and also ensured that Bank Assistants and Group Leaders did not discriminate against any member. At the time of a loan disbursal, he/she personally enquired about the loan activity and ensured that the borrower understood all the conditions of the contract. Every month he/she also checks and countersigns each members account book to ensure that amounts of cash collected were correctly entered. Each branch prepares detailed weekly reports on branch performance. Worker and centre performance were also reviewed so that it became the common knowledge of all staff members.

Loan decision process

First Phase

The process begins with the eligible member identifying a micro enterprise she/he wants financed and the estimated amount of capital required. The proposal is discussed within the group at weekly centre meetings which the Bank Assistant attends. The group, centre and Bank Assistants offer suggestions and encouragement and give advice on the appropriate amount of the loan. The Bank Assistant assists the member in filling a preliminary loan application form (form 2) .

Second phase

The loan is discussed once again at the group and centre meetings for final approval before recommendations are made to the Branch Manager. If the Branch Manager agrees to the loan proposal, he/she then prepares a final loan proposal (form 2A) which is sent to the area office. At the area office the proposal is checked by the Program Officer and sent to the Area officer who authorizes the Branch Manager to disburse the loan. Very rarely are the loan recommendations of the Branch Manager turned down .The entire process takes 2 to 4 weeks.[24]

New Branch Formation

Grassroots contact

Before opening a new branch, the bank sends a two person team, made up of an experienced and trainee branch manager to live among the people and to undertake detailed consultation with the people. After about two months of grassroots contact , members are enrolled and trained. After a year the trainee manager is usually deployed elsewhere. Note the setting up of a branch office involves minimal costs since local government premises or school buildings

[24] Holcombe, **op. cit.,**

are used, where ever they exist, otherwise unused land is cleared and a simple wood and tin structure is set up, together with the assistance of borrowers

Work in a Slow Thorough Manner

Moreover when bank workers first enter the area they first undertake a detailed socio - economic analysis of the area. They then, quietly (they try not to upset the local political ,social and religious authorities) go about forming few groups at a time. In the first year according to Professor Yunus, they should form not more than 20 groups ie., a maximum of 100 borrowers. Professor M Yunus stresses the importance of going slow when first attempting to start a branch , since it takes about 2 years before any structural defects are found.[i] He further adds that the objective is to develop a system that works , Anot rush out at breakneck speed@ [25]

However according to the Bogra Zonal manager a bank assistant (field worker) can form about 2 groups but not more than 4 groups a month ; a branch could organise up to ten centres a year. It is expected that a branch will form 100 groups in the 1st year ; 200 in the 2nd year and 300 in the 3rd year.[26]

Middle and Top Management

Leadership=s Vision

Grameen leadership has an expressed commitment to building and maintaining an organisational culture that fosters learning and experimentation. They encourage openness, questioning, consultation listening and a team approach to problem solving thus reflecting the assumption that all individuals have an inherent capacity to contribute to deliberation and decision. Since they believe in the capacity of the staff , the leadership expect disciplined performance or professionalism. They expect responsibility and accountability. These views are constantly echoed by both the Grameen senior leadership and Area Managers.

Area office operations

A group of 10-15 branches are supervised by an Area Manager and assisted by a Programme Manager and a Housing Officer who mainly supervised the house building programme supported by a housing loan scheme. The Area and Programme Managers , between them, make at least two monthly supervisory visits to each branch. Since they are responsible for approving the recruitment of new members trained by Bank Assistants, they keep tabs on how each worker conducted training groups , worker=s relationship to group members and how they deal with problem cases in the field. The Area Manager through attending many weekly review branch meetings developed a indept understanding on performance of the centre and

---

[25] Mohammad Yunus, **op. cit.,** pp 142-143
[26] Ibid.

branch level staff and also the number of problematic individual borrowers. Another important function of the Area Manager together with assistance from headquarters was to maintain cordial relationships with the local political elite without compromising the independence of the Bank.

