HOW DO MFIs REINVENT THEIR BUSINESS MODEL IN ORDER TO BE SUSTAINABLE? THE CASE OF GRAMEEN BANK TRANSFORMATION TO GRAMEEN II

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Spring 2009
ABSTRACT

TITLE: How Do MFIs Reinvent Their Business Model in order to be Sustainable? The Case of Grameen Bank Transformation to Gramen II

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COURSE: Master Thesis in Business Administration, 15 credits

KEY WORDS: Microfinance, Microcredit, Micro Finance Institution, Sustainability, Business Process Reengineering (BPR), Grameen Bank.

Microfinance Institutions (MFI) is an organization that provides financial services (microcredit, saving schemes, etc.) to the poor who are considered as ‘not bankable’. MFIs have been proven as a great contributor in poverty alleviation in addition to bringing development to the poorest areas in the world which in the long run will reduce world poverty; however their sustainability is at stake. It is vital to understand the variables that impact the failure and success which determine its sustainability. Hence, we aim to answer this research question – How MFI’s reinvent their business model in order to stay sustainable.

The paper will focus on Business Process Reengineering as one of the tools to make MFIs sustainable in the long run. A case study analysis on Grameen Bank’s transformation into Grameen II was taken consecutively to analyze how a MFI carries out a business reengineering process. All types of secondary data on Grameen Bank was collected and analyzed. For analysis we chose the method of deduction and interpretation of the primary data (interviews) and compared the results with the literature of the secondary data. In the end, in order to achieve sustainability MFIs re-invent their business model by undertaking a radical change in their ways of doing business, a complete overhaul. In future, this thesis paper would aid researchers who are interested in finding out the validity and acceptability of BPR & Grameen II: Grameen Generalized System methodology.
ACKNOWLEDGEMENTS

We would like to express our deepest and sincerest gratitude to our supervisor Emil Numminen. Without his constant assistance, suggestions and his boundless patience, it would have been impossible to complete our thesis paper on time. For this, we would always be indebted to him.

Special thanks should be given to Mrs. Jowshan Rahman. She is the member on the board of Grameen Trust and is in her mid 70’s. Her help was invaluable to us in trying to reach Dipal Barua on our behalf. Without her help, most of the work would have remained undone. She did a remarkable job for us even with her busy schedule and at this age.

We would also like to thank Mr. Dipal Barua, Deputy Managing Director of Grameen Bank for devoting his precious time for agreeing to lend his help in compilation of our thesis. His in-depth knowledge of the transformation process and the consequential events was also very valuable.

Last but not least, we are deeply thankful to our family for their endless love, words of encouragement and support.
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LIST OF TERMS & ABBREVIATIONS

ABD  Asian Development Bank
ASA  Association for Social Advancement
BPR  Business Process Reengineering
BRAC Bangladesh Rural Advancement Committee
CARE Christian Action Research and Education
ERM  Enterprise Risk Management
Grameen I Grameen Classic System
Grameen II Grameen Generalized System
GPS  Grameen Pension Scheme
IMC  Information Management Center
MFI  Micro Finance Institutions
NGO  Non Governmental organization
QC   Quality Check
**Business Model**  The architecture for the product, service and information flows. It should also describe the business actors, their roles; their potential benefits from the business model, the revenue streams involved and accompanied with a marketing strategy (Timmers, 1998)

**Collateral**  It is a banking term where bankers use this to refer to any asset taken from the borrower against the loan.

**Credit Delinquency**  Banking term which financial institutions use to define a loan on which payment is overdue.

**Default**  The failure to make a timely payment of a loan or interest.

**Equity**  It refers to the ownership of a person in an organization.

**Liquidity**  The capability of a financial institution to quickly convert assets into cash.

**Microcredit**  It is a small collateral free loan given to the poor for their self employment and income generation (Khandaker, 1998).

**Microfinance**  It includes a wider range of financial services such as deposit schemes, micro savings, micro insurance provided to the poor.

**Reengineering**  To disregard all assumptions and traditions of the way business has been done previously and develop a new process centered business organization that achieves a quantum leap forward in performance (Hammer & Champy, 1993)

**Risk Management**  A technique used by firms to manage risks and seize opportunity in line with their goals and objectives.

**Sustainability**  The ability to achieve full cost recovery or profit making and last into the future without the help of external funds (Conning, 1999).
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CHAPTER 1: BACKGROUND AND PROBLEM STATEMENT

1.1. MICRO FINANCE INSTITUTIONS AND THEIR SUSTAINABILITY

Microcredit is the extension of small amounts of collateral-free institutional loans by Micro Finance Institutions (MFIs) to poor people, unemployed or poor entrepreneurs which usually jointly liable group members for their self-employment and income generation (Khandker, 1998). In other words, microcredit is where a small amount of money is loaned out to poor people without taking anything as security. Usually, these small amounts of loan are lent to people in various schemes but the most common schemes are group based lending and individual lending. Microcredit is a part of microfinance which is the wider range of financial services provided by MFIs to the poor community. Other products and services of microfinance include micro savings, micro insurance and various deposit schemes.

In a more formal term Micro Finance Institutions (MFIs) is defined as financial institutions with a primary objective of making credit available to that segment of the population which has been ignored by the commercial banking system for not having collateral requirements or in other words not bankable (Pollinger, et al., 2007; Qayyum & Ahmad, 2006). As per ADB, MFI is defined as an institution that provides a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their microenterprises. MFIs target that part of the population which reel under the poverty line or low income group that do not have enough money or assets to sustain a proper stable livelihood. By stable, we mean being able to bear the basic necessities of life, i.e. food, clothes, shelter.

It has been proven that MFI have a great contribution in poverty alleviation as well as bringing development to the poorest areas in the world which in the long run will reduce world poverty (Alexander, 2000; Conning, 1999; Fernando, 2004; Qayyum & Ahmad, 2006). However there are problems that faced by MFIs making them not able to sustain in the long run even though some of them still receive subsidies from Government and foundations (Pollinger, et al., 2007;
Qayyum & Ahmad, 2006). Essentially what we mean by sustainability, as also suggested by (Conning, 1999) is the ability to achieve full cost recovery or profit making and last into the future without continued reliance on government subsidies or donations. Hence, the situation shows that most of them are performing very poor because even when some of them who are still getting subsidies could not survive. Out of the many MFIs that are established only a few are able to maintain sustainability in the long run, such as the Grameen Bank in Bangladesh, Bank Rakyat Indonesia, BancoSol in Bolivia, MiBanco in Lima Peru and ProCredit in Nicaragua. (Alexander, 2000; Barnett, 2006; Maurer & Seibel, 2001; Patten, et al., 2001; Pollinger, et al., 2007; Qayyum & Ahmad, 2006).

In order to warranty the long term function of the MFIs in fighting poverty and develop the poor regions in the world it is vital to understand the variables that have an impact in the failure and success which determine its sustainability. This research paper will try to analyze one of the ways to make MFIs sustainable in the long run without being dependant on external fund sources such as donations or government support. The paper will focus on business process reengineering as one of the tools to save MFIs from going insolvent. Reengineering or reinventing the business model or business process involves a radical change in doing business by abandoning the old ways and redesign a new business model. A business model as according to Timmers (1998) is “The architecture for the product, service and information flows.” Further Timmers suggest that it should also describe the business actors, their roles; their potential benefits from the business model, the revenue streams involved and accompanied with a marketing strategy.

1.2. BUSINESS PROCESS REENGINEERING AS ONE OF THE SOLUTIONS

As well as all businesses, MFIs’ environment as organizations changes through time alongside with its customer’s behavior. Management methods that works in the old time may no longer suitable in today’s environment. Moreover most organizations when they construct their first strategy in the early times of operation may have not a complete idea about its environment including a thorough knowledge about their customers. Consequently at some point in time organizations need to reinvent or reengineer their business methods in order to stay sustainable and ready to face future challenges. Reengineering is not an automation method since doing the
wrong things more efficiently will not bring, if any, much improvement to a business (Hammer & Champy, 1993) nor it is a downsizing and restructuring. As argued by (Chan Peng & Peel, 1998) downsizing and restructuring have been a shortcut to fix the past. Their goals to have slimmer organizational structure and cut cost may be achieved; however companies operated the same way as before which means no real improvement made in ways of doing business.

Rather it is a process of radical change in doing business by abandoning the old ways and starting with a new business model. As according to (Hammer & Champy, 1993) reengineering means to disregard all the assumptions and traditions of the way business has always been done, and instead develop a new, process-centered business organization that achieves a quantum leap forward in performance. Therefore reengineering is a concept of rethink and redesign of business processes in order to create significant improvement and most importantly to survive in facing challenges of today’s business environment.

In order to be sustainable and to achieve global competitiveness MFIs as organizations must have a business process and structure that are fast, flexible, low cost and consistent in delivering quality products and/or services. Hence they can easily adapt to cope with the dynamic business environment.

As the figure above shows, fundamental rethink deals with the issues of what is the organization does, how, and why is it done in the present way. Then the reengineering will create a radical design of the business process on what should be done, which finally resulted in quantum leap performance rather than just incremental improvements.
We believe that business process reengineering is one of the most important ways to make MFIs sustainable because it does not act as a quick fix which is usually only deal with the symptoms of the problem, instead it deal with the root cause of the problem by making a thorough check of the whole business process, identify the problem then invent a new process as a solution. In order to understand deeply about how reengineering process take place we are going to study the transformation of Grameen Bank into Grameen type II in the time of crisis that had increased credit delinquency rate and threatened the liquidity of the bank.

1.3. THE GRAMEEN BANK CASE

Grameen Bank is one of the first institutions, founded by Muhammad Yunus in the village of Jobra in Bangladesh in 1976, being self sustainable for more than 3 decades (Zapalska, et al., 2007). Since the birth of Grameen and its formal establishment as a bank in 1983 it has been quite successful in delivering micro credits and maintaining its high repayment rate up to 98% (Yunus, 2005) even though Bangladesh has been hit by a number of major natural disaster during those time. However in 1998 there was one of the worst natural disasters in their recent history. The flood covered more than two-thirds of the country and caused 2.04 million metric tons of rice crop losses (Ninno, et al., 2001). Water flowed over the roof-tops of people’s houses for a long period of time and half the country was under flood-water for about ten long weeks. Many people as well as Grameen borrowers lost most of their possessions such as crops and their houses which were a place to stay as well as their factory to produce. Soon borrowers start to avoid weekly meeting and stop paying their loan installment which creates an enormous liquidity problem for Grameen Bank. Finally Grameen decided to reengineer their business process since they feel that the rigid system they have been having will no longer survive with the biggest test of great natural disaster Bangladesh faced at that moment (Dowla & Barua, 2006).

