

G RAMEEN BANK OF BANGLADESH AND CO-OPERATIVE RURAL BANK OF SRI LANKA

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A. Comparative Study

At various forums and discussions concerned with the improvement of rural economy, reference have been often made to the Grameen Bank of Bangladesh. In this context, therefore, it is important to look into the Grameen Bank of Bangladesh, its objectives, present expansion and operation whilst attempting to do a comparative study of the Grameen Bank, and the Co-operative Rural Banking systems presently operating in our country and to examine how to improve our rural banking system appropriately.

Grameen Bank Project

Introduction

Grameen Bank project was initiated in 1976 by Prof. Mohammed Yunus. His main objective in starting this project was to help the poor. In formulating the project he stated that it aimed to improve the rural economy and help the poor. According to him, helping the poor meant helping the rural people and helping the rural people meant assisting the development of agriculture, their main way of life.

Objectives

The Grameen Bank project which

primarily envisaged the development of the rural economy had five major objectives given as follows:

1. to expand banking facilities to rural men and women;
2. to stop the exploitation by money lenders;
3. to generate self employment opportunities for all utilised and unutilised human resources;
4. to bring the unprivileged market into a certain organizational form and develop their inter-relations with the purpose of improving their socio-economic conditions;
5. to reverse the vicious cycle of poverty having the order of low income, low savings, low investments and low incomes, to a cycle with the order of low income, credit facilities, investments, higher incomes and increased credit facilities.

Expansion

This project was first launched with the above objectives in a village called Jobra near the city of Chittagong in 1976. At the beginning, the Bank of People provided facilities to Grameen Bank project under a credit programme for the landless and the entire operational part of the project was implemented by the

Department of Economics of the Chittagong University under its programme of Rural Economy.

In 1978 Creasy Bank of Bangladesh started a branch of Grameen Bank and its operation was carried out under the Rural Economic Programme. In 1978 Sonali Bank too expressed its willingness to join this project and agreed to support its continuity. The Grameen Bank was thus able to attract the attention of other banking institutions. Consequently, the Governor of Bangladesh Bank closely studied the Grameen Bank and understood that formal assistance could be extended to it.

Thus, it was decided to mobilise the support of all Bangladesh Bank branches in the Tangail district and all other commercial banks for this project. By November 1979 six banks through 25 branches implemented the project in the Tangail district.

Operational Process

The Project Director was the Head of Grameen Bank project and he was entirely responsible for planning and implementation of the project. Under this, the formation of guidelines, operational procedures and regulations became one of his responsibilities. A building for the project office was constructed by the Bangladesh Bank at its own expense. In order to implement the operational process, an additional staff had to be recruited for all the coordinating banks. In the meantime an extension officer had to be kept at their branch office, while such facilities as bicycles, umbrellas, electric torches, shoes, bags etc. had to be provided with the staff.

