

Credit for the rural poor — the case of BRAC in Bangladesh

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As the rural population of Bangladesh increases, landlessness among people once dependent upon agriculture is a growing problem. The Bangladesh Rural Advancement Committee (BRAC) has been working with the rural poor since 1972, and in 1979 it began to provide credit via its 81 branches through the Rural Development Programme (RDP). Ten years later the success of the RDP in generating incomes and employment through small businesses and building up assets has been evaluated, and this article describes the results of the evaluation.

Bangladesh's fast-growing rural population cannot be fully employed in agriculture

NINETEEN YEARS have passed since Bangladesh fought for its independence. It inherited all the complex economic, social and political problems which are typical of a less developed country. With a very high population density and rate of growth, it is the fifth poorest country in the world (World Bank, 1988). The development of manufacturing industry is taking place at a very slow pace, and the stock of mineral resources discovered so far is poor. Eighty per cent of the country's 110 million population live in rural areas, and more than 50 per cent of them have to depend on agriculture for their livelihood.

It has been estimated, however, that more than half of the rural population is functionally landless. During 1960-79, the rural population increased by 50 per cent but the number of farm households increased by only 1.9 per cent, which indicates a vast increase in non-farm households (Hossain, 1984). A number of non-government organizations (NGOs) are involved in the field of poverty alleviation and Bangladesh Rural Advancement Committee (BRAC) is one of the largest among them. BRAC has a long history of organizing the landless, providing them with loan and training facilities through its different interventions, particularly the Rural Development Programme (RDP). In order to assess the impact of RDP on the income and employment of its beneficiaries, the Research and Evaluation Division, an independent unit within BRAC, conducted a study in 1988, and this article presents results from the study. Before presenting results, however, we will try to provide an overview of RDP and indicate the methodology used for this impact study.

BRAC targets disadvantaged sectors of the rural community, particularly focusing on women and the landless

BRAC was started in early 1972 as a relief measure following the war of liberation. Soon it became a community development organization providing health, family planning, education and economic support to different sectors of the rural community, but with particular emphasis on the most disadvantaged, such as women, fishermen and the landless. Since 1977, however, BRAC has been working exclusively with disadvantaged sections of the community.

BRAC's initial experience with credit dates back to the early 1970s. In 1974 BRAC provided credit to the villagers in its Sulla project in Sylhet

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district through Sulla Thana Central Co-operative Association (BRAC, 1975). In the following year, credit was advanced without interest to several landless groups; and in 1976 BRAC started providing credit to landless groups through its Manikganj project.

BRAC's Rural Development Programme

The Rural Development Programme (RDP) is one of the major programmes of BRAC. Started in 1979, RDP had grown by December 1989 into a large programme providing credit to target groups from 81 branches in 45 sub-districts of 22 districts.

The following are the major objectives of BRAC's RDP:

- building viable organizations of the poor capable of bringing about desired changes in their own socio-economic and political circumstances;
- improving the socio-economic status of the rural poor through the provision of easy credit for income and employment generating activities; and
- developing the managerial and entrepreneurial capabilities of the poor.

To attain the above objectives, RDP works through different components in the following chronological order:

- **Conscientization.** RDP starts its operation with a conscientization programme through BRAC's functional education curriculum. Classes are held separately for men and women.
- **Institution building.** The functional education classes normally lead to the formation of village organizations for men and women.
- **Training.** Different types of training are organized for the members of newly formed groups. Some of these are held at BRAC's own training centres while others are held in RDP's local offices. The programme also runs a para-legal aid programme to provide legal awareness to group members.
- **Credit support.** The above activities normally take approximately six months before the group members become eligible to receive credit from RDP.
- **Technical and logistical support.** Some of the income generation activities may require higher level technical and logistical support which are provided by BRAC. Examples of such support are: vaccines for livestock and poultry, and the marketing of locally produced items such as garments.

The principles of credit under the RDP

Borrowers are expected to use the loan according to the purpose for which it was given, and no loan is given for consumption purposes. Loan repayment is started immediately and is made on a weekly basis.

Loans are given to members on recommendation from their village organizations. They are given 'on margin', which means that the borrowing organization contributes its own resources to the extent that all members have a significant stake in the venture. Each group member saves every week, and this saving is kept in the member's account.

No collateral is demanded, and hence BRAC has to enquire beforehand about the borrower's ability to carry out the proposed venture and its potential profitability. This is supplemented by continuous but supportive

No collateral is demanded, so BRAC has to make enquiries as to the borrower's ability to carry out the proposed venture

monitoring by BRAC staff throughout the entire life of the scheme. When a loan is given to procure an income-producing asset, however, the asset remains hypothecated to BRAC until the full recovery of the loan. In case of default, the asset is sold and the outstanding loan is recovered. Such a situation, however, seldom arises. For effective supervision of the loan from the group side, a management committee is selected by the group members.