Support organization

Zonal offices and central headquarters provided support and guidance to the field organization. A zone covered 10-15 area offices and 70-115 branches. Zonal offices cover most administrative decisions including performance appraisal and promotion recommendations. The zonal managers main function was to keep track of personnel issues. Often she/he also attended centre meeting in order to maintain contact and get feedback from members directly.

Since 1988 the Bank introduced the position of an >ombudsman= chosen from officers of the area zone. They were responsible for investigating complaints against bank staff before any disciplinary action could be taken.

Core function

The zonal office monitor the flow of each branch=s funds on a weekly basis. Detailed operating information received by branches are compiled and processed. Monthly statements on fund flows , different types of savings and the organization of group/centres for each branch/area are also prepared. Special reports on overdue loans are prepared for the zone and branch managers using the Management Information System (MIS). This is a computerized information recording and feedback system that automatically activate error corrections and overdue loan reminders.

In order to ensure that all field functionaries have a common understanding of the Bank=s philosophy and policies , zonal managers make themselves available for discussions and consultations. Moreover they hold separate two day annual workshops for three categories of employees viz., branch workers, branch managers and zonal managers respectively. The purpose of these workshops is for policy clarification, resolving personnel issues and for obtaining feedback for formulating new policies.

Head Office Functions

Branches made annual operational projections in regard to all its activities. These proposals were first viewed by the zonal office then by head office who carried out financial feasibility and conformity assessments in relation to the Bank=s overall priorities. Once approved, budgeted funds are released to zonal offices for disbursal to branches as per operational need. The main function of the headquarters is to disburse resources (personpower, money, equipment) to field offices.

Policy Adoption Through Workshop

Twice a year a 6 day workshop attended by zonal managers and senior head quarters staff is held to assess the performance of different zones and headquarter divisions. All policy proposals are also discussed and before large scale adoption , proposals are first implemented at a few branches for testing its feasibility and staff reactions. Only after the trail run is carefully analysed is the policy fully adopted.

Communicating Vision

On one hand the chief function of Headquarters is to uphold the vision and purpose of the Bank, and on the other , to minimize the alienation between individual staff members and the organization as a whole. Hence active communications with field workers is the core function of headquarters. This is reflected in top management being sensitive to the field conditions and the problems of field workers.

In one case study the managing director who lived a very simple life style spent approximately 100-150 days per year visiting field workers and staff members, interacting with them and ensuring that they understood the policies and perspectives articulated by top management. The General Manager(Training and Special Programmes) who is second in command describes himself as a Acheer leader@. The MD and his team receive over 500 monthly qualitative reports from field workers which they process, compile and issue feedbacks.

10. Recruitment and Training of Bank Workers

The Bank recruited college or university graduates largely either as bank workers (field workers) or trainee branch managers. Most other positions are filled through internal appointments. Recruits undergo a rigorous six month training programme that focusses on the following four aspects:

- coping with and getting used to the physical hardship of branch level field work, much of which in involves traversing the villages on foot or bicycle, all year round.
- familiarizing themselves with Bank procedures and different record keeping formats.
- developing a sense of pride in the work of the Bank. Their 1st assignment is to compile two detailed case studies of how loan activity has transformed the lives of the poor.
- the classroom component involves self learning through guidance from seniors and practical experience. Despite scarce employment opportunities in Bangladesh the trainee dropout rate is typically 50%-60%.

10.1 Incentive Schemes For Bank Workers

The Bank matches commercial banks ito. salary and other fringe benefits. Every 3-4 years employees gain promotions. The Bank follow a policy of rotating its staff in different positions thus multi-skilling and offering them a wide range of experiences. Senior staff including the computer specialists, accountants and trainers, were once either field workers or branch managers. All training centre functionaries were at one stage area/zonal managers and most of them will go back to performing these duties after a while Upward mobility and personal development are vitally linked to the phenomenal growth of the Bank. To the extent that these avenues diminish in the future, the Bank has to devise new strategies.