Further we will try to investigate how Grameen as an MFI undertook business process reengineering, what was the trigger and how they have change their way of doing business.
1.4. RESEARCH QUESTIONS

At one point in time an organization must evolve their strategy and business model to cope with the changing business environment as well as to better fit with the changing behavior of its client. When an organization first established it only has partial knowledge about its business environment and its customers, therefore in time as they discover and learn more they will gradually realized that their business strategy may no longer suitable and need to be reengineered in order to stay sustainable. The great catastrophe that hit Bangladesh in 1998 may become one external trigger that challenged the solidity of Grameen business model which eventually reveal its weaknesses.

In our endeavor to analyze the lesson learnt from Grameen Bank experience in its struggle for sustainability which transformed Grameen I to Grameen II we came up with the following research questions:

- How MFIs re-invent their business model in order to stay sustainable?

1.5. RESEARCH PURPOSE

The purpose of this research paper is to analyze the lesson learnt from Grameen Bank in their attempt to sustain which lead to the transformation from Grameen I to the new business model Grameen II. We will have a look on why Grameen Bank decided to change its business model and how did they reinvent themselves.

1.6. LIMITATION

Like every thesis paper, this paper also has a limitation and that is proximity and time. Due to the long distance between us and Grameen Bank, we faced acute difficulties in trying to convince some of the Grameen Bank employees to participate in our surveys and discussions. The reasons for their reluctance to participate were the long distance & hectic schedule and in addition they felt that they should be interviewed personally. In the end, we were only able to have one (1) interview with Mr. Dipal Barua, Deputy Managing Director of Grameen Bank through email.
1.7. STRUCTURE OF THE THESIS

The first chapter is basically about the background information of the topic, i.e. lengthy discussion about Microfinance institutions and Sustainability issues. We emphasize that Business Process Reengineering is one of the techniques to make a microfinance institution sustainable. Also research question and its aims & objectives are also said.

The second chapter is all about the methods we have chosen to answer the research question. Reasons for choosing a Case Study analysis is given and also information on how primary and secondary information was collected and how the data are analyzed to formulate the conclusions in respect to the research question.

The third chapter is about the theoretical background of Business Process Reengineering, Microfinance Institutions and Sustainability. All these three separate subject matters are discussed and interrelated to each other.

In the fourth chapter, everything about Grameen Bank is said, ranging from how Grameen was born to where Grameen Bank stands today.

The fifth chapter is where all the findings and data’s interpretation are mentioned and lengthy discussion follow on what we have found and an in-depth explanation of the research question is also affirmed.

Sixth chapter is the concluding discussion of the thesis paper, it includes the people that will benefit from this thesis paper, what further researches should be done in this area and limitations encountered during compilation of the thesis paper.

In the appendix, we have included the interview question along with the answers of Mr. Dipal Barua who hold the position of Deputy Managing Director.
CHAPTER 2: METHODOLOGY

This thesis is an exploratory research or study that will investigate how firms re-invent their business models to become sustainable again. The foremost concept in revitalizing a business is to adopt the principles of Business Reengineering. The aim is to relate sustainability to the concept of business reengineering and we hope to achieve this by using Case Study approach, where we would analyze the transition of Grameen Bank from their Grameen I to Grameen II business model.

2.1 WHY CASE STUDY?

Case study is a technique in which issues of both past and present is explored and also their influences an entire organization unit (single case study) or a group of organizational units (comparative case study) and in which the future is forecasted based on the recommendations made (Jankowicz, 1995).

As mentioned in the first chapter, our thesis is about investigating deeper into the phenomenon of sustainability using the concepts of business reengineering. So, what we intend to find is that how firms have been able to change their entire business model completely and restart their business achieving the aim / target of sustainability. Our topic is such that it warrants familiarization with normal real life situations and also a holistic understanding of the situation.

Our research questions are formulated in such a way that it focuses on a set of issues that needs to be seen from seen from a single organizations’ point of view. Also, our thesis involves questions of ‘how & why’ which are best answerable through the use of case study. According to Yin, ‘such questions deal with operational links needing to be traced over time, rather than mere frequencies or incidence’(Yin, 2003).

As Robson defines case study as ‘a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence’(Saunders, Lewis, & Thornhill, 2007).
Therefore, we will be using a Single Case Study approach as our research strategy for primary data collection because it is appropriate and suitable in solving our research problems or questions.

The purpose of case study is to increase the understanding of the particular situation, event, person, etc. This in-depth focus on the specific problem area can thus offer the following advantages (Sue, 1997) :-

- It offers a holistic view of the research question
- Allows to get a comprehensive view and a thorough understanding of the research area
- Obtaining affective information that cannot be collected from other means
- Enables to formulate a hypothesis that can be tested in future experiments or researches, in other words, a generalized idea of the concepts can be made from the findings

2.2. WHY QUALITATIVE RESEARCH?

Qualitative research is rather a technique where non numerical data or data that cannot be quantified. It is also a field of inquiry that crosscuts disciplines and subject matters (Denzin & Lincoln, 2005).

Our research question is not appropriate for quantitative research because quantitative research is more of a scientific exploration of events that can be represented numerically. The purpose and aim of quantitative research is to construct and apply mathematical model, statistical analysis and theories in proving a hypothesis related to natural phenomena or occurrence. Our findings cannot be represented numerically or put a value to it and also we cannot apply mathematical models or concepts to solve the problem.

For instance, we want to find out the causes of reengineering for that specific firm, the feedback or the data obtained would be in the form of words or sentences. There is no other way to find the answers for such type of question besides qualitative methods. Also, to conduct analysis, conceptualizations is needed and not diagrams or statistics.
2.3. DATA COLLECTION METHOD

The data will be collected from primary and secondary sources. The primary data sources would include interview of several key personnel in the Grameen Bank management, especially those employees who has been involved in the transition period.

Semi Structured Interview of key personnel in Grameen Bank from different levels of management in order to get a complete picture of how the business reengineering process undertaken, how did it begin, what was the main drivers, what was the obstacles and how did they overcome them till finally arrived at the new architecture of Grameen Bank that has proven to be successful until today.

The reason for not having a structured interview and that is because we do not want to limit the answers and also would like to remain open minded of other things.

So, we initially planned to have a semi structure interview with some employees of Grameen Bank and the top management, we choose semi-structured so that we can ask new questions based on the answers the interviewees are giving. We had a lot of correspondence with Mr. Dipal Barua (the Deputy Managing Director) about allowing us the chance to interview him and other staff members of the bank. In fact, we also called him couple of times to ask him when would be the best time to have an interview over telephone. However, Mr. Dipal Barua at that time was very busy preparing for his trip to Europe that he could not manage to give us a telephone interview but he did later agree to participate in a questionnaire format interview. Furthermore, he did not grant us the permission to interview other Grameen staff though we did try to reach them by other means.

Unfortunately, due to the busy & hectic schedule and the reluctance of the staffs of the bank to cooperate in such interview we had to change our plans. Therefore, due to such build up circumstances, we had no choice but to revert to a structured questionnaire which sent via email to Mr. Dipal Barua. In the end, we had to be content with just one interview and that of Mr. Dipal Barua, as an integral figure in Grameen Bank and in the transformation process that resulted in Grameen Generalized System or Grameen II.

Secondary Data sources including financial statements of Grameen Bank, all published materials on the transformation of Grameen I to Grameen II, database of Asian Development Bank and
previous researches & thesis done in this area, i.e. transformation of Grameen Bank from Grameen I to Grameen II, examination of both the systems and other related work.

2.4. ANALYSIS OF QUALITATIVE DATA

Unlike quantitative data analysis, there is no standardized approach to the analysis of qualitative data. There are basically four approaches that correspond to the strategies of data collection. So, the strategies are (Saunders, et al., 2007):-

- Understanding the characteristics of language
- Discovering regularities
- Comprehending the meaning of text or action
- reflection

The first two categories require a great deal of structure, a formalized set of procedures to follow and also the data has to be analyzed deductively. Whereas the other two categories are very flexible, loosely formatted and information analyzed by inductive reasoning.

As, Sloman & Lagnado says, ‘Inductive reasoning is a way of thinking that takes a person ‘beyond the confines of current evidence or knowledge to conclusions about the unknown’(Holyoak & Morrison, 2005). Therefore, we will emphasize more on the last two strategies in analyzing our data obtained. We plan to transcribe the details of the interview and convert that into meaningful information.

Before conducting the interview, materials from the secondary data was critically examined in an attempt to identify the improvement areas so that in the interview we can concentrate only on particular fields that we need more in depth information. We mainly searched information on the transformation of Grameen I to the Grameen II model, in-depth discussion on both the Grameen methodology and theoretical concepts of Business Reengineering Process. After thoroughly studying these materials, we framed the interview questions in such a way that it covered the areas that was lacking from the literature review. Hence, the literature formed the foundation of our closing findings and it greatly helped us in interpreting or translating the responses (raw data) into meaningful information which we analyze in Analysis of Findings chapter.
For instance, from literature review, we found out that Grameen Bank had new product portfolios under Grameen II in comparison to Grameen I and there were also explanations on what were the major differences between these two methodologies, in respect to product and services. So, using this information we framed the question asking what the outlying motive to change the products was. Thus, similar examples like this helped us in formulating the interview questions and getting valuable data saving us both time and effort.

Once the interview was conducted and the main concepts and theories revisited, the feedback of the interview (in this instance the filled up questionnaire). The information obtained from the questionnaire was interpreted & deduced and compared with the records of the literature. This process of interpretation is called reduction and classification. However, since we just have one interview, the classification of our findings could not be made. Through this process, the patterns and the casual relationships were identified and hence the findings are conforming to the research questions stated in this thesis.

2.5. BACKGROUND OF THE RESPONDENT

We interviewed Mr. Dipal Chandra Barua, he is the Deputy Managing Director of Grameen Bank; that is the second highest position at the organization after Dr. Muhammad Yunus. Dipal Barua has been alongside with the founder since the Grameen’s inception. He has been a integral part of the organization and he deserves most of the credit for the success of Grameen Bank. In 1998, the flood had devastated the whole nation and also severely affected Grameen as well. When the top management decided to make wholesale changes to the Grameen I methodology, Dipal Barua was given the responsibility to oversee all the activities that took place in order to transform Grameen Bank and to supervise the full implementation Grameen II methodology – Grameen Generalized System. Therefore, getting the change to interview him was a chance of a lifetime because he knew everything about the transformation and in depth information about all the events surrounding the transformation, in this case Business Process Reengineering. This is why the findings & the conclusion can be deemed valid and accurate.
3.1. BUSINESS REENGINEERING

3.1.1. Definition

In principle, Business Process Reengineering (BPR) is a comprehensive process that an organization goes through to reinvigorate their business prospects by abandoning their previous business model and inventing new ways to do business. Various definitions of Business Reengineering have been put forward by several authors, some of the notable ones are:-

- "The fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance, such as cost, quality, service, and speed." (Hammer and Champy, 1993)
- "Encompasses the envisioning of new work strategies, the actual process design activity, and the implementation of the change in all its complex technological, human, and organizational dimensions." (Davenport, 1993)
- A way of looking at Business Reengineering is expressed Davenport & Short as quoted in Malhotra & Yogesh (1998), that they define BPR as "the analysis and design of workflows and processes within and between organizations".
- Another definition of BPR is suggested by Teng as quoted in Malhotra & Yogesh (1998), where he defines BPR as "the critical analysis and radical redesign of existing business processes to achieve breakthrough improvements in performance measures."