The amount of the loan varies depending on the nature of the scheme. To date the smallest loan was for Tk.500 and largest was for Tk.1 million (the exchange rate is US\$1 to Tk.35). Large loans are given for collective enterprises, such as deep tubewells, power tillers and so on, organized by several village organizations, whereas individual loans vary from Tk.500 to Tk.8,000.

There are three lengths of duration for which credit is advanced to group members. Short-term credit is for a period of 12 months or less; medium-term credit is for a period greater than 1 year but less than 3 years; and long-term credit is for 3 years or more. On all loans, an interest rate of 16 per cent is charged.

Landlessness is not the only criterion for eligibility to RDP group membership. Households with no land may not be the poorest because they might have other substantial sources of income such as a job or a business. BRAC's target group comprises those men and women who sell their manual labour for subsistence; most of this target group, however, are found to be landless or near landless.

Each branch of RDP is headed by a manager who is assisted by four to five programme organizers. Since 1983 RDP has recruited local male and female *gram shebak* (village volunteers) to assist in the credit activities. Approximately 45-50 villages (average village population 1,200) are covered through a branch and each *gram shebak* is assigned approximately 5 villages or 10 village organizations.

Until December 1989, RDP had been working from 81 centres in 45 sub-districts of Bangladesh which are scattered over 22 of Bangladesh's 64 districts. Table 1 shows that RDP is working in 3,359 villages and that in these 65 per cent of the households belong to RDP-defined target groups, 68 per cent of whom are members of RDP groups.

Table 1. Information on RDP activities (as at 31 December 1989)

Number of sub-districts in which RDP is working	45
Number of RDP centres	81
Number of villages covered	3,359
Number of village organizations formed	
Male	2,882
Female	3,642
Total	6,524 ¹
Number of households covered	202,883
Percentage of target households covered in participating villages	67.8
Percentage of target households in participating villages	64.8
Size of membership	
Male	137,736
Female	217,939
Total	355,675 ²

1. In some large villages, more than one group of each sex has been formed to facilitate management and discipline.
2. In the majority of cases, both husbands and wives are members of the respective village organizations.

Savings and credit under RDP

Through a system of compulsory individual savings, group members have saved nearly 70 million taka over the years, or approximately Tk.193 per group member (see Table 2). The savings are collected during the weekly meeting attended by group members and the respective *gram shebak*.

Table 2. The savings and credit operation of RDP (as at 31 December 1989)

Total amount saved (in million Taka)	69
Average savings per individual member (Taka)	193
Total amount of credit disbursed (in million Taka)	473
Loans repaid on time (percentage of credit)	96.5
Average credit per group (Taka)	75,570
Average credit per individual borrower (Taka)	2,297
Percentage of credit received by females	53.4

Progress in the credit operation

Between 1979 and 1989, over Tk.470 million had been disbursed. Of all the loans 96.5 per cent have been repaid on time, a proportion which has varied between the branches. Branches which were started earlier have worse records than those which were started later on, although the repayment record of the former branches has improved with time. Table 2 provides some information about the savings and credit operation of RDP.

Loans for small trading and agricultural schemes dominated the credit disbursed. Table 3 gives the share of each type of activity. More than half the loans were short term (less than 12 months in duration) and only 7 per cent were for long-term purposes (more than 3 years). Only 17 per cent of the total loans were given for collective activities and the rest were for individual activities. Repayment records were better for individual schemes (96 per cent) than for collective schemes (81 per cent) (Table 3).

Table 3. Share of loans for different types, duration and nature of activities (up to 1989)

Type of activities	Percentage of total credit disbursed	
Small trading	53.4	
Agriculture	12.1	
Irrigation	7.2	
Livestock (rearing and fattening)	17.3	
Fish culture	1.0	
Rural transport	3.2	
Rural industries	5.5	
Others	0.3	
Duration of loans	Percentage of total credit	Percentage repayment rate
Short term (less than one year)	54.1	95.6
Medium term (between 1 and 3 years)	39.1	88.9
Long term (more than 3 years)	6.8	70.8
Individual and collective		
Individual loan	82.9	95.9
Collective loan	17.1	80.6

The study attempted to measure the impact of RDP on the income and employment of its beneficiaries

Because of underemployment it is very difficult to determine the exact extent of an individual's productive employment