11. Financing and Economic Viability

Tammen (1990) argues that the GB is not self supporting and is only able to break even, due to substantial subsidies it receives from principal donors, according to her estimates the implicit subsidy to borrowers is 39% based on the actual cost of funds and 51% if one considers it from the opportunity cost angle[27].

Jackelen and Rhyne (in an unpublished paper quoted by Holcombe) concur that the GB is not a profitable bank, however they maintain that financial self-sufficiency can be achieved. They point out that the current interest rate (1990) of 16% is insufficient to cover the cost of funds (6-10 percent pa.) available in Bangladesh plus overheads (14% pa.) and a margin for loan loss. GB is able to subsidize loans because donors advance capital, at a low cost (2-3 percent pa.), prior to disbursement allowing GB to earn a commercial interest rate[28].

11.1 Latest Information on the Cost Of Funds

According to Professor M. Yunus the loan velocity of circulation has been more than six times, ie. each taka (Bangladeshi Currency, $1=45.45 taka) has been issued as loans at an average of six times thus resulting in the optimization of loan funds and ensuring loan access to a larger number of clients.

The cost of funds increased sharply since 1993. GB paid 5.76% and 4.87% on it=s bond issues in 1995 and 1996 respectively. Interest on bonds accounted for 33% and 39% of total interest expenses during 1995 and 1996 respectively.

Interest payments on **borrowers= savings** accounted for **34%, 43%** and **49%** of total cost of funds ,for the years 1994, 1995 and 1996 respectively. GB offers **8.5%** interest on **borrowers= savings,** they also pay 2-4 percent pa. interest on donor deposits. Note that in May 1999 accumulated borrower savings amounted to **$162.56 million** (176.9 million in 1998), of this amount **$152.56 million** were saved by the Grameen women[29]. GB earns 20% interest on one-year income generating loans and 8% on ten year housing loans

With reference to the 1993-1997 profit and loss accounts[30] under the income section, notice that interest on fixed deposits (mainly dormant donor deposits) makes up 18.5 % and 24.5% of total income for the years 1996 and 1997 , implying that the economic viability of the GB

---

[27] Melanie S. Tammen, AForeign Aid : Treating the symptoms: misunderstanding the Microenterprise@, in **Reason** 22 (1990), pp40-41

[28] Holcombe, **op. cit.,** pp. 52-43

[29] Internet Grameen Bank website.
[30] Refer to Appendix B.

is **donor driven** although successful attempts continues to be made to reduce donor dependency (see below).

11.2 Bad Debt Provision

The GB makes 100% provision for all income generating loans outstanding two years from date of disbursement and 20% provision for all income generating loans outstanding one year from disbursement date. In addition a 5% provision is made for disbursed ten year housing loans.

11.3 Sources of Funds

1976-1982 the GB was funded solely by Bangladesh commercial banks and the Agricultural Bank The first external source of funding was from IFAD (UN Development finance Agency **),** who issued a loan to the Bangladeshi Government for fifty years at a 1% service charge. The government loaned this money to the GB for fifteen years at a 3% interest rate. Since then GB received loans from NORAD(Norwegian Aid Agency), SIDA(Swedish Aid Agency), KFW and GTZ (German Aid Agency), CIDA(Canadian Aid Agency), OECF(Japanese Aid Agency), the Ford Foundation and the Dutch Government. Note that the GB refused to take any loans from the World Bank because of differences of approaches to poverty alleviation[31].

Since 1995 the GB has stopped negotiating for new grants or soft loans. GB has decided to depend fully on commercial sources of funding. However grants and soft loans continued to flow in, through agreements negotiated before 1996. These ended in 1998.

During 1994-1995 GB issued bonds and raised $160.75 million from Bangladeshi commercial banks. This aided the GB to pay off central bank and to create a loanable fund on a long term basis.

Since 1993 the flow of low cost funds form donors declined. It fell to 39% of total available funds by end of 1993. It declined further to 34% in 1997. This demonstrates GB=s determination to rellie more on internal sources of funds and borrowing at market rates. The internal resource mobilisation to finance GB=s fund requirements has been a significant contribution towards the drive to attain financial self sufficiency.