3.1.2. The Process

The BPR process begins with the analysis of the organization’s mission, strategic goals and customers’ needs by the top management. The process concentrates on the organizations procedures that govern how resources are used to create products and services that meet the needs of the customer or the market in general. The process identifies, analyzes, and redesigns an
organization's core business processes with the aim of achieving dramatic improvements in critical performance measures, such as cost, quality, service, and speed (United States General Accounting Office, 1997)

3.1.3. In Aspect to Financial Institutions

However, Business Process Reengineering is not a universal technique that can be applied to all firms, the process and the procedure, it has to be tailored made according to the industry and the form of the organization. The nature of BPR projects in financial institutions differ from those of other organizations simply because financial institutions are more information orientated and service based.

The methodology for financial institutions is phased in four phases(Shin & Jemella Donald, 2002):

- **Energize:** This is where all the steps are undertaken to initiate the process, and thus efforts are made to start the process. The goal of this step is to provide the motivation and the vision so that the process can be launched.
- **Focus:** In this step the environment of the organization is analyzed and also the company itself is thoroughly examined so that the problematic areas can be identified.
- **Invent:** In this step, the new business systems starts to take a shape and also shows how the business will be carried out in the future.
- **Launch:** Finally the entire BPR process is in the finishing stages, and the firm concerned sketches out a timeline for the implementation of the new business model.

Successful implementation of Business Reengineering leads to the transformation of the business and eventually leads to new product, services and enhanced customer service(Davidson & W.H., 1993). However, nearly 70% of all reengineering projects fail, that is attributed to the commitment from the management and also the lack of tough decisions(Shin & Jemella Donald, 2002).
3.1.4. Causes of Reengineering

Companies decide to reengineer for many reasons and these reasons can be categorized into two groups – internal factors and external factors (Peng & Peel, 1998).

The external factors consist of customers, competitors, external environment. Customers are very important for a company and customers has the final say over purchasing products or services, so a company decides to reengineer when they are having difficulty in selling their brand, hence their survival rests on the customers and their competitors. Sometimes a companies might also need to change when the external environment changes. Some examples of external environment could be rapid change in technology, change in governmental policies or a change in demographics.

The internal factors consist of the need to automate, increase efficiency, lower cost and to redefine strategic focus. The need to automate the business processes is very important because it streamlines the entire process and hence the organization. In some instances, increasing efficiency affects lots of things, such as the productivity of the organization, eliminates repetitive tasks, speeding up product development and also improving human resource practices. Successful implementation of all these things leads to the reduction of operational costs, hence more profit margins.

3.2. MICRO FINANCE INSTITUTIONS

3.2.1. Background of MFIs

Microfinance started to gain popularity in the 1980s, even though early experiments have been done in 30 years date back in some countries like Brazil and Bangladesh (Ledgerwood, 2000). In fact the history of it can be dated back to Europe in 18\textsuperscript{th} and 19\textsuperscript{th} century. For instance, in the 18 century there were informal savings clubs like box clubs that dealt with community lending and savings. Another famous example could be of the Irish Loans Funds which basically came into existence in consequence of increased poverty in the 1720’s. In the beginning these were charitable organizations but later they transformed into financial intermediaries that allowed them to charge interest on these loans and also to collect interest bearing deposits. In 1840 about 300 such institutions emerged whose outreach covered 20 % of households in Ireland. However,
due to intervention from the commercial banks, their advantage was lost and hence collapse was inevitable in 1950s. Similarly there were other instances of micro credit in Europe mainly in Germany (Siebel, 2003)

The term microfinance itself can be described as small scale financial products and services such as microcredit, micro savings, micro insurance, remittances and other services. In addition these products and services must provide financial benefit to poor people or people with very small to no income at all. (Cabral, et al., 2006)

3.2.2. The Framework of MFIs

The institutions that offer these ranges of financial products and services are called Micro Finance Institutions (MFIs). Some scholar defined MFIs as financial institutions with a primary objective of making credit available to that segment of the population which has been ignored by the commercial banking system for not having collateral requirements (Qayyum & Ahmad, 2006). As per Asian Development Bank (ADB), MFI is defined as an institution that provides a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their microenterprises (Asian Development Bank, 2000).

MFIs target that part of the population which reel under the poverty line or low income group that do not have enough money or assets to sustain a proper stable livelihood. What we mean by stable is being able to bear the basic necessities of life, i.e. food, clothes, shelter.

There are many lending models that MFIs adopt; the major ones are discussed below(Grameen Bank, April 3rd, 2009a):

- Community Banking: It is a system where it considers the whole community as one unit and accumulates enough money through various endeavors and work towards the development of the community.
- Group based: This model strives on the fact that the loan is dispersed among a group so that it builds a peer pressure and brings a sense of responsibility & cohesion among all its members.
• Individual based: This is one on one clientele handling where not only microloans is provided but also other supplementary services (education, training) so that the person is able to meet the repayment schedule.

• Village banking: It’s a system where there are about 25 individuals who seek to improve their lives through self employment activities. The MFIs help these people in meeting their goals.

Therefore, taking the example of Grameen Bank, we can say that most MFI’s are quite different from a conventional bank; few of these are highlighted below(Grameen Bank, April 3rd, 2009b):

• Collateral- Free
• Has a credit policy where it gives out loans only to those who do not possess anything.
• The branches are located in rural areas, where the bank goes to the clients, delivering their products on their doorstep.
• Does not have a legal instrument between the lender and the borrower.
• Does not punish their clients for delayed payment, rather helps them in identifying their problems.

3.3. RISK MANAGEMENT THEORY

Risk Management is the identification, assessment, and prioritization of risk followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events. Risks could come from accidents, natural causes, disasters and also deliberate attacks from foreign forces. However, this paper talks about microfinance and thus risk management has to be looked at from the perspective from businesses or corporations. (Hubbard & Douglas, 2009).

Therefore, under corporate financing, risk management is the technique for measuring, monitoring and controlling the financial, operational risks which would be further broken down into market risks, credit risks or liquidity risks.
Risk management is a very broad area, each of the risks that are mentioned above each form a separate concept, and examples could be Credit Risk Management, Operational Risk Management, and Corporate Risk management.

3.3.1. Definitions

Risk management is a specialized area and below are some of the definitions given by top professionals of the field:-

- "Risk management focuses on how a business will address those unforeseen incidences that can impact the bottom line or disrupt day-to-day functions. – Steven Kass, co-managing principal of Rothstein Kass-Certified Public Accountants* (Wolosky Howard, 2005)

- “Risk management is "preventing, detecting, and managing the possibility of something going wrong in an area of a business in which the likelihood and/or impact of this untimely event would threaten a company from meeting its business objectives. – Eric Clarke, director of risk management for Aronson & Company” (Wolosky Howard, 2005)

- “We define risk management as a process, which identifies, prioritizes, and responds to the uncertainties confronting a company which can have an impact, negative or positive, on its ability to achieve its mission and report fairly to its stakeholders. – Alyssa Martin, assurance and risk services partner for Weaver and Tidwel.” (Wolosky Howard, 2005)

- These threats or risks may originate in and/or affect any area of your business, such as financial reporting, IT, operations, or any other segments of the business infrastructure. However, successful risk management doesn't mean absolute assurance, but it does help in mitigating these risks, as well as identity and address new risks as a business evolves. (Wolosky Howard, 2005)

3.3.2. Evolution of Risk Management

In the 1980’s the concept of risk management was in its beginning stages and about to make an impact on how corporations viewed risks. Before, the business executives only sought this measure when the business was in dire consequence and hence risk management was not a part
of the business management process. Therefore, the concept now has changed to “measure risk first, then do business” from “do business and then measure the risks”. (Kalita, 2004)

Moreover, till now there were no formal techniques or practices to tackle risk nor the technology and instruments to identify and assess systematic risks. In earlier times, the responsibility of sanctioning a loan would lie to the lending official. Often, there was a pattern to be followed; during economic booms the risks were overlooked whereas the utmost caution and precaution was taken before crediting a loan. As a result there were no proper methods to take care of wrong decisions on bad loans and hence the effect and impact of these wrong decisions were too large to handle especially when it was coupled with economic downturns. (Kalita, 2004)

As a result, the companies revised new targets and now beside the profit making goals, other goals such as accountability, performance, were demanded by the investors. Hence since 1990s, the concept of risk management has been evolving and has evolved into another concept called “Enterprise risk management” or Enterprise wide risk management (Kalita, 2004).

3.3.3. Enterprise Risk Management

Enterprise Risk Management (ERM) is a technique used by companies to manage risk and seize opportunity in line with their goals and objectives. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) says ERM is a process designed to identify potential events that may affect the entity and manage risk to be within its risk appetite. Adding further ERM is a decision-making discipline that addresses variation in company goals. (Makomaski, 2008).

ERM has seven components – (i) corporate governance, (ii) Line mgt,(iii) portfolio mgt, (iv) risk transfer, (v)risk analytics, (vi) data & technology resources and (vii)stakeholders management.

Organizations that have adopted integrated approach for tacking a wide range of business issues have enjoyed significant results; ERM approach lets a company to look at risks from the overall picture and not individually. For instance, each unit used to look into the risks related to their own field – Credit and lending units managed the credit risks, business units managed the business risks associated with their overall strategy such as pricing, customer relationship, etc. (Lam & James, 2000)
This fragmented approach of looking at risks simply doesn’t work because risks are very interdependent and cannot be managed by solely various units. Another problem of having such an approach is that the senior management has problems monitoring such activities over such a wide scale and hence is not able to prepare aggregated risk reports (Lam & James, 2000).

3.3.4. In Respect to Micro Finance Institutions

Risk is a vital part of a financial organization and so risk management must be in the central of finance. However, even with the vast popularity of risk management worldwide, it is surprising to know that most of the Microfinance institutions (MFIs) have not adopted the practice of systematic risk management and do not pay much attention to it.

At the initial stages of the MFI industry most of the MFIs were concerned only about financial risks, but the focus was just on credit risks, a risk that deals with a loan becoming default. When the demand for micro loans increased drastically, the institutions began to worry about liquidity risk, a risk where the MFI would run out of enough cash to meet the high demand for loans. Hence, a microfinance risk was defined as “the potential for events or ongoing trends to cause future losses or declines in future income of an MFI or deviate from the original social mission of an MFI”.