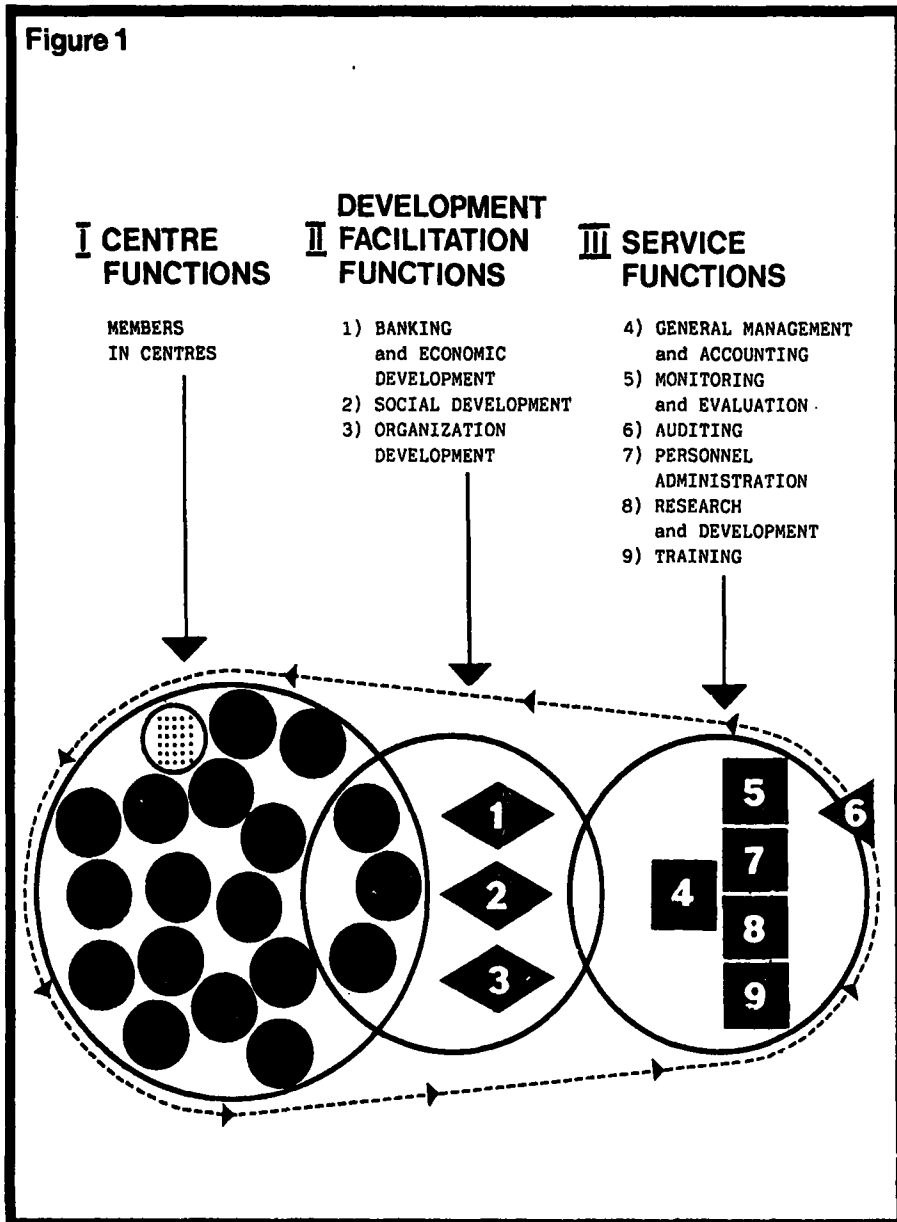
Seven additional personnel were recruited for every project office. Their letters of appointment, payment of salaries and other relevant matters were handled by the coordinating bank. All appointments were offered on a temporary basis and as such there was no opportunity for them to go to litigation in case of losing the job as a result of the collapse of the project.

The Project Staff

The project staff consisted of following personnel:

1. Field Manager (should be a M.Sc. Graduate) — salary: Takas 1,250.

Figure 1



Grameen Bank's operation is characterized by many types of interacting functions. In our description we follow this figure step-by-step.

2. Bank Officer (should have completed a two year period in a College) — salary: Takas 500.
Men 03, Women 02
3. Assistant Bank Officer (High School Graduate or school leaver) — salary: Takas 350.
4. Office Assistant/Watcher—salary: Takas 475.

All the members on the staff should be residents in the respective village. They should find their residential facilities themselves. The bank officers were expected to go about the village, meet

the villagers and explain to them the details of the project. Those villagers who had arable land with an extent ranging from 0.4 acre to 1 acre were entitled to receive credit facilities for any income generating activity. However, to receive such facilities there should be a group of four villagers with equal qualifications and similar socio economic background.

Each of these groups should have elected a President and a Secretary and convene meetings weekly. All such Presidents in one village should meet,