11.4 Brief History on early Sources of Funds

[31] Internet Grameen Bank website.

The GB started off as an experiment of the Janata Bank of Jobra where they issued a loan of 10 000 taka(worth $300 in 1976) staffed entirely by his students (5 students) developed a client base of under 500 between 1976 and 1978.

In 1978 Agricultural bank issued a loan of 1000 000 taka($30 000.)

In late 1981 , commercial banks were reluctant to back expansion plans ,so The GB management approached the Ford Foundation for a soft loan of $800 000 which was granted and served as a guarantee fund that underwrote the loan that commercial banks issued. GB deposited the money into an interest bearing London bank account.

In the same period in order to reduce the cost of funds they negotiated a loan of $3.4 million from International Fund for Agricultural Development, this was matched by a loan of the same amount from the Bangladesh Central Bank for the Grameen expansion programme in five districts over 3 years. By the end of 1981 their cumulative loan disbursal was $13.4 million In 1982 their new disbursements increased by an additional $10.5 million By November 1982 . During this time the Grameen membership stood at 28000 of which only 11000 were women.

11.5 Assessing Start-Up Costs

Since a proper assessment of startup costs involve many important considerations outlined below :

The following analysis is meant to stimulate discussions around assessing startup for pilot projects. No branch should recruit more than 100-500 borrowers in the 1st year according to the research[32]. Also assume it takes 2 employees to manage 100 borrowers and 5 employees to manage 500 borrowers. Assume further that each borrower can borrow an amount of R1000 and pay back R25 per week for 50 weeks , hence the interest will equal 25% pa[33].

Total salary cost	R 25 000 per month	R300000
operational costs	R 5000 per month	R 60000
capital	R 50000 for the 1st year	R 50000
contingency 10%		R 36000
Grand Total		R446000 for the 1st year

Revenue is not considered since it is negligible for the 1st year.

Please note that the above figures are guesstimates of the possible startup costs for the 1st year , which should be viewed with extreme caution.

---

[32]Mohammad Yunus.,**op. cit.,**pp. 151, however the official the Bogra Zone mentioned above claims 500 members can be reached in the 1st year, which the analysis will accept as being plausible.

[33] Note that these are fair assumptions since they are based on estimates gleamed from the literature

Cost Considerations that must be included

In order to work out the actual costs, detailed analysis needs to be undertaken into the target market, Furthermore possible loan sizes, all the fixed and variable costs and projection of these costs over a 6 to 8 year incubation period while accommodating for inflation . Moreover one needs to work out different scenarios eg . rate of borrower recruitment and their demand for loans, 90%-100% repayment rate, changes in interest rates etc.

11.6 The Replication Program and Assistance Program

Seed Money for pilot Projects

The Grameen Trust offers funding to people and institutions committed to replication of the Grameen Bank approach, but are unable to secure funding, in their own country To meet this need , the Grameen Trust has made low interest loans available to institutions for starting pilot projects.

Generally, 60% of the funds are earmarked for on-lending and are repayable to the Trust with 2% interest. The remaining 40% is earmarked for meeting operational expenses and is repayable to the Trust without interest. The size of these loans range from $25,000 to $75,000.

Scaling-up Funds

Replication programmes that successfully complete the pilot phases are granted soft loans. Successful completion of pilot phases means reaching more than a thousand very poor women with credit and maintaining a near perfect payment rate. These projects are granted loans for scaling up to viability. The average loan is about $400,000, and is a combination of a low interest loan for on-lending and an interest free loan for operational expenses.

Recommendations for Successful Replication

The following recommendations emerged from the experiences of replication programmes carried out in 59 developing and developed countries including South Africa, and are identified as the requisites to successful replication:

- Exclusive focus on the poor
- Priority for poor rural women
- Suitable loan conditions and procedures , and open , non partisan conduct of all business.
- Individual, self-chosen , income-generating loan activities.
- collective borrower responsibility and mutual support through compulsory group savings.
- Small initial loan, repayment and eligibility for larger subsequent loans.
- Strict credit discipline and close supervision.
- Compassion, but no charity.
- promotion of individual voluntary savings.
- A social development agenda.
- Rigorous, practical management training for staff.