Since then, the microfinance industry has grown rapidly during the last decade and has changed the risk profile of MFIs. According to a report in 2007 by Abrams and Stauffenberg which is quoted in Fernando (2008), the volume of international private lending for microfinance has exploded: in 2005 alone, outstanding loans doubled to nearly $1 billion. This evolution in the industry brought additional risks and hence, forced the MFIs to no longer focus only on credit and liquidity risks and had to consider other types of risk and subsequently also had to rectify their business model (Fernando, July 2008).

According to Churchill and Frankiewicz as quoted in Fernando (2008) listed four risk categories, namely: institutional risks, operational risks, financial management risks, and external risks, depicted in the table below:
<table>
<thead>
<tr>
<th>Institutional Risk</th>
<th>Financial Management Ratio</th>
<th>External Risk</th>
<th>Operational Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Social Mission</td>
<td>Asset and Liability</td>
<td>Regulatory</td>
<td>Credit</td>
</tr>
<tr>
<td>2 Commercial Mission</td>
<td>Inefficiency</td>
<td>Competition</td>
<td>Fraud</td>
</tr>
<tr>
<td>3 Dependency</td>
<td>System Integrity</td>
<td>Demographic</td>
<td>Security</td>
</tr>
<tr>
<td>4 Strategic</td>
<td></td>
<td>Macroeconomic</td>
<td>Personnel</td>
</tr>
<tr>
<td>5 Reputation</td>
<td></td>
<td>Environmental</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
<td>Political</td>
<td></td>
</tr>
</tbody>
</table>

**Table 3.1 Four Risk Categories**
CHAPTER 4: THE GRAMEEN BANK OF BANGLADESH

4.1. THE BIRTH OF GRAMEEN BANK

The seed of Grameen Bank begin in 1976 in the village of Jobra Bangladesh when Professor Muhammad Yunus gave the first micro loan out of his own pocket for 42 poor women to free them from the local lenders who charge them very high interest, therefore only earn very little money from selling their handicraft (Yunus, 1997; Wahid and Hsu, 2000). Dr. Yunus thought the banks are the ones who should lend these people money, and then he went on talked to the banks however he could not find a way to change the bank’s paradigm about lending to poor people. Later in 1976 Dr. Yunus launched a Grameen Bank Project (Grameen means “rural” or “village” in Bangladesh language) which was a research project to examine the possibility of designing a credit delivery system as well as providing banking services to poor people in rural areas. The definition of poor used by Dr. Yunus refers to those who possess less than half an acre of land or assets not exceeding the value of one acre of medium-quality land (Fisher & Sriram, 2002).

In summary this research project has several objectives (Grameen Bank. April 12, 2009c):

- provide bank services to poor people
- eliminate the exploitation of the poor by money lenders
- create opportunities for self-employment for the vast multitude of unemployed people in rural Bangladesh;
- bring the disadvantaged, mostly the women from the poorest households, within the fold of an organizational format which they can understand and manage by themselves; and
- To reverse the age-old vicious circle of "low income, low saving & low investment", into virtuous circle of "low income, injection of credit, investment, more income, more savings, more investment, more income".

The project begins from Jobra and some other neighboring villages and later extended to Tangail district in the north of Dhaka then to several other districts across the country. Finally In 1983
the Government and Central Bank gave permission to Dr. Yunus to establish Grameen Bank as an independent bank specialized for poor people.

**4.2. ORGANIZATIONAL STRUCTURE**

According to Yunus (2008), as of December 2008 the Grameen Bank is operating in 83,566 villages throughout Bangladesh, out of a total of around 84,000 villages in the country with 257 area and 2,539 branch level offices. Total staff is 24,240 serving 7.67 million borrowers. It has disbursed a cumulative total of Tk 418.90 billion (US$ 7.59 billion) and out of this amount, Tk 374.5 billion (US$ 6.76 billion) has been repaid. Loan recovery rate is 98.32 per cent. During the months of January 2008 to December 2008 Grameen Bank disbursed Tk 62.11 billion (US$ 905.51 million) with monthly average loan disbursement of Tk 5.17 billion (US$ 74.4 million). For the year 2009 they are projecting to disburse Tk 75.00 billion (US$ 1091 million) with average monthly disbursement of Tk 6.25 billion (US$ 90.92 million). Projected end of year outstanding loan is Tk 55.00 billion (US$ 800 million). On top of that Grameen Bank has collected total savings deposit of Tk 64.17 billion (US$ 933.89 million).

Below is the organizational design of Grameen Bank adopted from Dowla & Barua (2006). However the figures are updated figures as according to Yunus (2008).
Grameen Bank's organizational design has four administrative levels: branch, area, zone, and head office. As the foundation of the structure the branch employs a staff of ten people and serves approximately fifty to sixty groups each consisting of five members. Every ten to fifteen branches are supervised by an area office and, in turn, about fourteen area offices are looked after by a zonal/regional office. More than 24,000 people are currently employed by the Grameen Bank. To become a member of staff, a candidate has to finish an intensive twelve-
month training programme covering the areas of computerisation, accounts, administration, leadership, crisis management and other related task area. In addition employees are encouraged to adopt 'learning by doing behaviour. (Wahid & Hsu, 2000; Yunus, 2008).

Grameen Bank is owned by the rural poor whom it serves. Today borrowers of the Bank own 95% of its shares, while the remaining 5% is owned by the government. In addition to that the borrowers also have the chance to elect the member of the board of directors. Nine out of thirteen board members are directly elected by the borrowers.

Chairman:
Mr. Tabarak Hussain

Directors:
Professor Muhammad Yunus
Md. Kamrul Hasan
Razia Begum
Hasina Akter
Rukma Begum
Mos. Roshwan Ara Begum
Rahima Begum
Aroti Rani
Fanda Begum
Mos. Taslima Begum
Mos. Hasna Banu
Mos. Asema Begum

(Source: Annual Report 2007, Grameen Bank April 12, 2009d)
**ORGANIZATIONAL CHART**

Figure 4.3 Organizational Chart  
Source: Annual Report 2007  
(Grameen Bank April 12, 2009d)
4.3. SOME FACT AND FIGURES

The methodology of Grameen Bank as explained by Dr. Yunus (2005) has a reversed version of conventional banks. In conventional banks the higher asset one has as a collateral then the higher amount of loan that someone could get from the bank, which also mean that if one have nothing then one will get no chance for a loan. On the contrary in Grameen Bank, the fewer assets one have then the higher priority one will get. If one has nothing then one will get the highest priority. Moreover instead of people come to the bank as in the practice of most conventional banks, Dr. Yunus make the bank goes to the poor people. All banking transactions are done in the centre meetings at the village which will be attended by borrowers and the bank staff.

In summary this table will give quick overview of Grameen Bank today (by end of December 2008):

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Muhammad Yunus &amp; Grameen Bank received the Nobel Peace Price on October 13, 2006.</td>
</tr>
<tr>
<td>2</td>
<td>95% of total equity owned by the borrowers, the reminder 5% owned by the government.</td>
</tr>
<tr>
<td>3</td>
<td>Loan without collateral, legal instrument, group guarantee or joint liability.</td>
</tr>
<tr>
<td>4</td>
<td>Total number of borrowers are 7.67 million, 97% of them are women.</td>
</tr>
<tr>
<td>5</td>
<td>Operates in 83,566 villages with 2,539 branches and 24,240 staff.</td>
</tr>
<tr>
<td>6</td>
<td>Over Tk 418 billion (US$ 7.59 billion) has been disbursed since its establishment. Current outstanding loan Tk 44.40 billion (US$ 646.05 million).</td>
</tr>
<tr>
<td>7</td>
<td>Loan recovery rate 98%</td>
</tr>
<tr>
<td>8</td>
<td>100% loans financed from bank’s deposit with deposits to loans ratio 145%</td>
</tr>
<tr>
<td>9</td>
<td>Starting from 1998, Grameen has stop receiving any more donor funds</td>
</tr>
<tr>
<td>10</td>
<td>Grameen Bank has declared 20% dividend payment for the year 2007</td>
</tr>
<tr>
<td>11</td>
<td>There are four interest rate for Grameen Loans: Basic Loan 20%, Housing Loan 8%, Education Loan 5%, Beggars Loan 0% (interest free). All interest are calculated based on simple interest with declining balance method.</td>
</tr>
<tr>
<td>12</td>
<td>Minimum interest rate for savings is 8.5% and maximum is 12%</td>
</tr>
<tr>
<td>13</td>
<td>Total savings Tk.64.17 billion (US$ 933.89 million)</td>
</tr>
</tbody>
</table>

15. Scholarships are given every year to the high performing children of Grameen borrowers with priority on girl children. Total scholarships that have been given amounting to US$ 1,334,506 awarded to 69,990 children. Additional US$ 714,000 will be awarded to 27,000 children for the year 2009.

16. Attractive retirement policy for the staff that has completed 10 years or more of service. Average retirement benefit per staff was Tk 0.99 million (US$ 14,367).

17. Computerized MIS and Accounting system of 2,528 branches out of total 2,539 branches.

18. 65% of the Grameen borrowers have crossed the poverty line as according to recent internal survey.

19. Recognition program ‘Stars’ for branches and staff that has 100% achievement on specific task.

### Table 4.1 Grameen Bank Overview

Source: Yunus (2008); Dowla & Barua (2006)

Below is the summary of loan products and their characteristics under the Classical Grameen or Grameen before transformation to Grameen II (Dowla & Barua, 2006; Yunus, 2005):

- **General Loan**
  - Tenure 1 year
  - Interest rate 20% p.a. (declining balance basis)
  - Weekly repayments in 52 equal installment with first installment 1 week after disbursal
  - Usage of loans are for non-farming activities, instead loans should be used for activities that pays a quick return and considerably safe e.g. milk cow rising, paddy husking, seasonal crop trading, cattle fattening, etc.

- **Seasonal Loan**
  - This type of loan usually available during the harvesting seasons which allow borrowers to buy products at a low price and sell them after the harvesting season at a higher price.
• Flexible Leasing Loan
  - Tenure 6 months
  - First Installment 1 month after disbursal
  - Flexible installment that can be synchronized as according to the nature of the loan purpose. E.g. Fattening cattle for Muslim festival of Qurbany.

• Collective Loan
  - Bigger loan was given to group instead of individuals with the intention to give opportunity for members to fund more profitable activities that required bigger capital e.g. installation of rice, oil and weaving mills, etc.
  - This type of loan only available during the 1980s

• Housing Loan
  - Interest rate 8% p.a. (declining balance basis)
  - Maximum tenure is 5 years with weekly installment
  - Maximum loan ceiling Tk 15,000
  - Given exclusively for women and the land on which the house built must be under the women’s name.
  - In order to protect the investment the bank set several requirements for the house to be built, they are:
    ▪ must have four reinforced concrete pillars on a brick foundation at each corner
    ▪ a sanitary latrine
    ▪ corrugated iron roofing sheets supported by wooden rafters and 6 tied bamboo posts
    ▪ house must provide protection against floods, cyclones, strong monsoon winds and rain.

