

Response to the Wall Street Journal Article Grameen Bank, Micro-Credit and the Wall Street Journal

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For the past several months I was being forewarned by my friends in the USA that the Wall Street Journal (WSJ) is "going to get you" -- they are coming up with a damaging report on Grameen Bank. WSJ's Asian bureau chief Daniel Pearl came to see me briefly at my office in August, on the day he was leaving Bangladesh. Later he sent me questions by e-mail. I answered. (Please visit our web-site: www.grameen.com/wallstreetjournal/ to see the Q & A.) Finally, on November 27, the report appeared, and, as forewarned, it was damaging to Grameen.

A Story Which WSJ Missed

The WSJ missed an opportunity to deliver some good news to the world at a time when we are so hungry for it. Appropriate story and the headline could have been: "Grameen Bank Overcoming Repayment Snag: Proves Credit for the Poor Sustainable Under Difficult Conditions". That's what it really is. Grameen's problem loans have declined over the past sixteen months by 50 per cent. Trend shows that the repayment rate will reach 95 per cent within the next six months. We expect that by December, 2002 repayment rate will reach 98 per cent. Instead, the WSJ chose to present a snap shot to the world, ignoring the positive trend, to show that the repayment rate at the time of writing the report was 90 per cent, instead of 95 per cent, and built the major thrust of the story around it.

I felt very happy that the WSJ endorsed micro-credit as a "great idea". It indeed is. It is a very effective instrument to empower the poor, particularly the poor women, in all cultures and economies of the world. It is cost-effective, sustainable and works in a business-way. It gives a poor person a chance to take destiny in his/her own hands and get out of poverty with his/her own efforts. The world, which has committed itself to reduce the number of poor people by half by 2015, will find micro-credit a powerful tool in its tool box. The WSJ article points out that Grameen Bank (a) is not as good as it claims. It conceals its repayment rate to make it look good, (b) Grameen's accounting system, the procedure for determining the overdues, and making provisions for them does not follow industry standard, (c) And predicts that Grameen's future will be worse because of it is "delaying inevitable defaults and hiding problem loans".

Whatever accounting system, procedures and definitions we have today, we had them with us for the last twenty-five years. Grameen is probably the most researched institution in the world. Books have been written on those research findings, students got their Ph.D.'s around the world doing their research on Grameen, the World Bank conducted a multi-year multi-million dollar research project on Grameen, thousands of experts visited Grameen poring over our books --- nobody headed for the alarm on Grameen's system, procedures and definitions. Many expressed their discomfort, dissatisfaction, unhappiness that we do not follow the "industry standard" --- but did not think our system and procedure had any fault. We always argued that as long as we are generating all the information to produce every single table, index or ratio familiar in the conventional banking world anybody can translate our information into their information. We do what we need to do. It works fine with us.

Conventional banks do not lend money to the poor because they do not consider them creditworthy. We demonstrated that there is nothing wrong with the poor. Bank rules procedures and concepts are at fault. We created a bank based on completely new set of premises and procedures. Unlike conventional banks, this bank is based on trust. We have no legal instruments between lender and the borrower. Grameen is owned by the borrowers. Nine elected representatives of the borrowers make up the board of Grameen, besides three top government officials (usually from the finance ministry) and the CEO. The board was chaired by the finance secretary to the Government of Bangladesh from 1991 to 1996, and succeeded by Professor Rehman Sobhan, an internationally reputed economist, who is still the chairman.

A Counter-Culture

Grameen had to create a banking counter-culture of its own. Grameen's central focus is to help poor borrower move out of poverty, not making money. Making profit is always recognised as a necessary condition of success to show that we are covering costs. Volume of profit is not important in Grameen in money-making sense, but important as an indicator of efficiency. We would like to make more profit so that we can reduce interest rate --- and pass on the benefits to the borrowers. In Grameen system when a borrower cannot pay back we try to activate our system to help her overcome her problems, rather than go in a punishing mode.