Methods and materials for the evaluation

Although RDP has been in operation for several years, no appreciable attempt had been made previously to measure its impact on the income and employment of the beneficiaries of RDP. Because the RDP branches from which credit operations are managed were started at different times over the years, the volume and type of credit operations varied between different branches. So when the Research and Evaluation Division began to conduct its study we decided to concentrate only on the branches which started during RDP's earliest phase. Out of eight branches from this phase, four were selected at random. From each branch 50 male and 50 female members were selected at random. In the selection, it was ensured that each member chosen had been associated with an RDP organized group for at least seven years and that all members came from separate households. This was known as the 'study group'. We were interested in knowing the overall impact on all group members and not only on those who received loans and hence we did not concentrate only on borrowers.

For comparison we also selected a 'control' group. Within the same branch 50 males and 50 females were selected from the groups which had only been organized a short time before and had been given no credit yet. Such a selection of the 'control' ensured that the members belonged to a similar socio-economic group as the study group. The only difference between members of the control and study groups was that they had not yet been exposed to RDP credit. All the study group samples had joined RDP before 1982 and those of the control in late 1987. The survey was carried out in February 1988.

Although the ultimate samples were the individual members of the RDP groups (old and new), we collected the required information about the households they belonged to. The main instrument of data collection was a questionnaire. We sought to collect detailed information on all the conceivable sources of household income from the previous Bengali year, such as agricultural production, wage labour, service, business, fisheries, poultry and livestock, kitchen gardens, the sale of handicrafts, and so on. Information on employment, indebtedness, and the possession of assets was also collected. Income received from various sources was converted into taka equivalents using, where necessary, the existing prices. For estimating employment the number of person-days employed for each source of income was determined. Because of the high incidence of underemployment, it is very difficult to calculate productive employment and the period of unemployment or underemployment. Therefore such information should be taken with a pinch of salt. The methods employed for both study and control samples were the same, however, and any limitations with respect to the methodology should apply equally to both.

The difficulty of collecting reliable information on income in the rural areas, and particularly from the poor, is well recognized; however, we made every effort to identify all the possible sources of income. The interviewers who collected the data were holders of master's degrees and were extensively trained for the purpose. One of the authors was personally present in the field throughout the data collection operation and he also supervised the processing and analysis in BRAC's head office in Dhaka. An analysis of the demographic and socio-economic characteristics of the study and control samples suggested that they were closely matched.

Results

The per capita annual income in the study households was Tk.3,502 which is 26 per cent higher than that of the control and the difference is statistically significant ($p < 0.05$). In respect of average household income, the study household's was 29 per cent higher than the control group's ($p < 0.05$).

Table 4. Proportion of households by income sources

Source of income	% of study households reporting this as:				% of control households reporting this as:			
	Principal source	2nd source	3rd source	% of hhs earning something from this source	Principal source	2nd source	3rd source	% of hhs earning something from this source
Cultivation	15.0	20.5	7.5	43.0	7.0	24.0	5.0	36.0
Agricultural wage labour	10.5	3.5	1.0	15.0	17.0	3.0	0.5	20.5
Wage labour	11.0	6.5	1.0	18.5	18.0	3.5	1.5	23.0
Trade	22.0	8.5	4.0	34.5	25.5	3.0	0.5	29.0
Cottage industry	10.5	2.5	2.5	15.5	7.5	6.0	1.0	14.5
Salaried service	6.0	7.0	3.0	16.0	7.5	4.0	1.0	12.5
Transport	12.0	3.0	1.0	16.0	9.5	2.0	0.5	12.0
Others	13.0	9.0	6.0	28.0	8.0	2.0	6.0	16.0
All occupations	100	60.5	26.0	186.5 ¹	100	47.5	16.0	163.5 ¹

1. The percentage exceeds hundred because a single household can be engaged in multiple occupations.

The per capita annual income was 26 per cent higher for the study households than the controls

Table 4 shows that the sources of income of the two groups are not very dissimilar. Trading appears to be the most popular principal source of income in both groups. When secondary sources were considered, however, cultivation took the lead, pushing trading to the second position. The proportion of households who earned some income from trading was greater in study households (34.5 per cent) than in control households (29 per cent).

If we consider wage labour (agricultural and non-agricultural), we find that 35 per cent of control households have this as their principal income source, which is higher than the study group's 21.5 per cent. On the other hand if we consider the income sources which need some capital basis (such as cultivation, trade, cottage industry and transport), 59.5 per cent of study sample have this as their principal source of income compared to the control's 49.5 per cent.