Further in next chapter we will analyze how Grameen went through a total reengineering process that gave birth to the new ways of doing business and changed most of their products, characteristics, as well as introducing new products.
CHAPTER 5: ANALYSIS OF FINDINGS

5.1. FLAWS OF GRAMEEN I MODEL

There were many flaws in the Grameen I model and it was these flaws that forced the top management to change the way the bank was run. The flaws had been present in the system but it was never visible or clear to the bank till the floods in 1998. The problems were just simmering and it needed something to blow it, and the flood in 1998 did that.

The biggest problem the model had that the policies governing the organization was too rigid. It was so rigid that it could not be adjusted to the circumstances (e.g. natural disaster, seasonal activities) and was not flexible enough to benefit the borrowers. For instance, the system was such that if any borrower fails to pay the installments regularly and then ultimately not succeeds in paying back the entire loan, then the loan of that person would be defaulted and he would be considered a ‘defaulter’. Consequently, that person would be never allowed to take a loan from the bank. The model did not grant borrowers a second chance to seek further loans (Yunus, 1999).

This problem was further heightened from the fact that the poor increased their credit limit by using multiple loan products without being able to generate income from these extra loans and this eventually resulted in an unsustainable burden of debt for the poor. In addition, these loan products were just a mere variation of the General Loan and not something entirely new (Pearl et al., 2001).

The system of group funding also ran into some problems. The bank did not have any incentive scheme to award a group where all its borrowers of a group had excellent payment rates and had been utilizing the loans really well. Whereas if even a single borrower of a group performed badly, then the whole group had to deal with the shame or discredit. Such a policy had a negative effect on the borrowers with resentment that why everyone should be punished for somebody’s fault (Yunus, 1999). Therefore, such policies discouraged borrowers to attend the group meetings and also unmotivated them to continue working with the bank.
Another flaw was identified during the reengineering process; it was the inappropriate use of loan money. When loans are disbursed in large quantities, it is often hard to monitor their use. In fact the groups were supposed to see to it that the money was utilized in a proper manner, but the group failed to do so because of their collusive behavior. (Dowla & Barua, 2006)

5.2. KEY DRIVERS OF TRANSFORMATION TO GRAMEEN II

The bank faced a repayment problem in 1998 in the aftermath of an unprecedented flood that inundated 2/3 of Bangladesh for about three months from June to September. This resulted in catastrophic effects, ruining the daily life of the poor and destroyed their assets (Ninno, et al., 2001). Hence, lots of borrower lost contact with the bank and their increased debt burden stopped them from coming back to the centers. The poor found that the new installments amount was beyond their ability to repay and gradually this was reflected in the repayment rate.

In addition to that Brown, et al. (2000) also stated that as respond of this great disaster some percentage of borrowers changed their behavior in four ways which reinforce one another and create liquidity crisis for the MFIs, they:

1. fail to make loan repayments
2. may cease making deposits into compulsory savings programs
3. request advances against their savings
4. demand emergency and reconstruction loan

As we can see the first two behaviors will reduce the amount of cash inflow and the other two behaviors will increase the amount of cash outflow. As according to information gathered by CARE Bangladesh on 24 small urban MFIs in Bangladesh which stated in (Brown, et al., 2000), we can see these following figures of liquidity shortfall in MFIs:

- Of the MFIs’ 93,621 savers, only 47.9 % continued to make regular savings deposits after the flood, a 29.4 percent decline in liquidity.
- Of the MFIs’ 39,354 borrowers, only 57 % continued on-time repayments after the flood, a 31.9 % decline in liquidity.
The 24 MFIs projected 4.0 million taka in other income over the two-month flood period (August-September 1998). Following the flood, they received only 2.6 million taka, a decline in liquidity of 35 percent.

As well as the rest of the MFIs in Bangladesh, Grameen Bank also had this liquidity problem. The followings are data provided by Grameen Bank regarding their liquidity (Dowla & Barua, 1998):

- 95% of member compulsory savings were withdrawn during the flood.
- 85% of center contingency funds were withdrawn during the flood.

Moreover according to the report on Grameen Bank liquidity shortfall (Brown, et al., 2000):

- Grameen Bank reports a liquidity shortfall of 4.75 billion taka to serve 1.2 million affected clients. The liquidity shortfall per affected client: 3,958 taka/client, or $82/client.

What Grameen Bank did in respond to this natural disaster was to grant a large amount of emergency loan to help people re-build or repair their houses and start over their business. However this creates another problem since the borrowers are now facing a bigger size of installment as a result of accumulated loans from the previous unpaid ones. Finally borrowers found that the size of installment has exceeds their capacity to pay therefore slowly people are started to avoid the weekly centre meetings which is the occasion to pay the installments. As a result the past due rates increase sharply as borrowers are stopped to pay their installments. (Dowla & Barua, 2006).

Grameen tried to recover the situation by making some changes regarding the group tax component of the group fund by allowing borrowers to make some withdrawal in order to attract borrowers to come to centre meetings again, however it did not improve the worsening situation. The impact of the flood has become more severe in the middle of 1999, where about five zones faced problems of huge defaults. Though the majority of the borrowers were in healthy condition, a large amount of poor were in debts. In addition, the branches were faced with even
more acute troubles, the borrowers stopped the repayment and ceased from attending the center meetings and the staff got demoralized. Things are even worsen with the multiplier effect as one borrower stopped paying installments, it encourage others to follow (Dowla & Barua, 2006).

Eventually Grameen thought this would be the time to dare to make some big changes in the business model and redesign a new Grameen model incorporating the entire lesson learnt and aspirations that has been accumulated since it was established back in 1976. Grameen decided to overhaul the whole system to recover the bank from this precarious situation.

This time, the bank faced a different kind of problem: how to get the borrowers to rejoin the bank and motivate them to pay back the loans. The challenge has now changed from “how to prove the poor are credit worthy?” to “how to prove the poor will always pay back?”

In summary the major key drivers for the bank to transform to Grameen II are:

- To attract and retain poorer borrowers
- To increase the repayment rates
- To help the poor in repaying back their huge debts

Therefore according to Dipal Barua, it is very important to correct the flaws of Grameen I model as well as introducing new ideas (Barua, May 21st, 2009):

- Having multipurpose single loan instead of multiple loans.
- Making bridge loan available any time
- Built a self reliance branches right from day 1 of operation.
- Introduce new loans & savings products
- Long term vision to preparing future generation
- New system is designed to work equally well both in normal and disaster situations.
- Allowing the enterprising borrowers to move ahead faster.
- Having more loan terms maturity such as 3 months to 3 three year instead of just 1 year term for all loans.
- Having loan ceiling varies with borrowers’ deposits and performance.
5.3. THE REDESIGNING PROCESS

The design process formally began on April 14th, 2000 involving almost all the members of staff from Managing Director to Center Manager in order to get all the necessary input and to see different perspective from all level of organization.

The design phases are as follows:

1. Forming a ‘Problem Cell’ to look into the problems.

   The process wasn’t much, to solve the problems and to monitor it, the bank created a special cell called ‘Problem Cell’ which was stationed at the head office. Mr. Dipal Barua (General Manager) was in charge of this cell. This main task was to collect regular reports from the staff at the centers, solve these problems and then to write their experiences in the in-house journal ‘Uddog’. This was done so that the staff at the centers and at the branch offices could learn how to deal with similar problems and help in solving them. In addition, to the special cell a pool of ‘volunteer area managers’ is formed out of the employees working in the head office. The primary task of these managers was to hold intensive meetings with the branch staff to identify the problems. Then the manager would prepare a list of default borrowers and then would try to motivate the borrowers to rejoin the bank.

2. Creating a task force in head office and allocate each task force to each poor performing branch.

   In the meantime, during the process, the bank realized that the underperforming centers were affecting the repayment performance of the whole zone. This was due to the fact that the zonal offices were understaffed to provide extra help to these centers. To counter this, the head office created task force to rehabilitate the poorest performing branches & centers in each problem zone. Task force comprised of four people, each from every management level. The mission of these task forces was to restore the weakest branch and turn into a profit making one. Hence, the task force was given a complete freedom to do whatever was necessary to change a branch’s misfortune and the henceforth the responsibility of the branch now rested on these task forces.
3. Getting feedbacks from the taskforce on how they solved each problem.

The “Problem Cell” collected all kinds of data from the volunteer managers & task forces.

4. Making reports based on the feedbacks from each task force.

All the raw data collected were processed into information and written report that would be discussed with the top management. The findings of these reports formed the basis of Grameen II methodology, because the report contained information about what the problems were, how they managed to solve these problems and the resulting changed policies and products.

5. Finally an outline of the new system created based on the information gathered through step 1 to 4.

During the design phase particularly the products and services, many new ideas and innovations were created such as (Rutherford, et al., 2004):

- The system of paying installments was changed, the system of peak and off-peak was introduced. The borrowers could pay a very nominal fee in the off peak season and in the peak season high payments
- In livestock leasing, the borrowers could repay both the installment and the interest in one payment without any penalty.
- All the loans that had the same interest rate such as the General Loan and various other seasonal loans were combined into one loan and also the dues. Now, the borrower had to repay the entire total outstanding amount in equal installments. This is done to make it easy for both the bank and the borrower.
- Introduction of a signed contract named “pledge to repay”, where borrowers need to sign it. This is a mere formality so that the people understand their responsibility towards the bank.
• Group funding abandoned and individual lending introduced. Now all the borrowers of a group can get credit at the same time.
• Groups are still used, to simplify credit disbursement and other announcements of the bank.
• The introduction of Grameen Pension Scheme, basically a retirement savings plan. It was created with the aim that the bank could depend on GPS in the event of a crisis.
• To make the branches self reliant, the branches could no longer borrow from the Head office and had to generate their own credit operations from the savings of the depositors.
• Closing down neighboring poor performing centers of a village so that the members could rejoin the bank after seeing the success of the adjacent center.
• Six month quality control to evaluate the quality of the loan in a timely manner. This new rule acts as an early warning system identifying the bank of defaulting members.
• To issue attestations certificates to authenticate the loan use for better monitoring.

5.4. TESTING THE NEW DESIGN

The crisis in hand had a geographical dimension, some of the branches of several zones demonstrated severe repayment problems due to their geographic isolation. Hence the bank created a special zone at ‘Jamalpur’ to test the new concepts of the Grameen II. This zone was created because among all zones of the bank this was the worst of all and the thinking was that if the design could bring success to this zone, then it is a worthy system to implement in all the branches; also because it was less risky. The testing was rather a trial and error process, where we tested the new design, observed the reactions of the borrowers and then went back for discussions to fine tune and reworked the design until finally come up with the ultimate design which is called the Grameen Generalized System. A project manager was given the responsibility in handling the day to day activities of the zone but under the watchful guidance of the “Problem Cell”. (Barua, May 21st, 2009).
5.5. IMPLEMENTING THE NEW DESIGN

The new system immediately launch by March of 2001. The biggest challenge lied ahead – implementing the new system throughout all the centers and branches of Grameen Bank. The new methodology had to be explained to the all the 13000 staff of Grameen Bank (as of 2006) and to its 2.4 million borrowers. The first hurdle was to change the mindset of the staff about the ‘groupthink’, the core elements of Grameen I – One year loan with 52 weekly installments of equal value. Each and every staff that had been recruited before 1999 had to go through rigorous training and attending workshops to expedite their learning process.