We consider credit as a human right. We built our system on the faith that the poor always pay back. Some times they take longer than the originally scheduled time period, sometimes natural disasters like flood, drought, cyclone, etc and political unrest, rules and procedures of the bank, make it difficult or impossible to pay back; but given the opportunity they pay back. Non-repayment is not a problem created by the borrowers, it is created by factors external to them.

We have always carefully avoided the practices of the conventional banks to make sure we do not fall into the same logical loop which kept the poor out from financial institutions. Grameen had to create new systems to balance financial and human considerations. For example, it presents loan information separately for women

and men, lists meticulously every single business of the borrowers in its annual report, and recognizes that a house is not just a house, but a workplace for the poor women, something that is categorised as a 'consumption' loan by the conventional banks is actually a 'production' loan for the poor. Grameen is a system based on human-relationships, not on threats of penalty imposed by legal system or any other agency. Grameen required new style of business, new banking culture of its own.

Sometimes people who are used to conventional banking become suspicious of Grameen because it is different. It is a conflict of two different banking cultures. Just because they do not understand us, they think we are wrong. When they spend some time with us with patience they start enjoying the exciting world of Grameen banking.

Grameen is owned by 2.4 million borrower, 95 per cent of them women. It is almost like a co-op. It is a closed club. Borrowers save, they borrow. Over the last 25 years they took cumulative total loans of Tk 151.88 billion (\$ 3.5 billion) and repaid Tk 139.17 billion (\$ 3.2 billion). The present outstanding amount is Tk 12.71 billion. When we "worry" about repayment problems, we are "worrying" about the borrowers who already paid back collectively \$ 3.2 billion ! The WSJ looks at the dollar figures and gets worried. We look at our hardworking struggling poor women who already demonstrated their capability to repay their loans many times over. We have good reasons to feel confident. Today 85 per cent of the 2.4 million borrowers are paying back their loans with clockwork precision. Only 15 per cent of them are having difficulties in paying back --- that situation was created by our standardised procedures. Borrowers are also depositors. they have a total of Tk 6.5 billion as balance in their savings account. Fifteen per cent of the borrowers who are having temporary difficulties in paying back their loans also have their balance in their savings accounts.

Grameen has stopped accepting new donor money for its operation since 1995. It has borrowed Tk 3.0 billion (\$ 60 million) locally to give fresh loans during the devastating flood of 1998. This amount will be fully repaid in May, 2002, without requiring Grameen to borrow again to replace it. Now Grameen generates enough savings, mostly from its borrowers, to repay its loans and finance its future growth. Because of steady flow of deposits, Grameen does not see any need to borrow in future. It has always paid back its domestic and international loans exactly on the dot. It will continue to do so in future.

Repayment Problem

Repayment problem was born because of our standard methodology applied in a national disaster situation, not because of the borrowers reluctance to pay back. It always amazes me how sincere the poor are in paying back their loans. If a bank staff meets a defaulting borrower, who has discontinued her contact with the bank for a period of several years, and reminds her about the outstanding loan, she never says "Forget it", or "Who Cares". She always says: "I am sorry I could not pay back. I'll like to do that as soon as I can". Given an opportunity she always does that.

We created the repayment problem in two ways. First immediately after devastating flood of 1998 (half of the country was under flood water for ten weeks, water flowed over the roof-tops) we disbursed fresh loans without requiring the borrowers to pay back the existing loans. We explained to them that they do not have to worry about the existing loans, this will be converted into a long-term loan. New loans will be their current loan. But we did not change the status of the previous loans in our books. Our internal reasoning was that this will make monitoring more easy, even though repayment rate will show a decline. We'll always understand why the decline took place. But in reality repayment problem did not remain as an accounting phenomenon, it became a real phenomenon --- some borrowers found the loan burden too heavy and discontinued paying their installments.

The WSJ says we forgave the previous loans during the flood. This is not correct. Grameen never forgives loans. Bulk of the amount we are now describing as overdue loans are these previous loans.

New Generalised Grameen System

Gradually we started noticing that our rules were not appropriate for the borrowers in this situation. We took a long preparation to develop a new flexible system and field-tested it over months. We finally introduced the new system in September of 2000. It is a simplified and generalised Grameen system. This can work equally well both in normal and disaster situations. It allows the enterprising borrowers to move ahead faster.

