MicroSave Briefing Notes on Grameen II # 9

A Critique of GB II's Means Test for Membership

M. Maniruzzaman

For an introduction to Grameen II, please see the first Note in this series, 'What is Grameen II?' For more about Grameen's membership, and its use of a means test to ensure that it works exclusively with poor people, please see Briefing Note 5[1]

The new guidelines

In early 2004 Grameen field staff began using revised guidelines to determine whether applicant households qualified as poor enough to become 'members' (that is, become eligible to borrow from the bank). They were issued with a checklist and obliged to make a home visit. The checklist is reproduced as Appendix II (page 55) of our report *Grameen II: the First Five Years* (available on the ***MicroSave*** website).

The new guidelines maintain the focus on land and asset ownership that has always characterised Grameen's means test (and been copied by most MFIs in Bangladesh): applicant households should own less than half-an-acre of farmland and other assets should be worth not more than an acre of farmland. The new wording strengthens these rules by clarifying some ambiguities in their interpretation, and amplifies them by adding a note on the kinds of people who should be prioritised in the search for new members. At the top of this long list are widowed divorced or deserted women, beggars, people in traditionally despised and low-paid work such as sweepers and wet-nurses, and those who live in 'miserable' conditions.

The third section of the new guidelines specifies those households who should *not* be considered for membership, using six kinds of criteria:

- √ household income: must not exceed 3,000 taka a month, however earned (about $50 at market exchange rates, or about $235 at purchasing power parity rates in 2004)
- √ place of occupation: the household must have no members working abroad
- √ education level: graduates may not join
- √ housing type and value: the home may not be worth more than 40,000 taka ($670); certain construction patterns and materials are also excluded
- √ household assets: must not include any of a long list: colour TV, refrigerator, washing machine, air conditioner, vacuum cleaner, microwave, sofa set, timber bed set, wardrobe, motorcycle, mechanised boat, power tiller or tractor
- √ membership of other MFIs: is prohibited

Our critique

This note offers three criticisms of the guidelines:

1. the specified levels are set too low, resulting in too restricted a pool of eligible applicants
2. they are in practice unworkable, leading field workers to find ways around them
3. they represent a missed opportunity to construct a useful database on membership

The wrong levels

Bangladesh's official 'poverty line' is measured in daily per capita calorie consumption. The Poverty Monitoring Survey[2] for 2004 calculated a per capita income equivalent of 595 taka per month as the minimum required to enjoy the purchasing power to avoid poverty in rural areas. With the average rural household size at about 5, the household income of 3,000 a month set by Grameen in the means test appears at first to be an appropriate cut-off level to exclude the non-poor. However, its strict use risks excluding many poor people, for several reasons. Many poor households have more than the average of 5 persons, so applying the 3,000 taka rule would unreasonably exclude them. Moreover, the 595 taka per capita monthly income is a *nationa*l average, and government statistics show considerable regional variation, so poor households living in 'expensive' areas could be arbitrarily excluded. Studies show that poverty is not static but dynamic – borderline households may oscillate, seasonally or randomly, between the two sides of the official poverty line, so using the line as an upper limit risks excluding many families who are vulnerable to spells of poverty. Finally, inflation means that the income equivalent of the official poverty line rises steadily, but Grameen's means test has not been revised since it was written in late 2003, and is now two years out of date.

The non-income rules in the means test are also too restrictive. The items on the list of household assets are all, *individually*, indicators of wealth. Most poor households certainly don't own a colour TV or a timber bedstead. But to take only those households that have *none* of this long list of assets risks excluding many otherwise poor households for whom an old diesel motor in a local ferryboat is the main source of income, or who happened to receive a timber bed or sofa set as part of a marriage settlement.

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[1] All Briefing Notes in this series are based upon the research project 'Grameen II: A Grounded View' commissioned by ***MicroSave*** from a team led by Stuart Rutherford. We are grateful to the bank for the support given to the researchers.

[2] Carried out regularly by the Bangladesh Bureau of Statistics

Barring households who are already in another MFI is counter-productive, for it stops poor people moving from the expensive products offered by other MFIs to the cheaper Grameen versions. Poor households value MFI membership, and are unlikely to give up an existing membership in the hope that, having done so, Grameen would then offer them a place.

Impractical

We have already seen that regional variation makes using an average income level as a cut-off point unsatisfactory. Grameen is a national institution working almost everywhere in Bangladesh, so regional variation also makes the rules impractical in the better-off areas. In the three sample branch areas where we worked we found that it was still possible to find qualifying households in the poorest area, but very difficult indeed in the wealthiest. This is not just a matter of income, for it is in the wealthier areas that households are most likely to have someone working abroad, and enjoy membership in other MFIs: see Note 6 in this series which found that in such areas six out of ten Grameen members may hold multiple memberships.

We recently returned to the wealthiest of our sample branch areas and studied 52 Grameen members who joined since the new rules came into force. Applying the rules strictly, we found that 24 households (46%) should have failed: 13 had more than a half acre of farmland, 7 had someone working overseas, 12 had colour TVs (two quite poor households had received them as dowry), 6 lived in house-types that should have disqualified them, 10 had good timber furniture, 7 had loans from other MFIs, and 9 had incomes of more than 6,000 a month[3].

Left: Houses belonging to poor Grameen Bank members. Right: The home of a recent Grameen joiner in the richest of our sample branch areas. The family head runs a successful business and his son remits income from Italy. The family joined Grameen to open the attractively-priced GPS commitment savings plan.

Not surprisingly, then, we found that fieldworkers in such areas, under strong management pressure to recruit new members to reach the new target of 600 members per worker, were uncomfortable when we questioned them about the means test. They were obliged to fall back on excuses such as 'well, when we made the home visit they didn't show us the power-tiller' or 'well, they told us they weren't in any other MFI – how were we to know they were lying?' We felt considerable sympathy for them.

A good opportunity

It is uncertain whether Grameen field staff have the capacity – especially the time – to do the means test and the home visits thoroughly. Our enquiries suggested that sometimes it is done properly, and sometimes skimped or skipped. If the capacity isn't available, the attempt to select members in this way should be abandoned – for it only works well if it is done properly for all applicants.

But there is an alternative, and in our view far more productive use of the survey that would still yield data of great use even if it was applied to only a fraction of applicants.

The interviews should be used *descriptively* rather than *prescriptively* – they should be used to collect data on applicant households who apply, rather than as a selection tool. Such information will give Grameen insights into the kinds of people who apply, and into who is accepted, and who is rejected, and why. Free of the embarrassment of having to manipulate the data, fieldworkers are likely to be more careful to collect accurate information, and, free of the need to conduct the test for every household, local managers can have as many done as they feel appropriate to local staff capacity. The data will also reveal regional variation, and variations between branches in the same region. Armed with such data, management could, if it wished, set local criteria for admission.

Information of this sort will be of practical use to Grameen management both for performance monitoring and, more crucially, for understanding demand and thus leading to improved product design. With Grameen adding some 140,000 members a month, the resulting data set would be large even if only a fraction of applicant households were covered, and would be invaluable for general research into microfinance, for both Grameen and outsiders.

Conclusions

Grameen's membership means test is too restrictive, fails to take into account regional differences and the dynamic character of poverty, and is generally not well enforced by staff.

However, collecting the same data as a description of new members, rather than as a prescription for them, would be more feasible, and would yield information of real use to Grameen's business plans and to researchers working for Grameen and for microfinance in general.

[3] The study was done well after Note 5 in this series was written, and is one of a series of studies details of which can be had from the author at maniruz@gmail.com