To further facilitate the transition, a special unit called ‘Coordination and Operation Department’ was formed. Its primary task is to write a guide book including all the rules and regulations governing the new system and an outline of the new products. To introduce this guide book, the department organized a four day workshop where all the senior staff of head office, all zonal audit officers, administrators from the zonal office, one area manager from each zone and a senior audit officer of each zone attended this workshop. In turn, the zonal officers and the area managers held their own workshop to train the staff of that zone and area. A core team was formed that consisted of employees from the zonal administration and audit offices as well as area managers and program officers to train the staff at the branch level. To ensure proactive learning, all the workshops were mandatory and involved pedagogical tools such as role playing, quizzes, simulations and scenario analysis.

The head office was suggested that the switch to Grameen Generalized System should start with implementation at one center at a time. This was done so that staff would gain valuable experience that could be used to handle large scale transformation. The zone that was selected for the switch was free to choose which branches would be chosen to apply the new system. This was a very slow process but it was thorough and less risky.

The new loan products and the policies governing it were later communicated to the borrowers by arranging the community meeting. The meeting was a held in a traditional manner – bamboo mats and stool. This technique was chosen to convey the message that the bank was a community organization and the changes had to be made thru a communitarian way. To oversee all the activities, the managing director used to visit the branches and zonal areas personally. He
also emphasized that the communication should not be one way but both ways and thus implemented a system of incorporating the feedbacks of the borrowers in the guide book.

The implementation process is better illustrated in a diagram, shown below:

In March 2001, the first branch in Gazipur area achieved to completely switch over to Grameen Generalized System. This meant that all borrowers (old & new) opened GPS account and all the borrowers in arrears had been swapped to flexible loan. The successful switching of this particular branch was very critical because it acted as a catalytic reaction as it inspired the branch staff to expedite the transition process and it also showed the other borrowers how beneficial it was to them as well. By August 2002, all the branches and centers had successfully implemented the Grameen Generalized System and now the bank has fully changed its system from ‘Grameen Classic System’ to ‘Grameen Generalized System’.
The borrower’s perception towards the new Grameen system was very wonderful; they were eager and enthusiastic to know about the changes. This is because the borrowers could now borrow money anytime, even after six months of a loan without having to pay fully the first loan and also the new Grameen Pension product gave them an opportunity to save for the future and hence do not have to rely on anyone in old age. The best thing they liked about this new system was that the new laws & regulations were very flexible and it considers the borrowers situation. It took two years until the transformation process completed on August 2002. The new Grameen Bank has fully functioned since that day, the Grameen Bank II.

5.6. THE DRAMATIC CHANGES

The bank has made dramatic changes to their product portfolio. This was necessary to streamline the accounting process and also to make it simpler for the borrowers to understand their outstanding dues. Furthermore, the full transition could not have been achieved without the conclusive contribution of all the staff and the bank recognized the need for a valuable workforce. In the new Grameen system, the bank has incorporated lots of techniques & methods to keep the staff’s morale high and also to induce consistent performance.

5.6.1. Products & Services

The fundamental change in the Grameen 2 system is the introduction of Flexible Loan, Basic Loan and the six month quality control (Rutherford, et al., 2004).

- Flexible Loan: This is rather a temporary solution given to the borrowers so that they are able to pay regular installments by resuming their economic activity; it is just a rescheduled loan. This loan allows the borrowers to reduce the loan installments and extend the loan period. In flexible loan, a member can borrow twice the amount she has repaid in the first 6 months. Flexible loan is a way of giving the extreme and the moderate poor a fresh start.
• Basic Loan: Here, all the loan products with the exception of Education and Housing loan were integrated into one loan product. The duration of this loan can be between 3 months to 3 years with the installments being acceding to a peak and off-peak system. This loan has been introduced at the expense of the Group Fund, now the bank gives basic loan to individuals and not to groups, but the groups are still used for credit disbursement and monitoring purposes.

• Six- Monthly QC: This is a method to monitor and evaluate a loan of a borrower to judge whether she has used the loan productively and if she is able to generate ample amount of money to meet the installment schedule. This acts as an early warning system to the bank and if the bank sees that a person is performing badly then that person is told to move to the flexible loan.

All the changes that have been incorporated in the redesigning process are summarized in the following table.

<table>
<thead>
<tr>
<th>No.</th>
<th>GRAMEEN I</th>
<th>GRAMEEN II</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>No provision to save for pension</td>
<td>Borrower deposit a fixed monthly amount in Grameen Pension scheme (GPS)</td>
</tr>
<tr>
<td>2.</td>
<td>Obligatory savings accumulated in the group find refundable after ten years of membership</td>
<td>Saving accumulated in obligatory special investment account refundable after three years of membership</td>
</tr>
<tr>
<td>3.</td>
<td>Amount of weekly personal savings same for all borrowers</td>
<td>Amount of weekly personal varies with loan amount from 5 to 50 taka per week</td>
</tr>
<tr>
<td>4.</td>
<td>No encouragement to save contractual accounts</td>
<td>Borrowers encouragement to save in any of several contractual savings schemes that fits their needs</td>
</tr>
<tr>
<td>5.</td>
<td>No initiative to collect savings form nonmembers</td>
<td>Active campaigns underway to collect savings from nonmembers</td>
</tr>
<tr>
<td>6.</td>
<td>Borrowers unable to borrow against their savings</td>
<td>Borrowers free to borrow against their savings</td>
</tr>
</tbody>
</table>

Table 5.1 Comparison Grameen I & II
Source: Dowla & Barua (2006); Barua, May 21st (2009)
<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>7.</td>
<td><strong>Multiple loan products</strong></td>
<td>One prime loan product - called Basic loan. In addition there are two other loan products: 1) the housing loan, and 2) the higher education loan. For problematic basic loan borrower there is also “Flexi-loan”.</td>
</tr>
<tr>
<td>8.</td>
<td>Typical loan is one year duration</td>
<td>Loan durations can vary from three months to multiple years.</td>
</tr>
<tr>
<td>9.</td>
<td>Installment size fixed during the loan period</td>
<td>Installment size variable during the loan period and can be tailored to needs of the borrower</td>
</tr>
<tr>
<td>10.</td>
<td>Lump sum and one time repayment not allowed</td>
<td>Any amount of repayment at any time can be negotiated with staff.</td>
</tr>
<tr>
<td>11.</td>
<td>Staggered loan distribution with two members receiving the loan first, then another two, and finally (in most cases) the group chair (2+2+1).</td>
<td>Member can receive loan at any time irrespective of what others are doing</td>
</tr>
<tr>
<td>12.</td>
<td>No new borrowing until the previous loan is repaid in full</td>
<td>A borrower, under certain conditions, can borrow the amount repaid in the first six months without repaying the loan in full. However this does not apply to housing loan and special investment loan.</td>
</tr>
<tr>
<td>13.</td>
<td>Loans disbursed in one go</td>
<td>Loan disbursement can be varied and borrowers can receive credit in tranches</td>
</tr>
<tr>
<td>14.</td>
<td>There is no “Bridge Loan” System.</td>
<td>There is a bridge loan system for borrowers whose loan ceiling is fixed according to her savings deposit. At any time borrower take bridge loan for 3 to 6 months duration.</td>
</tr>
<tr>
<td>15.</td>
<td>A common loan ceiling imposed for the whole branch</td>
<td>Borrowers each have their own loan ceiling based on savings and the performance of their group center, and branch, it can be increased</td>
</tr>
<tr>
<td></td>
<td>Description</td>
<td>Details</td>
</tr>
<tr>
<td>---</td>
<td>-----------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>16.</td>
<td>No hard and fast rules for a decrease in loan ceiling</td>
<td>Loan ceiling can be decreased based on performance of borrower (e.g. missing center meetings or installment payment)</td>
</tr>
<tr>
<td>17.</td>
<td>Part of loan (5%) sanctioned to borrowers deposited in a compulsory savings account (group fund) managed by the group</td>
<td>Borrowers required depositing part of the loan amount in two individually owned savings accounts, a personal savings account with open access (2.5%) and an obligatory savings account with restricted access (2.5%)</td>
</tr>
<tr>
<td>18.</td>
<td>Family responsible for loan of deceased borrower, and female borrower responsible for loan outstanding even if her husband dies</td>
<td>Contributing to a special savings account allows borrowers to ensure that outstanding loan will be paid off after their death, and extra contribution enables female borrowers to cover loan outstanding against death of husband</td>
</tr>
<tr>
<td>19.</td>
<td>Borrower becomes defaulter if she cannot repay the full amount in fifty two weeks</td>
<td>Borrower becomes defaulter if she cannot pay the amount due according to repayment schedule within six months for basic loan</td>
</tr>
<tr>
<td>20.</td>
<td>Borrower could not become a defaulter from failure to make timely deposit in savings accounts</td>
<td>Borrower who fails to make four consecutive monthly GPS deposits will be treated as defaulter</td>
</tr>
<tr>
<td>21.</td>
<td>Defaulter could borrow from the group fund</td>
<td>Defaulter cannot borrow from her savings account until all arrears are paid off</td>
</tr>
<tr>
<td>22.</td>
<td>No exception to Grameen rules for any borrower.</td>
<td>Special program with easier loan terms, savings requirement, and repayment conditions for beggars</td>
</tr>
<tr>
<td>23.</td>
<td>Head office provides all funds for opening new branch, including funds for disbursement borrowed from head office at 12% interest</td>
<td>No funds are provided by the head office for opening a new branch. New branches can be self financed from day 1 by mobilizing savings from members and nonmembers prior to disbursement of credit</td>
</tr>
<tr>
<td></td>
<td>Loan proposal is approved by the Area Manager.</td>
<td>Basic loan proposal is approved by Branch Manager within the loan ceiling.</td>
</tr>
<tr>
<td>---</td>
<td>---------------------------------------------</td>
<td>---------------------------------------------------------------------</td>
</tr>
<tr>
<td>25.</td>
<td>Special program for beggars does not exist.</td>
<td>Exclusive program for the beggars has been introduced. Beggars are given interest-free loans under this program for income-earning projects, for buying warm clothing for winter, mosquito-nets, and constructing basic shelter.</td>
</tr>
<tr>
<td>26.</td>
<td>No category called ‘‘Gold Member’’ exists.</td>
<td>Borrowers with excellent repayment records over 5 years are given the ‘‘Gold Member’’ status. This entitles them to several special privileges, including larger size loans.</td>
</tr>
<tr>
<td>27.</td>
<td>Each borrower is entitled to buy only one share of Grameen Bank.</td>
<td>A borrower can buy as many shares as she wishes. A special saving account is created to accumulate savings to buy new shares.</td>
</tr>
</tbody>
</table>

**5.6.2. Staff Role**

The employees at the head office and the lower staff feared that after the transition they would have more work to do than they had to do previously. However later after the full transition to Grameen II, the staff realized that in reality, their workload has been reduced. The reduction of the workload was attributed to several factors – reduced loan types and simplified accounting process. As the new laws were more transparent than before and much simpler, the workforce spent less time in resolving misunderstandings and hence had to organize less center meetings. Also, due to computerization, many works was cut down as record keeping was not done manually anymore. Also due to the integration of all the loans, there was less monitoring to be done. Now, the staff doesn’t need to put hours of work in preparing accounting / financial statement for the year end closing. All of the financial statements are not done on computers.
However, some more tasks have been added in addition to the usual tasks such as collecting loans and savings deposits, maintaining the saving passbook and sharing information. In addition to these all previous tasks, the staff now also has to explain the difference between Grameen Bank and other credit institutions such as BRAC, ASA, etc. The new model of Grameen Bank is very different from other microfinance institutions and NGO’s that deal with microfinance. This additional task is more like doing publicity / marketing for the bank in preventing others from joining their competitors.