The table also shows the difference between the two groups with respect to the proportion of households which have more than one source of income. Amongst the study households, 60.5 per cent and 26 per cent had second and third sources of income whereas only 47.5 per cent and 16 per cent amongst the control households respectively have these incomes.

Impact of RDP on employment generation

The problems of estimating employment in our rural areas has already been mentioned. We calculated the number of person-days in employment for study and control group households and found that the total

The study households were employed more and employed others more often than the controls

amount of employment was 19 per cent higher for the study group than for the control, and that the group members in turn hired labour three times more often than the control.

With respect to the number of income earners there were 1.61 workers per household in the study samples compared to 1.38 for the control. The activity ratio (the proportion of the population of working age who are in employment) of 28.7 per cent for the study sample was higher than that of the control, which was 25.1 per cent. The average number of dependents was greater in control households.

We also investigated how men and women are employed in the study and control households. Whereas the number of person-days of employment for men was 9 per cent more in the study samples than in the control, it was 34 per cent more for females in the study samples. Also the ratio of female to male employment was more favourable in the study samples.

Table 5 shows the ownership of different household goods and assets in study and control households. It shows that except for ducks, the study households possessed more of all the selected items of assets.

Table 5. Assets owned by study and control households

Asset	No. of households owning		% difference of study over control samples
	Study	Control	
Cattle	184	138	+ 33.3
Goats	149	110	+ 35.4
Ducks	86	172	-100.0
Chicken	784	390	+101.0
Rickshaws	41	8	+412.5
Bicycles	22	16	+ 37.5
Agricultural machinery (per set)	56	36	+ 55.5
Weaving machines	27	15	+ 80.0
Total	1349	885	+ 52.4

Future plans

Bangladesh has inherited many complex economic, social and political problems. Over the years since independence, the overall economic situation has worsened and the poor have become more poor. The proportion of landless and those below the poverty line have increased alarmingly.

One of the causes of poverty in rural Bangladesh is the lack of access to unexploitative credit for the poor. BRAC has been experimenting with credit for the poor since 1974 and in 1979 it decided to bring credit under a separate programme structure. To provide institutional credibility, BRAC has initiated the process of 'graduating' RDP into a fully fledged rural bank in the near future. An RDP branch will be bought over by the proposed BRAC Bank when that branch reaches a 'break-even' situation (Tk.6.4 million in outstanding credit) so as to support all costs from the interest earned. Other conditions for the transfer include a total membership of 7,000 and 3,400 outstanding borrowers per branch.

The target group of BRAC are those poor men and women who sell their manual labour for survival and who are landless. BRAC's Rural Development Programme has also provided the target groups with other inputs such as functional education and vocational training.

Over the years RDP has grown steadily and by 1989 it had formed 6,524 village organizations (VOs) with a total membership of 355,675, 61 per cent of whom were women. The total savings of the group members

exceeded Tk.69 million. RDP has provided Tk.473 million in credit and the repayment rate has also been quite high – 96.5 per cent on time. Of the total credit disbursed female group members received 53 per cent. RDP has an ambitious plan for growth: by the turn of the century, RDP (including the proposed BRAC Bank) will be working from nearly 400 branches in rural Bangladesh, serving a clientele of nearly 3 million men and women.

A comparison with other programmes

Grameen Bank, another pioneer in credit to the rural poor, expanded more quickly than RDP

By comparison, Grameen Bank, another pioneer in credit for the rural poor, expanded more quickly than RDP. Started in 1976, GB has now nearly 700 branches serving a clientele of over 600,000 landless poor (Grameen Bank, 1990) with an excellent repayment record of 98 per cent. It may be worthwhile here to point out how RDP is different from Grameen Bank. While Grameen Bank is basically an institution to 'provide a reasonably dependable forum through which the banking system can extend credit to the landless without collateral' (Yunus, 1982), RDP is a programme for the comprehensive development of the poor. Apart from credit, the components of RDP also include consciousness raising, institution building, training, and technical and logistical support.

Apart from credit RDP also encourages consciousness raising, institution building, training, and technical and logistical support

Even in the disbursement of credit, the principles of RDP are in many ways different from those of Grameen Bank. While Grameen credit is available almost immediately after the formation of a group, RDP takes approximately six months to develop the group to a standard considered necessary before disbursing credit. RDP forms men's and women's village organizations for exercising greater political power, but Grameen Bank forms a group with five members to receive credit, also separately for men and women. While RDP credit is strictly supervised and is intended to be used for the purpose for which it is granted, 'Grameen Bank loanees are left to their individual choices as to what to do to utilize the loans as long as they earn some income and repay the loans' (Hossain, 1984). While loans for collective activities are encouraged in RDP, most loans from Grameen Bank are to individuals.