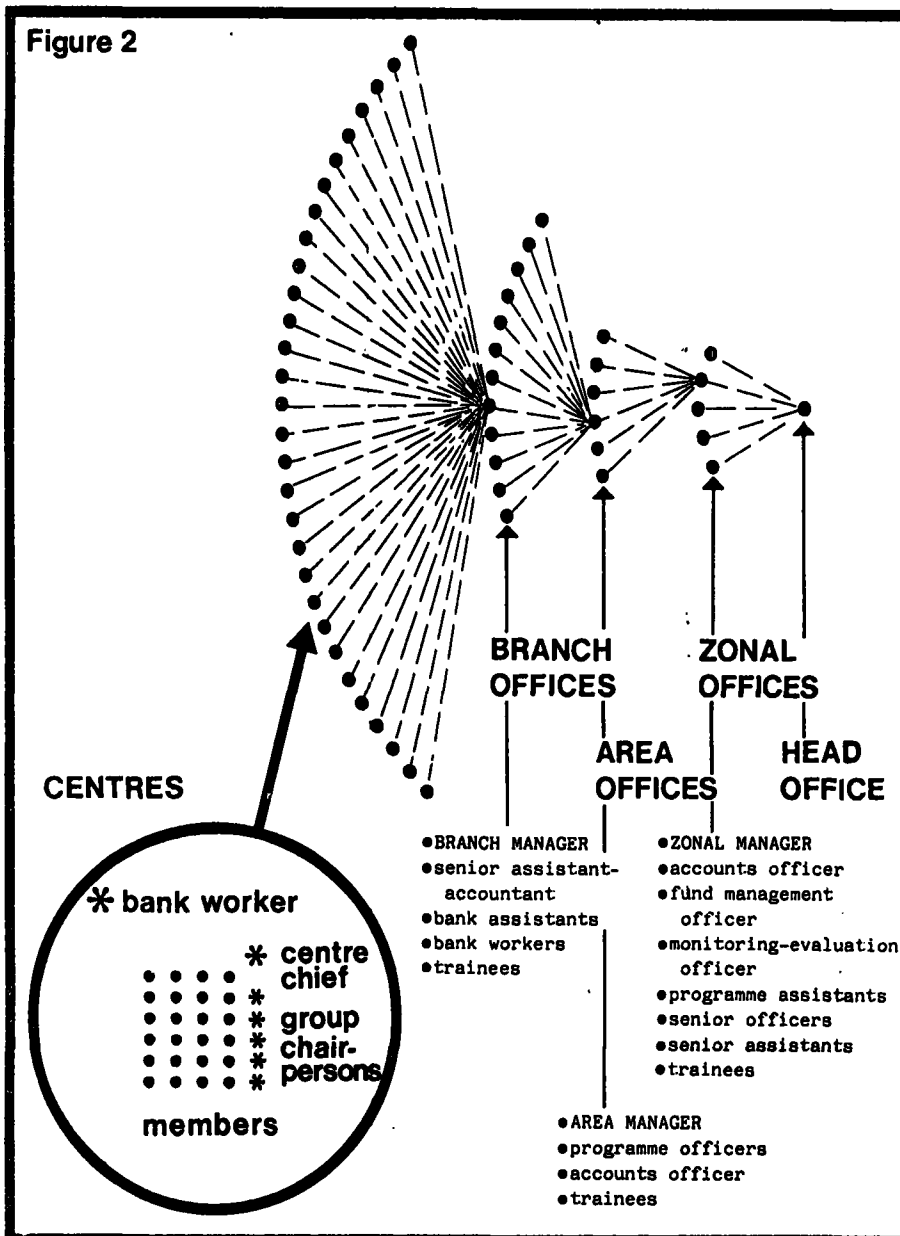
form Central Committees and elect Central Committee leaders. The Central Committee meetings should be held every week and convening such meetings is a responsibility of committee leaders.

The male members of the Central Committee should establish a Society of Rural landless villagers while all ladies should form a women's society in the village. After the organization of a new group of villagers, the Central Committee will supervise the functions of that group for about a month to ascertain whether their work is in conformity with the rural banking project. Once their supervision period is over, two members of the group will be selected and given credit facilities in the first instant. All such given facilities should be repaid by weekly instalments and such an instalment is about 2% of the total facility. If the first two members who obtained credit do not make the weekly repayments properly, other members will not receive facilities thereafter. When the repayments of the first two members are found to be satisfactory after a month, the next two members will receive their facilities. The fifth person will similarly be given the facilities one month after the repayments of the first members are found to be satisfactory. While members of the group who obtained facilities are individually held responsible for the proper conduct of the facility, the follow-up activities will be strictly conducted in respect of such facilities.

Every member of a group should deposit one Taka as a Savings Deposit and it is considered as the Fund Account of the group which is also maintained by the group itself. Moreover, 5% of the credit facility given to members is deducted as a tax and credited to the Group Fund Account to strengthen it further. This has been cited as an example of savings a Fist of rice before it is cooked.