- Protection of loan funds from inflation.

The above replication facility should be seriously investigated by institutions committed to the poverty alleviation through micro credit.

12. Main Weaknesses and Strengths

Main Weaknesses

Peer pressure - Anthropological research claims that peer pressure causes undue stress on members and their families in regard to meeting regular weekly savings and loan contributions , to the extent that domestic quarrels , violence and threat of violence against women members have increased. On the contrary the experience of Professor Mohammad suggests the opposite, he asserts that women have gained increased status in their families. This seems more likely since women continue to join the GB in large numbers.

Lack of debt amortization policies - The poor are prone to income uncertainties, however the GB banking mechanism demands regular weekly payments, the overwhelming pressure forces many members who fall back on payments to borrow from unscrupulous money lenders at exorbitant interest rates (10% per week). Moreover many members utilise their seasonal loans to pay their income generating loans.

Dependency on subsidy **-** From a perspective of neoclassical economics subsidies of any kind are considered inefficient since they do not reflect the true cost of capital and they encourage officials implementing programmes to disregard optimising practices. However setting up of a people oriented poverty alleviation and banking institution, of the Grameen=s scope and magnitude requires massive donor involvement , hence GB=s attempts at total financial self sufficiency it is most admirable.

Personality Centred **-** Some critics argued that the success of the GB was largely due to the personality and management style of its managing director Professor Muhammad Yunus. However this criticism may be warranted in describing the experimental stages of Grameen=s development, but unwarranted in regard to the Banks present position since senior management number over 3000 individuals.

Consumption Spending - Despite constant monitoring of income generating loan usages, many borrowers still use a significant part of their loans for consumption and other purposes.

Main Strengths

Banking for the Poor - The Grameen Bank has successfully created a new paradigm of banking services. This model of banking is revolutionary because it takes banking services to the poorest villagers , rather than ask them to come to the bank. It has successfully adapted the credit delivery system to suite the needs of the poor rather than follow the system of conventional banks which are designed for male, literate elites. Moreover its= success story has proved that even the poorest landless peasants, with a little assistance, have the capacity to take charge of their own lives and escape the poverty trap through discipline , industriousness and accountability.

Empowerment - Poverty alleviation is not merely raising the income of the poor, it also means the political and psychological changes that empower poor people to take charge of their destinies. By offering credit to the poor (thus increasing their self esteem) and by creating the necessary support and social awareness mechanisms, the GB has succeeded in empowering the most marginalised sectors of society.

Easy Replication - The GB has successfully developed sustainable grassroots solutions to the problems of poverty alleviation and basic infrastructure provision the are economically viable that may be replicated across different cultures.

Going Beyond Donor Assistance - GB=s continued attempts to attain self sufficiency by reduced reliance on donor funds and through increasingly mobilising internal sources of funds is most remarkable since many believe that it is impossible to tackle poverty alleviation without donor assistance.

A Common Praxis - There is a remarkable consistency between the vision articulated by senior management and that espoused by branch managers and field staff. Together they express the commitment to reducing poverty and also translate it into action on a daily basis. Moreover corruption amongst employees is almost non-existent, unlike their counterparts in the commercial banking institutions of Bangladesh.

Section - IV

13. General Recommendations

The policy recommendations that follow draw on the innovative institutional arrangements, practices and policies designed within the Co-operative Banking Model and the Grameen Bank Model.