5.6.3. Computerization of MIS and Accounting System

The computerization process was started in the year 1995 when the Bank computerized 14 of its branches. Computerization is the process of transformation of the daily work from manual to automation, changing the method of book keeping and information sharing. The task of computerization was given to Grameen Communication, a sister organization of Grameen Bank. Its core duty was to manage Information Management Center (IMC) in every office area. Their task is to deal with financial records, print reports on all monthly closings of the branches, MIS reports and even vouchers for petty expenses. As of December 2008, Grameen Bank has completed 99 % of the computerization process (2528 branches out of 2539).

5.6.4. ‘Stars’ Recognition for High Level Achievements

The bank acknowledges that the integral part of their organization is their employees and staff working at the branch and at centers. Hence besides direct and indirect monetary compensation, tools such as celebration, competition and public recognition is also used to reward staff. In addition, they use a ‘Star System’ to rate the performance of the staff that are working in the centers and branches. The bank introduced color coded stars achievement recognition for branches and staffs who attained 100% achievement on a specific task. The stars are often awarded for having no outstanding loans, dues with the head office or helping a poor to cross the poverty threshold. (Casuga, 2002)
This rating system is better explained in the following diagram.

### TEN INDICATORS TO ASSESS POVERTY LEVEL

1. The Members and their family are living in a tin-roofed house or in a house worth at least 25000 takas and the family members sleep on coir or a bed instead of the floor.

2. The members drink pure water of tube wells, boiled water, or arsenic free water purified by alum, purifying tablets or pitcher filters.

3. All the children of the members who are physically and mentally fit and are above the age of six attend school or have finished primary school.

4. The members minimum weekly installment is 200 takas.

5. All the members use hygienic and sanitary latrines.

6. The family members have sufficient clothing for daily use. Also, they have winter clothes to protect them from the cold and have mosquito nets.

7. The family has additional sources of income, such as vegetable garden, fruit bearing tree, etc., to fall back on when in trouble times.

8. The borrower maintains an average annual balance of 500 takas in her savings account.

9. The borrower has the ability to feed her family members three square meals a day throughout the year and does not face any food insecurity.

10. All family members are conscious about their health. Should be able to take treatment and pay medical bills.

---

Five stars indicate the highest level of performance, and the colors are described as follows:

- **Red**: taking all its borrowers families over the poverty line.
- **Brown**: ensuring education of Grameen families.
- **Purple**: 100% by meeting all their financing out of their earned income and deposits.
- **Blue**: earning profit.
- **Green**: 100% repayment record.

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*Figure 5.2 Stars System*

Source: Dowla & Barua (2006)
5.7. INTERPRETATION OF EMPIRICAL DATA

Reengineering initiatives usually leads a business organization having a simplified business process rather than being very complex in nature. In addition, reengineering revolves around business process and not tasks, job descriptions and people or structures. A business process is where a value is created for the customer by taking in inputs or multiple inputs (Hammer & Champy, 1993).

Grameen Bank decision to merge all their loan products into one loan product titled ‘Basic Loan’. Prior to this change, Grameen Bank customers lost track of their credit / dues to the bank and they were never debt free as they had access to other loan products; many instances were seen where the customers were using the new sanction loan to pay off the interest of previous outstanding loans. Hence, making this change streamlined Grameen Banks accounting process and it was also easy for the customers to understand (creating value), and therefore, simplifying their business process. Another example of Grameen Banks business process being simplified is when they implemented computerization in all their branches and regional offices. This transformation of methodology is stated by Dipal Barua in question no 1(1) and 16 respectively. These changes have enabled Grameen Bank to reduce their operating expenses and accordingly more profits, thus moving a step further towards sustainability.

Generally, the steps in the reengineering process are performed naturally and logically – so that the work that needs to be done is not dragged on and is not slowed down affected efficiency. Most reengineered processes allow organizations to have multiple jobs to be completed simultaneously and performed at the same time. This is done so that the organization can get the work done quickly and fewer people are needed and also reworking is reduced (Hammer & Champy, 1993).

However the steps that are outlined in the interview by Mr. Dipal Barua in question no 3, are not performed simultaneously and in fact each step is performed after the preceding event has been completed. Also, as mentioned in Mr. Barua in question no 7 that the methodology was tested twice in the same region. After the first implementation, modifications were made and retested. Hence, Grameen Bank has lost precious time and resources in not doing multi-tasking and not handling the steps simultaneously. If Grameen Bank had done so, they could have reduced the time it took to implement the reengineered methodology and would also needed less workforce.
Furthermore, Grameen Bank also incurred huge expenses in the reengineering process as almost all of the people were involved in the redesign process (question no 5). These two aspects of the process have cost Grameen Bank more than the usual and also show that they have not handled the process of reengineering properly.

Overall, Grameen Bank has done a good job of Reengineering their business model, with a few bumps on the way. The process of reengineering is very costly and time consuming, it has taken Grameen Bank about 3 years to fully introduce their new business model to the customers. Our primary concern with this thesis paper was to answer the question as to how an organization can reinvent their business model to remain sustainable and the answer to that question is by invigorating the principles of Business Process Reengineering. The case of Grameen Bank has illustrated how an organization should go about in reinventing their business model.
6.1. CONCLUDING DISCUSSION

Derived from our analysis on Grameen Bank in their business process reengineering we arrived at several conclusions; MFIs as well as many other organizations in their reengineering process must dare to undertake a radical change and leave behind the old way of doing business that has been proven underperformed. In addition we believe that the whole process of business reengineering are equally important right from the beginning of problem identification and information gathering all the way to the redesigning process until the completion of implementation. You cannot have a perfect new design if the information gathered was not thorough and incorporated every aspect of the organizations that needed to be improved. Similarly, a great new design will not bring significant improvement in organizational performance if it was not properly implemented.

It is also important to make sure that all staff understand and apply the new working process accordingly. Another issue that is very crucial in this reengineering process is feedback. It is vital to make sure feedback flows freely from all level of organization to the top management thus all concerns and ideas are taken into account in the whole phase of reengineering process. As in the Grameen case the Managing Director and Deputy Managing Director carried out a personal visit to branches during the implementation process and they encouraged all staff to write to them directly for any problems and concerns regarding the implementation of the new business model.

However we suppose that the toughest part in reengineering process is the implementation. Since introducing a new way of doing things in a business culture that already made is not an easy task. It requires an intensive training and communication in order to shift the old paradigms into a new way of doing things and looking at the business. We also thought that Grameen has done a great
job in this part by giving a rigorous workshops and trainings equipped with a comprehensive pedagogical tools such as having a quizzes, role play, simulations, and scenario analysis therefore all staff can actively participate in the workshops and trainings instead of one way teaching.

Consequently in the endevour to answer the research question, "How MFIs re-invent their business model in order to stay sustainable?" we concluded that in order to achieve sustainability MFIs re-invent their business model by undertaking a radical change in their ways of doing business, abandoning the old ways and design a new business architecture in line with the current market and customer situation as well as incorporating all the lesson learned from the previous business model.

6.2. IMPLICATIONS FOR PRACTICE AND RESEARCH

Grameen Bank has successfully carried out a business reengineering process which brings significant improvement to its performance afterwards. In the light of our findings we would suggest this business reengineering model to be used as a guideline for those MFIs who would like to take this initiative in order to achieve sustainability. However, the details in each of the reengineering process may have to be readjusted as according to the organizational context of those MFIs. As Hammer & Champy (1993) also stated, “Every reengineered business program is unique, and will require insight, creativity and sound judgment to develop. However, the general themes and patterns others have previously followed may be of value in the development of reengineered processes.”

Secondly, special focus should be placed in the implementation phase since it is the toughest part of the business process reengineering. Finally, it is advisable for Grameen Bank to carry out a survey for its employees and members (borrowers) to find out their perception towards the new Grameen model as well as to discover their level of familiarity & comprehension of the new model.
6.3. LIMITATIONS

The main limitation of this research is proximity and time. If we could have more time to travel to Bangladesh and observe Grameen Bank closely, we would have collected more thorough data through personal interviews with center managers and staff at branches in the villages. As well as it is easier to reach the top level officials by paying a visit directly to the head office in Dhaka.

Secondly, as a result of distance communication we faced great difficulties in contacting Grameen officials for the interview. There was a great lack of cooperation from Grameen Bank that finally we were only permitted to interview one person that is the Deputy Managing Director of Grameen Bank. In addition he could not have the time for us to conduct a telephone interview since he is in a big preparation for some travel in Europe. Therefore he only agreed to do the interview via email questionnaires.

After all we believe that we would have come up with more thorough research should those limitations above were not present.

6.4. SUGGESTIONS FOR FURTHER RESEARCH

Given that our current research is more a general view of business reengineering process of an MFI from the beginning until the completion of implementation process, hence for further research we would suggest a more comprehensive and detailed research on each of the reengineering phase. We realize it is going to be a bigger scale research with detail focus on each the reengineering phase however we believe it would be a worthwhile in the endeavor to provide knowledge for practitioners in their struggle to make their MFI sustainable in the long run.
REFERENCES

Alexander, Gwendolyn, (2000), "Microfinance In The 21StCentury: How New Lending Methodologies May Influence Who Reach and the Impact That We have on The Poor", College Park, University Of Maryland.