Everybody fell in love with it. Borrowers loved it, staff loved it --- because it is so simple, it can offer tailor-made loans rather than previous single-size-fits-all type of all loans. Good news for the WSJ, the questions they raised about provisioning, defining overdue, repayment rate etc have become irrelevant in the context of Grameen's new generalised system.

New system, basically has two types of loans --- (a) Basic loan, and (b) Flexible loan. A borrower can take a basic loan for any income-generating purpose. It can be of any duration mutually agreed between the bank and the borrower, unlike the old system where all loans were for one year. Basic loans can be for 3 months or 6 months, or for 2 years or 3 years. Unlike the old system, now amounts of weekly repayments can be varied during the loan period, according to the pre-negotiated amounts documented in an agreed repayment schedule.

Borrower has to pass through a very strict six-monthly loan quality check-point. If a borrower fails to pay the total amount she is supposed to pay, according to the repayment schedule, during the past six-months, she is classified as a defaulter. Now the entire unrepaid amount, even if it is the first six months of a 3 year loan, becomes overdue. Hundred per cent provision will be made for all overdue loans, unless it is converted into a "flexible loan".

If a defaulter wants to continue to repay her overdue loans she can do it by converting the overdue amount into a flexible loan. Flexible loan is actually a rescheduled loan. She can negotiate her repayment schedule. Fifty per cent provisioning will be made for the outstanding amount under the flexible loan, even if her repayment rate is 100 per cent.

If a borrower fails to repay the flexible loan according to the schedule, the loan becomes overdue, and hundred per cent provisioning will be made for the overdue loan. The borrower will again have the option to renegotiate the loan and convert it into a flexible loan.

Fifty-five per cent of borrowers of Grameen have already moved from the old system of multiple loans to generalised single loan system. Now it has become easy to check the quality of the loans; basic loans mean loans having hundred per cent repayment, flexible loans mean loans at risk. Year 2002 will be the year of completion of the transition process from the old system to the new system. By the time this transition process will be completed our guess is 85 per cent of the borrowers will be on basic loans and 15 per cent on flexible loans, aggregate repayment rate will be 98 per cent and above. In the new system the repayment rate is determined by the ratio between what was the weekly installment the borrower agreed to pay on a particular week according to the repayment schedule, and what is the amount she actually paid. It would no longer be determined under the old method. We'll not have any misunderstanding left on this issue.

Fifty-one per cent of our 1170 branches now have switched to computerised book-keeping and MIS. We hope to have 85 per cent of our branches come into computerised book-keeping and MIS by the end of 2002. This makes it easier for the generalised Grameen system to offer all its attractive features for the benefit of the borrowers.

New system has brought another excitement and inter-branch competition in Grameen. This system has introduced a grading system for branches. This grading system awards colour-coded "Stars" to indicate the quality of performance of a branch. If a branch (typically 2,500 borrowers) has 100 per cent repayment record for two consecutive years it is awarded a green star. If the repayment falls below it during any two successive years, the star is lost. A branch can similarly earn stars for earning profit (blue star), for carrying out its entire loan programme with its own deposits, even generating surplus of deposits for the use of other branches (violet star), by making sure that hundred per cent of the children of Grameen families are in school or have graduated from primary school (brown star), by making sure that all the borrowers in the branch have crossed over the poverty line, certified through an evaluation of each family with a rigorous ten-point test of Grameen (red star). Branch staff can actually wear the stars as a badge of honour and display their stars in the branch stationery to show their achievement.

Now there are 388 branches with one star or more. There are 10 branches with 4 stars. No five star branch yet. We are expecting that by the end of next year branches with atleast one star will increase to 550, that is nearly one-half of all branches. We hope to find atleast one branch with 5 stars. Someday we hope all our branches will be five star branches. That's our mission --- to make all our branches five star branches. Our 12,000 staff work very hard to make that dream come true.