The group fund thus built can be used to advance further facilities to the members either for their consumption or investments. However, obtaining the consent of other members is a strong pre-requisite for one member to obtain such facilities. This group fund is also known as the small bank. Today this fund has grown so much that it has already accumulated more than 25 million Takas.

Figure 2



Rural Banking System in Sri Lanka

Beginning and Development

The primary objectives of the People's Bank, namely, the development of the rural economy and the fight against rural indebtedness by taking the banking system to the doorstep of the rural people, were the main factors which led to the establishment of the rural banking system in Sri Lanka.

The first Rural Bank in Sri Lanka was established at Menikhinne in 1964 with the major objectives of doing away with rural indebtedness through the identification of and meeting rural needs. The Rural Banking System thus begun has over the years joined hands with Co-operative Societies and expanded into a vast network of thousands of branches all over the island. During the last 28 years the network of rural bank branches has been effectively in operation carrying further the objectives of the People's Bank.

When studied in comparison with the Grameen Banks, our rural banking system has achieved a rapid progress, maturity and an ability to withstand any challenge or adjust itself to modernization. These characteristics of our rural banking system are well substantiated by the stability of its deposit advance structure and its strong network of branches. The Grameen Bank, however, do not have all those characteristics even after 15 years of inception. The Grameen Bank has failed to achieve such a rapid progress in the branch network or its deposit advance structure.

Aims and Objectives

It appears that there is no strong difference between objectives of the Grameen Bank and that of our rural banking system. Both systems seem to have almost equal objectives.

The vicious circle of poverty is a characteristic common for any Third World country and as such Sri Lanka and Bangladesh being two developing countries are also having the subsequent problems of indebtedness. However, our rural banking system is much more advanced than the Bangladesh Grameen Bank where the objectives and the operation are concerned. One could,

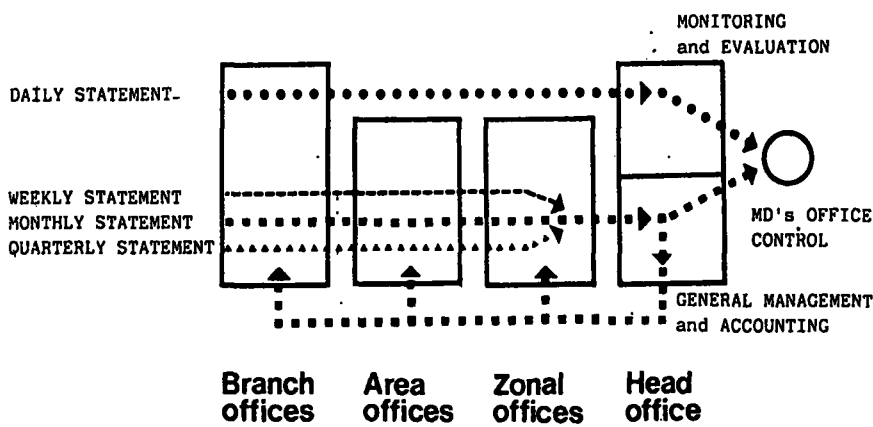
This overview shows the various management units and the categories of staff attached to those operating at the field level. The enlarged circle represents one centre with its 30 members. It shows how members organize themselves according to their groups in rows of five at the weekly centre meeting.

Emergency Fund

In addition to Group Fund the group should also build an Emergency Fund. This is meant to be a sort of insurance fund to cover such instances as defaults, deaths and accidents. In case a beneficiary of the Grameen Bank Project has died, a compensation will be provided by the Emergency Fund to meet the liabilities of the deceased and the funeral activities and to enable the dependants of the deceased to start a new project.

When these features of the Grameen Bank are compared with that of our rural banking system, we can see that certain important characteristics of the Grameen Bank are inherent in our rural banking system as well. Such a comparison will certainly lend us a general outline of the way in which our rural banking system should be reorganized.

Figure 3



3. General management processes information on the basis of weekly, monthly or quarterly statements from the branch officers. In contrast, Monitoring and Evaluation is based on a daily statement processed independently in parallel. This arrangement provides for reliable control and early warning of problems.

therefore, contend that the Grameen Bank may have borrowed the methodology from our rural banking system.