Douglas Hubbard "The Failure of Risk Management: Why It's Broken and How to Fix It" pg. 46, John Wiley & Sons, 2009


APPENDICES
We are master students of Blekinge Tekniska Högskola in Sweden. We are conducting research dissertation in the field of micro finance with particular interest in the MFI’s sustainability by reengineering their business model. We would be very grateful if you would spend a few minutes to answer our questionnaire regarding the transformation of Grameen I to Grameen II. We hope that our small piece of research can make a contribution to the sustainability of micro finance institutions as a whole. Your time to fill this questionnaire is greatly appreciated.

Tell us about yourself

Name : Dipal Chandra Barua
Job Title : Deputy Managing Director, Grameen Bank
Length of Service : 30 years
Job description : holding the second position of the Bank
INTERVIEW QUESTIONS

This research paper focuses on how Micro Finance Institutions can stay sustainable in the long term. One of the ways to achieve that is by reinventing themselves through business process reengineering. In order to understand deeply about how reengineering process takes place, we are going to study the transformation of Grameen Bank into Grameen type II after the great catastrophe that hit Bangladesh in 1998. With the purpose of data gathering for the analysis, please take some time to fill out the interview questions below. Thank you very much for your kind assistance.

1. **Can you please identify the problems with Grameen I methodology?**
   
   The difference between Grameen I and Grameen II is given below:

<table>
<thead>
<tr>
<th>GCS</th>
<th>GGS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Grameen I</strong></td>
<td><strong>Grameen II</strong></td>
</tr>
<tr>
<td>1. There were several types of loans (General, Seasonal, Seasonal-2, Seasonal-3, Housing, Leasing, Family loans, Cattle and Medium</td>
<td>2. One prime loan product - called Basic loan. In addition there are two other loan products: 1) the housing loan, and 2) the higher education loan. For problematic basic loan borrower there is also “Flexi-loan”.</td>
</tr>
<tr>
<td>2. Typical loan is always of one year duration.</td>
<td>2. Term of loan can be varied from 3 months to multiple years.</td>
</tr>
<tr>
<td>3. Size of installment is uniform during the loan period.</td>
<td>3. Size of installment may be varied during the loan period.</td>
</tr>
<tr>
<td>4. Loan disbursement in (2+2+1) staggered method</td>
<td>4. Staggered method not required. All members may receive loan at a time.</td>
</tr>
<tr>
<td>5. Before full repayment of a particular type of loan another loan of the same type is not allowed.</td>
<td>5. Except for special investment loan, and house loan, a borrower can borrow after every six months, even if the loan is not fully repaid yet provided that interest is paid out before getting the new loan.</td>
</tr>
<tr>
<td>6. Lumpy repayment is not allowed.</td>
<td>6. Any amount of repayment at any time is accepted.</td>
</tr>
<tr>
<td>7. There is no “Bridge Loan” System.</td>
<td>7. There is a bridge loan system for borrowers whose loan ceiling is fixed according to her savings deposit. At any time borrower take</td>
</tr>
<tr>
<td>Number</td>
<td>Description</td>
</tr>
<tr>
<td>--------</td>
<td>-------------</td>
</tr>
<tr>
<td>8.</td>
<td>A common loan ceiling exists for all the borrowers of a branch.</td>
</tr>
<tr>
<td>9.</td>
<td>There is no hard and fast rule for increase and decrease of the size of the loan.</td>
</tr>
<tr>
<td>10.</td>
<td>Loan proposal is approved by the Area Manager.</td>
</tr>
<tr>
<td>11.</td>
<td>Repayment is fixed with uniform installment size.</td>
</tr>
<tr>
<td>12.</td>
<td>Loans are disbursed in one go.</td>
</tr>
<tr>
<td>13.</td>
<td>A borrower becomes a defaulter if she cannot repay the full loan within 52 weeks.</td>
</tr>
<tr>
<td>14.</td>
<td>In case of borrower’s death, her family is responsible to pay back the loan.</td>
</tr>
<tr>
<td>15.</td>
<td>Special program for beggars does not exist.</td>
</tr>
<tr>
<td>16.</td>
<td>No exception to Grameen rules for any borrower.</td>
</tr>
<tr>
<td>17.</td>
<td>No category called “Gold Member” exists.</td>
</tr>
</tbody>
</table>
18. **Head office provides all funds for opening a new branch, including on-lending funds.**

18. **No funds are provided by the head office for opening a new branch. All funds, to take care of the expenses and to lend out money, must come from the deposits.**

19. **Each borrower is entitled to buy only one share of Grameen Bank.**

19. **A borrower can buy as many shares as she wishes. A special saving account is created to accumulate savings to buy new shares.**

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The first problem was that the system was too rigid. The system did not give the borrower a second chance. Size of installment was uniform during the loan period. Loan disbursement was in staggered method.

Lumpy repayment was not allowed. Common loan ceilings exist for all borrowers of a branch. There was no hard and fast rule for increase and decrease of the size of the loan. Loan proposal was approved by the Area manager.

2. **What were the key drivers or motivations to redesign Grameen methodology into Grameen type II?**
   
   The main reasons are:–
   
   (a) Multiple purpose single loan, instead of multiple loans.
   
   (b) Loans for any maturity, 3 month to three years
   
   (c) Loan ceiling varies with borrowers deposits and performance.
   
   (d) Bridgeloan any time
   
   (e) Built –in Self –reliance for the branch
   
   (f) New Savings products
   
   (g) Loan Insurance savings fund
   
   (h) Long term vision: preparing future generation
   
   (i) New system is designed to work equally well both in normal and disaster situations.
   
   (j) It allows the enterprising borrowers to move ahead faster.

3. **Can you point out the steps in the redesigning process of product & services?**

    The steps were:–

    (a) Forming a ‘Problem Cell’ to look into the problems
    
    (b) Creating a task force in head office and allocate each task force to each poor performing branch
    
    (c) Getting feedbacks from the taskforce – how they solved each problem
    
    (d) Making reports based on the feedbacks from each task force
    
    (e) Making an outline of the new system based on the inputs from the taskforce.
4. **Please state the role of the employees had in the redesigning process?**
The role of the employee in the redesign process was to visit the branches assigned to them each month and make reports based on their viewings. They would then come back to the head office and report to the head of the task force. Next, they would submit a monthly report to me (head of the problem cell at that time). Since it was a struggling time, all the employees had to give their inputs and give suggestion on how we can recover from the great devastation of the flood (in 1998). This was the general role of the all the employees.

*** in addition - please add some from The poor always pay back –Page 174

5. **Among all of the employees, who were involved in the redesign process and why?**
Well, almost all the members of staff (Managing Director to Center Manager) were involved in the redesigning process, either directly or indirectly. Because we need to see the different perspectives of all the staff working in different levels of the bank.

6. **In order to complete the redesign process what were the criteria that needed to be fulfilled?**
The criteria in completing the redesigning process are all the points that I have answered in question no 3 plus the final feedback from the testing project.

7. **What mechanism was used to test the new design and why?**
We carried out a small test pilot project in Jamesport (the special zone) to see how the new system of Grameen worked in that region. It was rather a trial and error process, where we tested the new things, observed the reactions of the borrowers and then went back for discussions to make the minor changes to the system. And then it was again tested in that region. Because it is less risky this way and you can easily fine-tune the design to meet the desired final design.

8. **During the implementation process, what were the obstacles that Grameen encountered?**
The most challenging part was to change the group thinking or the paradigm of the employees from Grameen 1 to the new model. Another problem was to change the entire accounting process of Grameen Bank and come up with new methods. Also the new system was very unfamiliar like as loan proposal form, pass book, loan ledger and other related papers to the employees.

9. **How did Grameen overcome those obstacles?**
It was done through intensive Training. The task force would report any anomalies and problems that arose as they tried to implement the rules. The bank also formed a guidebook for the whole staff so that they could familiarize themselves with the new rules and policies of Grameen 2.
And our controlling office was always alert to implementations of the new system if any problem anywhere, they tried to overcome it immediately.

10. In communicating the new model to the borrowers what techniques did Grameen use?
The branch arranged a workshop / meeting with the borrowers and explained in details the new products, rules and regulations. The kind of workshop/meeting was a “bamboo mat & stool” meeting. The bank also listened to their feedback.
In addition our staffs/ branch managers motivate the borrowers in favor of new system in every weekly center meeting.

11. How was the reluctance and negative attitudes of the staff handled in regard to the new Grameen system?
Initially it was tough to implement the new policy in the field, but series of workshop/meeting/dialogue and daily meeting made it easy for staff and borrowers, and both understood that the new policy was appropriate for them, so they didn't show any reluctance and negative attitude to the new Grameen system.
The staff was encouraged to write letters directly to the managing director (Prof Yunus) about the implementation process.

12. Under what considerations did Grameen merge the multiple loan products into one basic loan product?
Grameen merged the multiple loan products into one basic loan product because it is very easy for borrowers they can easily withdraw the loan after 26 installments and repay any time any amount .The repayment system of basic loan is very easy for the borrowers. If any off-season or economical crisis to the borrowers they can repay their loans in small installments. The duration of basic loan is three years. Basic loan ceiling can be enhanced every year on the basis of the review of repayment quality, or at any time on the basis of deposits. Borrowers can use a basic loan for any income generating activities.
Another major reason was to streamline the accounting process and also to make the monitoring easy.

13. Within the Grameen II system the defaulters are given another chance to get a new loan on top of the old loans. What are the considerations to have this policy?
To give them a second chance and motivate them to resume their relationship with the bank. The new loan was just a temporary measure to help them to get back to the old situation.
14. Grameen II launched Beggars Loan and Grameen Pension Savings. What is the importance of having those new products?

The importance of Grameen Pension Savings is very high; it was launched so that the bank could depend on its own resources in the event of a crisis. In addition Grameen pension saving scheme is also helpful for both staff and borrowers.

It is important because these are the poorest people among the poor that need help. It is a very popular program.

The beggars program is very crucial to us because it helps destitute people who would otherwise not be accepted in any other micro finance institution. Grameen provides resources to these poor people so that they can earn an income through self-employment. It is also tool to counter those who say micro-finance is not appropriate for the poorest.

15. In the new Grameen system the basic loan has become more flexible with an option to restructure the loan whenever borrowers face repayment difficulties. Hence, how is this flexibility mitigating the credit risk?

It is helping us to stop the borrowers from running away and becoming defaulters. It encourages them to stay and pay installments of their loan.

Our idea that there is no credit risk in this system because the borrowers are more benefited by this new system.

16. What are the most significant changes that make Grameen II successful?

The flexibility of the policies, giving the defaulters another chance to pay back their loan and also to correct themselves. The computerization process of accounting and monitoring system was another significant change. The award system, to give recognition to the branches and all the staff that are performing well, also helped.

17. Could you please tell us how your customers’ perception towards the new Grameen model was?

The borrowers were very happy and enthusiastic when they experienced the changes. This is because they could now save for retirement, and could also borrow more at anytime. Before, they had to wait for one whole year to get the new loan.
THE REENGINEERING PROCESS ADOPTED BY GRAMEEN BANK