There are five main recommendations :

(1) Specific Institutional Recommendations

1.1 The Midrand Council consider establishing a Savings and Credit Co-operative (SACCO) in the Greater Midrand area with the following objectives and institutional tiers :

Objectives

- *Harness local community savings in order to provide the poor with access to credit;*
- *Establish a financial backbone to sustain and develop the local co-operative movement;*
- *Ensure local economic development is financed to meet the needs of the poor in an ecologically sustainable manner.*

The Board of Directors

- *Sets overall policy for the co-operative;*
- *Employs managerial staff;*
- *Establishes an Education Committee and a Credit Committee;*
- *Has formalised representation from the Council and at least two co-operatives operating in the community;*
- *Ensures regular auditing.*

Supervisory Committee

- *Monitors the operation of the Board;*
- *Ensures regular audits are carried out.*

Management Centre

- *Provides technical back-up and training to branches;*
- *Has regular meetings with branches to receive reports on operations;*
- *Provides business planning facilities to co-operatives and other clients of the SACCO;*
- *Plans and develops projections for the expansion of the SACCO;*
- *Makes policy recommendations and provides reports to the Board of Directors;*
- *Sits on the SACCO Credit Committee;*
- *Sources outside expertise when necessary;*
- *Employs staff for the branches;*
- *Manages the IT of the SACCO and ensures proper linkages with even commercial banks to acquire benefits of ATM technology of possible.*
- *Produces publication;*
- *Liases with SACCOL.*

Branches

- *Receives deposits;*
- *Processes loan applications above R2000 –00 through the SACCO Credit Committee;*
- *Organises Savings and Credit Teams from membership base;*
- *Monitors compulsory saving and repayment of Saving and Credit Teams;*
- *Actively recruits and targets potential members;*
- *Runs education meetings in various areas;*
- *Provides the Management Centre with regular reports.*

(2)The Savings and Loan Delivery System

The savings and loan delivery system envisaged should be member driven and based on the twin objective of building up a stable savings portfolio that contributes to self sufficiency and a loan system that balances meeting the needs of members and ensuring the financial self sufficiency of the co-operative, as well.

It is proposed that the following conceptual framework be considered for the design of a savings and loan delivery system :

2.1 Membership

- *The common bond for membership is the fact of living in the common area of the Greater Midrand;*
- *Every member pays a once of joining fee (that is not refundable) and buys a share for a certain sum of money. A member should be able to buy more than one share but not more than ten, for which they would receive a dividend once the co-operative begins to produce a surplus. All members, irrespective of the number of shares they own would be entitled to only one vote;*
- *Membership shall be opened to co-operatives, community organisations and even local government itself;*
- *Members will be entitled to vote for the Board of Directors and can have a say on policy matters;*
- *Every member is entitled to a monthly financial statement*
- *Members can only utilise the services of the co-operative once they are organised into a Savings and Credit Team of 7 people, living in their immediate area. The Savings and Credit team would monitor compulsory savings by meeting twice a month and would also monitor loan repayment;*
- *Every member should receive a "smart card" that would enable withdrawals and balance statements to be obtained at any ATM, as well as branches of the SACCO.*

2.2 Savings and Investment Policy

- *Savings can happen through payroll deductions, stop order and direct cash deposits;*
- *Savings must be compulsory for all members and monthly minima must be agreed to for employed and unemployed members. The Savings and Credit Teams must monitor compulsory savings of members, using the monthly financial statements they would receive;*

- *At least 80% of savings received, equity finance and other reserves of the SACCO must be invested;*
- *10% must be saved with the CFC of SACCOL;*
- *Savings products – both fixed, annual like X-mas savings and open account – must receive commercial rates of return that are not below inflation;*
- *The savings and depositor base of the SACCO must be constantly expanded to even include a host of organisations including the local council, other co-operatives, trade unions and community organisations.*

2.3 Loans Policy

- *Loans must only happen through Savings and Credit Teams and only three out of the seven members in the team will get loans first. Based on successful repayment, loans will be extended to other members and even obtained for other purposes;*

- *Loan products have to be decided and should initially have a mix of productive, consumption and development products. A special loan product for co-operatives must be developed, either for start-up or expansion, and this has to be linked to proper business planning;*

- *Loans should only be given out once the SACCO has achieved financial self sufficiency through its savings policy. The percentage of assets given out as loans initially has to be prudent and well managed;*