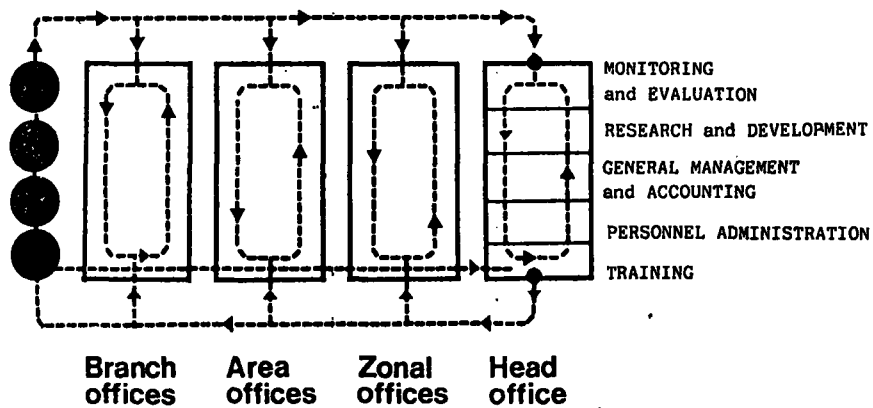
Operational Process

When both banking systems are carefully studied one could clearly see that

the operations of the Grameen Banks had outdistanced that of our rural banking system. One could attribute this operational success of Grameen Banks to the fact that they have evolved their system to suit their own conditions from ours particularly after identifying the

Figure 4

Centres



4. Information from the centres and from within the Bank itself, is circulated to all members and staff throughout the system with speed and accuracy, Training is linked directly to work in the centres.

weaknesses of our system.

Here it is important to note the project Director's position, his functions and responsibilities, educational qualifications, and other skills as well as the dedication of his subordinate staff to service and the way they have been motivated to dedicate themselves to work in the Bangladesh Grameen Bank. What is more appreciable in this context is the provision of infra-structure facilities to motivate the staff of Grameen Bank to realise its desired objectives. For instance, such items as bicycles, raincoats, electric torches, shoes, bags etc. have been provided to motivate the field bound staff.

Our rural bank staff, however, have not been provided with such facilities. Low salaries, non provision of incentives, and other necessary facilities have, in fact, discouraged the staff of our rural banking system from doing their field activities. As such they show no interest in follow-up of the given facilities nor are concerned with aspects prior to the release of the credit facility.

However, our rural bank staff do not have such educational qualifications nor have been provided such infrastructural facilities. Their field operations have almost come to standstill for want of necessary facilities, incentives and better salaries. In the circumstances, no follow-up activities are carried on in respect of the given facilities or investigations prior to the provision of facilities. Thus it is impossible for rural banks to consider improving advances and hence a lagging in the whole process.

It is, therefore, clear that the operational process of the Grameen Bank is more successful than that of our rural banking system and what is eventually necessary for our rural banking system to be more effective and useful is a modernization of the whole process. Particularly the lending procedure of the rural banking system need to be revamped and the lessons to be learnt from the Grameen Bank may be very useful in this exercise.

In such endeavours strong emphasis should be placed on the proper utilization of deposits in rural banks and the existing resources of the village and looking upon

Figure 5

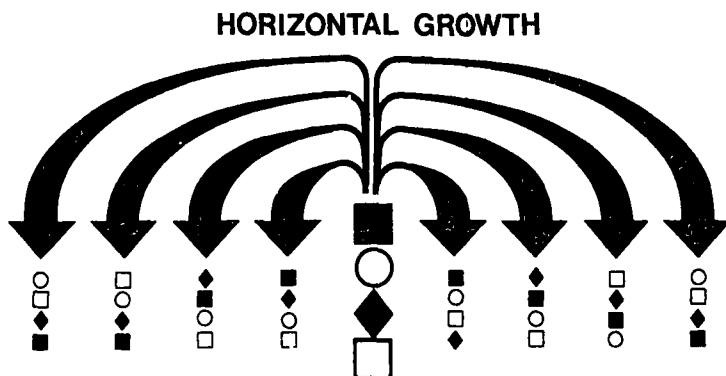
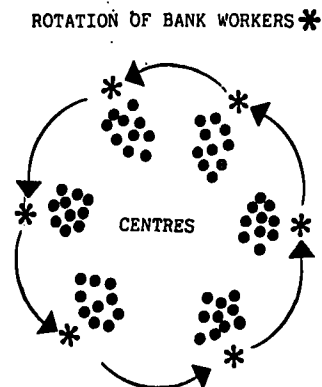