Central Bank Supervision

We can raise our repayment rate to 100 per cent instantaneously by a simple decision to write off all our overdue loans. We have more money in our loan-loss reserve (Tk 3.8 billion) than the present overdue loans. But we chose not to go that way, we want to do it the harder way --- by improving the repayment situation and recover the overdue amount. We do not want to abandon our borrowers/owners by disqualifying them to remain within the Grameen fold. We want them to change their life with Grameen, by solving their problems with Grameen. We don't want to push them away with their problems. We never think of walking away from them. If they don't succeed, there is no reason for us to exist.

The WSJ gives the impression that Grameen makes less than required loan-loss provisioning. Industry standard in Bangladesh is set by the central bank of Bangladesh. We make more generous loan-loss provisioning than the central bank wants us to do. Central bank of Bangladesh has the responsibility of audit and inspection over us. They check our books carefully. We have never heard any complaint from them about our provisioning criteria.

Factual Error

WSJ says PKSF was set up in 1991 "to distribute foreign funds to other Bangladesh micro-lenders". WSJ could not be more wrong. You give a bad name to another reputed world-class organization. PKSF was set up to resist donor money. It started out by stubbornly refusing donor money which was put at its doors. PKSF did that not because it did not need money, it did that because it did not want the dependency that comes with receiving the donor money. PKSF started out with 100 per cent Bangladesh government money. It developed its own organizational and operational style. It established its own credibility as a sound financial organization. When it knew exactly what it wants, how it wants, firmly set up the standard for its programme, only then it opened its doors for the donor money at its own terms. Now international donors come to give money to PKSF. But since PKSF knows how much money it needs, and for what, most of the time PKSF is saying, "No, thank you" to the donors.

Concealing Information

Grameen always tried to remain as transparent as an organization can be. It started to distribute widely its monthly statement containing all basic information about its operation from February, 1980, nearly twenty-two years back, when it was not even a bank yet. It contained all information about disbursement, repayment,

borrower numbers etc. all disaggregated by gender, and by region. It never failed to produce it and distribute it globally every single month for the last 262 months ! Among the many universities, donors, and libraries who receive this monthly statement US Library of Congress is one. One may not like our information format, but nobody can complain that we do not share our information. Web-site never became part of our management system. It was the product of IT enthusiasts in the bank. It remained unattended, and unupdated. Sorry that it carried wrong information on our repayment rate. Your reporter collected samples of old monthly statements beginning from the very first one in 1980 and quoted from the most-recent monthly statement, but did not mention its existence in the report.

We publish our Annual Report every year. This contains, besides many other interesting economic, financial, and social information, balance sheet, profit and loss accounts, and cash flow statement for the year, audited by two top audit firms of the country, firms which are affiliated with international audit firms. Nobody ever complained that these reports lacked anything by way of disclosure.

Safety of Depositors' money

Ninety per cent of Grameen deposits come from the borrowers. They borrow several times more money from Grameen than the money they put in their accounts. So the safety of their deposits is automatically guaranteed. Again, they are the owners of the bank too.

A Proposal for WSJ

Grameen has just reached its twenty-fifth birthday. It has been a long way to get here. It is the only bank in the world owned by poor women. We did not expect the most highly respected financial daily of the world would rush to negative conclusions about us without giving us a fair hearing.

I have a proposal for the WSJ. I propose that the WSJ send two top financial reporters (atleast one woman) to Grameen for two weeks or more to find answers to the following questions :

- a) Will Grameen have more overdue loans (by any definition they choose) one year from now than it is today ? Will there be increase in non-performing loans ?
- b) Is Grameen's repayment rate (by any definition they choose) likely to be lower one year from now ?
- c) Do they find Grameen's reporting system transparent and adequate ?

You owe this to Grameen, to its owners, to the large network of committed social entrepreneurs who follow Grameen in their work, as well as to the millions of poor women and their families around the world who would have benefited from micro-loans if you had not put a cloud over Grameen and confused the policy-makers in a year when world leaders will be frantically looking for solutions to massive global poverty.

I hope you'll find my proposal very reasonable.