- *An interest rate for loans must be set which must also contribute to profitability, provision for loan loss and administrative /operating costs;*

- *A repayment period must be decided on for loan products;*

- *Collateral for loans should be based initially on savings (i.e. a 1:1 ratio), guarantees by other members and any other relevant collateral, like pension and provident funds, should also be considered. As repayment is proved the loan ratio of a member can be improved to 1:3 i.e. three times more than actual savings.*

- *Non-repayment of loans or defaulting must initially be handled through the Savings and Cedit Team that the member belongs to, therafter notices and final warnings must be issued by the branch before claiming the collateral;*

- *The credit approval process, particularly for amounts over two thousand rands, must be facilitated by the branch manager who prepares the relevant documentation for the Credit Committee. A member who obtains a loan and fails to make repayment must also have recourse to the Credit Committee to renegotiate terms of repayment. Interest should not be charged on late payment;*

- *Branch managers can approve loans, particularly emergency loans that are less than two thousand rand.*

(3)Technology – The Smart Card

The feasibility of providing members with a " plastic smart card" must be explored with SACCOL. The extent to which it can be harmonised with the current ATM banking infrastructure has to also be explored. If the CUBIS system, used by SACCOL, allows for this then this technology can be used for the following purposes :

- *Easy withdrawals, even through the ATM system, in Midrand and any other place;*
- *Controlling of withdrawals by placing a withdrawal limit if there is a loan taken out by the particular member.*
- *This technology also opens up the prospect of experimenting with a complimentary currency.*

(4) The Public - Community Partnership

The idea of Savings and Credit Co-operative for Midrand can only work if there is widespread support. To achieve this the Council must secure a public and community partnership for the Midrand SACCO. The main focus of the partnership is to bring the poor and women into this initiative that are unemployed or are poor working class and self employed. The public and community partnership should be launched at a workshop which achieves the following:

- *A declaration that clearly defines the objectives of the SACCO, the benefits to members and responsibilities of the parties associated with this initiative;*
- *Constitutes a community liason task group that would participate in the capacitation process;*
- *Launches a recruitment program for members; and*
- *Clarifies and kicks of the capacitation process.*

(5) The Capacitating Agents and the Capacitation Process

Consideration must be given to establishing a capacitation team that includes COPAC, SACCOL and FSA. The capacitation process that this team will manage will include the following :

- *Finalisng and clarifying the Concept envisaged for the SACCO;*
- *Workshopping the liason team to secure statutes, bye laws, business plan and policies;*
- *Training of prospective staff;*
- *Forming and registering the co-operative once recruitment is at a critical level;*
- *Setting up a pilot branch of the SACCO.*

This document was prepared by Vishwas Satgar, Executive Director of the Co-operative and Policy Alternative Center(COPAC). 2003

Appendix A - The Grameen Banks Sixteen Decisions

The following 16 point decisions evolved over a period of time and were formulated at national workshops. These points should be viewed as programmes of action that borrowers both proudly recite and attempt to follow in their daily lives.

1. We shall follow and advance the four principles of the Grameen Bank - discipline , unity , courage and hard work - in all walks of our lives.

2. Prosperity we shall bring to our families.

3. We shall not live in a dilapidated house. We shall repair our house and work towards constructing new houses at the earliest opportunity.

4. We shall grow vegetables all year round. We shall eat plenty of them and sell the surplus.

5. During the plantation 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 that we can earn 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 water from tubewells. If it is not available , we shall boil water or use alum to purify it.

11. We shall not take any dowry in our son=s weddings, neither shall we give any dowry in our daughter=s wedding. We shall keep the centre free from the curse of the dowry. We shall not practice child marriage.

12. We shall not commit any injustice, and we will oppose anyone who tries to do so.

13. We shall collectively undertake larger 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 centre , we shall all go there and help restore discipline.