Figure 6



5. Service functions are not allowed to grow big. Instead, they are held in manageable formats which function in parallel.
6. Bank workers, branch managers and other staff are frequently rotated. It broadens everyone's experience and hampers entrenchment of vested interests.
7. Overview of approximate worktime spent on supervision in branches and centres. Zonal managers travel at least 5 to 8 days every month on inspection. Area and programme officers spend up to 25 days engaged in centre level activities. Branch staff spend most of their time in contact with members in centres and villages.

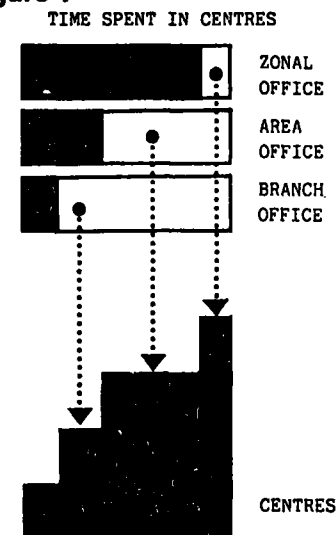
the rural banks as a mechanism of improving the conditions in the village.

It has been observed that the present extended lending process of our rural banking system should be revised. In the first instance, attempts need to be made to identify rural needs, devise projects

suitable for villagers, provide credit on slight securities with prior investigations, and proper follow-ups. In this process it is also important to redesign repayment schemes to suit the villagers.

The present extended lending system of our rural bank is an important concept.

Figure 7



Branch Network — Deposits and Advances of Co-operative Rural Banks
As at 91.9.30 (People's Bank Regional-Wise)

Region	No. of Branches	Total Savings Deposits	Total Fixed Deposits	Total Advances Pawning.	Total Advances Short Term Loans
1. Anuradhapura	61	94,789,797	3,929,122	10,578,887	42,510,342
2. Badulla	64	120,198,685	10,608,500	31,554,422	73,204,670
3. Batticaloa	34	16,613,513	561,166	8,906,948	3,238,539
4. Colombo	73	310,034,872	37,388,620	150,409,415	121,969,693
5. Gampaha	124	509,131,825	35,510,266	205,203,096	161,870,267
6. Jaffna	48	67,068,001	13,589,293	4,680	55,893,827
7. Kandy	75	207,411,416	28,491,643	63,529,618	86,854,862
8. Matale	21	52,361,481	8,556,463	14,606,259	33,893,204
9. Nuwara Eliya	29	59,033,799	9,886,458	15,255,803	24,066,049
10. Kurunegala	165	457,810,289	30,018,840	32,882,964	258,736,228
11. Galle	70	265,106,721	29,581,694	51,610,716	114,764,149
12. Matara	98	287,030,320	27,531,426	33,950,782	100,242,381
13. Kalutara	54	167,666,025	17,912,680	42,986,416	53,235,130
14. Kegalle	61	149,842,872	9,776,213	12,483,640	82,026,689
15. Ratnapura	59	193,848,643	18,333,106	36,340,505	43,754,670
	1,051	2,957,948,259	281,775,490	710,304,131	1,256,260,700

Source: People's Bank, Statistica Department.