Although RDP has been operational since 1979, there has not been any serious attempt to measure its impact. Recognizing the difficulties in measuring the impact on qualities such as awareness, we decided to concentrate initially on a few tangibles such as income, employment and assets. The measurement of these is, however, fraught with difficulties. Many authors have used different methods of measuring income and employment in rural areas. Hossain (1984) used a number of methods in the case of Grameen Bank. Rahman (1986) used a micro-level investigation to study the same institution. In our study of RDP, we used the 'control group' method to measure the impact. Because of the difficulties in collecting reliable retrospective information on income and employment, the reader should be cautious in interpreting the absolute results. However, since the same methods of data collection and analyses were used for both the study and the control samples, the differentials found between the groups should hold even if there are doubts about the validity of the absolute results.

It can be questioned whether all the increase in the study group's incomes was due to RDP intervention

In this article we have presented some results from this study which have indicated that RDP has made some positive impact. The per capita annual income of the study households was found to be 26 per cent higher than that of the control households ($p < 0.05$). Is this due to RDP intervention? It can be questioned whether all the increase in the study group's incomes was due to RDP intervention.

Of the sectors financed through RDP credit, trading and cultivation occupy the top positions with respect to the amount disbursed. Both study and control groups had these as their major sources of income. The proportion of households who earned some income from trading, however, was greater amongst study households (34.5 per cent) than amongst controls (29 per cent). This has possibly resulted from RDP credit which provided 53 per cent of its total credit in this sector.

Thirty-five per cent of control households had wage labour (agricultural and non-agricultural) as their principal source of income compared to the study group's 21.5 per cent. This requires no capital and is probably the last resort of a person who has no land or other assets to start some other trade: clearly the control households without RDP credit and training services had to depend more on this. In other occupations which need some capital bases (such as cultivation, trading, cottage industry or transport), more of the RDP households (59.5 per cent) were deriving their principal income from these compared to 49.5 per cent in control households. The study households also had more separate sources of income per household than the controls.

We have also attempted to estimate the impact of RDP on the employment situation. The study households generated more employment than the controls. Because of the availability of credit more household members, particularly women, have an opportunity for self-employment. With respect to asset ownership, the study households were consistently better off than the control households.

The samples for this study came from the earlier branches, which are not 'A' category branches in RDP's own assessment. They were the first to be started and many initial experiments were carried out with them. Punctual repayment is worse in these branches (about 80 per cent compared to 100 per cent in many others which were started later). Although the programme in these branches was started in 1979-84, not all members received a loan. Through the study we covered all member households irrespective of whether they received a loan as we wanted to get an overall picture of the impact on all members. The controls did not receive any loan from RDP but were involved with other RDP interventions such as functional education. Through such involvement it is expected that they may have raised their consciousness which might have helped them to increase their income even without RDP credit. Given these facts it is probable that the impact of RDP that we have been able to measure is biased downwards. Another study which compared the income of RDP group members with a baseline found an increase of 116 per cent in real income, 84 per cent in employment and 153 per cent in the possession of assets (Ahmed *et al.*, 1988).

Because of methodological problems, neither the cost nor the cost-effectiveness of the RDP credit has been explored through this study. Since RDP workers are also involved in activities other than credit, apportioning their time is a real problem. Future studies will look at this question.

We may now compare some of our results with those found elsewhere. We will restrict this to those found by Hossain (1984) and Rahman (1986) in their studies in the Grameen Bank. In a study involving 62 borrowers and 54 controls, Hossain (1984) found a 30.8 per cent increase in per capita income amongst the borrowers. We found that RDP group members had a 26 per cent higher per capita income. With respect to the generation of employment, Hossain found an activity ratio of 30 per cent for Grameen Bank loanees and 24.3 per cent for control groups.

Because of the availability of credit more women have an opportunity for self-employment

The strategies of Grameen Bank and RDP differ, but both appear to be having a similar impact on their beneficiaries

Compared to this we found the activity ratio of 28.7 per cent for RDP households and 25.1 per cent for control households. It seems that although the strategies of RDP differ from those of Grameen Bank as outlined above, both are having a very similar impact on their beneficiaries, the landless peasants of Bangladesh. Through Grameen Bank, a much larger number of beneficiaries are being served. On the other hand, RDP's beneficiaries are also getting other benefits than just credit, which should have a much wider and far-reaching impact. Both these interventions are showing promise for the development of the poorest sections of Bangladesh and they should be constantly monitored.

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