16. We shall introduce physical exercises in all our centres. We shall take part in all social activities collectively

This document was prepared by Vishwas Satgar, Executive Director of the Co-operative and Policy Alternative Center(COPAC). 2003

Appendix B – Profit and Loss Account as at 31st December

	Mn. US$	**Mn. US$**	**Mn. US$**	**Mn US$**	**Mn US$**
	1993	**1994**	**1995**	**1996**	**1997**
Average Dollar Rate of the Year	**39.14**	**40.00**	**40.20**	**40.86**	**45.45**
Total Income	**33.86**	**50.46**	**56.81**	**56.63**	**45.66**
Loan Operation	26.97	41.16	49.15	42.96	30.96
Interest on Fixed Deposit	4.23	6.55	4.88	10.47	11.32
Other Income	2.66	2.75	2.78	3.20	3.38
Total Expenditure	**33.61**	**49.92**	**56.44**	**56.17**	**45.34**
Interest Expenses	9.90	19.80	21.02	19.80	19.26
Administrative and other expenses	23.71	30.12	35.42	36.37	26.08
Profit	**0.25**	**0.54**	**0.37**	**0.46**	**0.32**

This document was prepared by Vishwas Satgar, Executive Director of the Co-operative and Policy Alternative Center(COPAC). 2003

References

Published Books and Articles

Amin, N and Bernstein, H (1995) The Role of agricultural co-operatives in Agricultural and rural development; Policy Paper 32; Land and Agriculture Policy Centre

Basu S. (1997) "Why Institutional Credit Agencies are Reluctant to Lend to the Rural Poor: A Theoretical Analysis of the Indian Rural Credit market" *World Development* Vol. 25 No. 2

Holcombe S. (1995) *Managing To Empower – The Grameen Bank's Experience of Poverty Alleviation*, Zed Books : London

Hollis A. and Sweetman A. (1998) "Microcredit : What Can we Learn from the Past?" *World Development* Vol. 26 No.10

Hussi, P, Murphy, J, Lindberg, O and Brenneman, L (1993) The development of co-operatives and other rural organisations; World Bank Technical Department Series; No 99;

Jain P.S. (1996) "Managing Credit for the Rural Poor: Lessons from the Grameen Bank" *World Development* Vol. 24 No. 1

Kimuyu K.P. (1999) " Rotating Saving and Credit Associations in Rural East Africa" *World Development* Vol. 27 No.7

Mosley P. and Hulme D. (1998) " Microenterprise Finance: Is there a Conflict Between Growth and Poverty Alleviation?" *World Development* Vol.26 No.5

Muhammed Y. (1998) *Banker to the Poor – The Autobiography of Mohammad Yunus, founder of the Grameen Bank*, Aurum Press: London

Philip T. K Producer co-ops in South Africa: their economic and political limits and potential; Labour Studies Research Report 4; Sociology of Work Programme; University of the Witwatersrand;

Philip, T. K (1990) "The Phalaborwa printing co-op: born out of war" in SALB; vol 14 No 7

Rahman A. (1999) "Microcredit Initiatives for Equitable and Sustainable Development: Who Pays? " *World Development* Vol. 27 No.1

Other Documents

RSA-USA Bi-national Commission, *Assessment of the Village Bank Model*, 1997.

Schoeman J.H. , *Village Bank Project – Product Analysis*, 1996.

Cape Metropole SACCO, *Products Sheet*, 1999.

Model Statute, *Savings and Credit Co-operative*

Statute, *National Financial Service Association*.

Government Gazette , No 16167, 1994

Government Gazette , No 18713, 1998

Interviews

David De Jong, General Manager SACCOL, Interview : November (1999).

Harriet Stewart, Manager Cape Metropole SACCO, Interview: November, (1999).

Wezi Ximiya, Executive Officer FSA, Interview : December (1999).

Charles Moiloa, Administrator Lehurutse Financial Services Co-operative, Interview: December, (1999).

Shadrack Kgosimang, Administrator Motswedi Village Bank, Interview: December, (1999).

Webography

Grameen Website - www.grameen-info.org

SACCOL Website – saccol.org.za

World Council of Credit Unions – woccu.org