Figure 8

THE SIXTEEN DECISIONS

1. THE FOUR PRINCIPLES OF Grameen Bank — DISCIPLINE, UNITY, COURAGE AND HARD WORK — WE SHALL FOLLOW AND ADVANCE IN ALL WALKS OF OUR LIVES.
2. PROSPERITY WE SHALL BRING TO OUR FAMILIES.
3. WE SHALL NOT LIVE IN DILAPIDATED HOUSES. WE SHALL REPAIR OUR HOUSES AND WORK TOWARDS CONSTRUCTING NEW HOUSES AT THE EARLIEST.
4. WE SHALL GROW VEGETABLES ALL THE YEAR ROUND. WE SHALL EAT PLENTY OF IT 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 MINIMISE OUR EXPENDITURES. WE SHALL LOOK AFTER OUR HEALTH.
7. WE SHALL EDUCATE OUR CHILDREN AND ENSURE THAT THEY 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 TUBEWELL WATER. IF IT IS NOT AVAILABLE, WE SHALL BOIL WATER OR USE ALUM.
11. WE SHALL NOT TAKE ANY DOWRY IN OUR SONS' WEDDING, NEITHER SHALL WE GIVE ANY DOWRY IN OUR DAUGHTERS' WEDDING. WE SHALL KEEP THE CENTRE FREE FROM THE CURSE OF DOWRY. WE SHALL NOT PRACTICE CHILD MARRIAGE.
12. WE SHALL NOT INFLICT ANY INJUSTICE ON ANYONE, NEITHER SHALL WE ALLOW ANYONE TO DO SO.
13. FOR HIGHER INCOME WE SHALL COLLECTIVELY UNDERTAKE BIGGER INVESTMENTS.
14. WE SHALL ALWAYS BE READY TO HELP EACH OTHER. IF ANYONE IS IN DIFFICULTY, WE SHALL ALL HELP HIM.
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 EXERCISE IN ALL OUR CENTRES. WE SHALL TAKE PART IN ALL SOCIAL ACTIVITIES COLLECTIVELY.

prior to the formation of the People's Bank.

The re-organization of the co-operative rural bank under the first measure has many advantages and the foremost of them all is the assistance and guidance given to it by the People's Bank for it to operate as an independent institution. In addition, the People's Bank's long experience and greater management skills could be utilized for a convenient re-organization of the co-operative rural banking system.

The position of the Co-operative Rural Bank could be further strengthened by handing over to it some complex schemes of the People's Bank, such as Janasaviya Loan Scheme and Self Employment Scheme. Acceptance of electricity bill payments, and payment of teachers' salaries could be handed over to co-operative rural banks to enrich them further and allow them to operate as branch agents of the People's Bank.

In this context various advances could be offered to suit the rural life and to improve rural living conditions. In such specific efforts the likely lessons from the Bangladesh Grameen Bank could be immensely useful and therefore it is necessary to study and research about them.

Under the second measure, a co-operative bank could amalgamate the rural bank into one separate bank. However, this needs further research before reaching any conclusion.

However, re-organization of the Co-operative Rural Bank under any one of the above two measures has to be done in agreement with the management and structure of the Bangladesh Grameen Bank and to do such, research is an indispensable requisite particularly to mould it to suit our local conditions.

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2. Jorimon and Others — Faces of Poverty — Mohammed Yunus
3. Participation as Process — what we can learn from Grameen Bank, Bangladesh. Andreas Fuglesang, Dale Chandler
4. In Retrospect 25 years of the People's Bank.

*Formulated in a National Workshop of one hundred women centre chiefs in March 1984, the 16 Decisions might be called the social development constitution of Grameen Bank. All Grameen Bank members are expected to practise and implement these decisions.

However, the problems suffered by our system could be solved by using the lessons from the Grameen Bank.

In the process of revamping the rural banking system it is necessary to study the important characteristics of the Grameen Bank as well as the role to be played by the People's Bank particularly in the light of the contribution made by other banks in Bangladesh to make the Grameen Bank a success.

Re-organization of Co-operative Rural Banks

Re-organization of our Co-operative Rural Banking System in line with modern thinking and current needs is not any easy exercise. How it is time to formulate such re-organizational plans particularly based on findings and recommendations arising from continued surveys and

specific research. In such research, specific attention needs to be given to two major sections. The potential, weaknesses, opportunities as well as bottlenecks of the Co-operative Rural Banking System could be examined in the light of the following figures.

The total deposit bank of the co-operative Rural Banking System represents Rs. 3,239,723,749/- while her network consists of 1,051 branches. This is, in fact, a very strong position and any revamping exercise should be based on this strength placing emphasis on the following two measures:

1. Re-organization of co-operative rural banks in the hands of the People's Bank.
2. Establishment of a new Co-operative Bank on the line of the former co-operative bank which existed