

Microfinance in the Brahmaputra-Jamuna Chars: The Context, the Providers and Way Forward

March 2002

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Executive Summary

Informal financial sources dominate the financial landscape of the char areas in ways distinct from the mainland areas of rural Bangladesh. Microfinance in the char areas has not even scratched the surface of the first and basic microfinance challenge – outreach. However, the challenges of expanding outreach and developing innovative products and delivery mechanisms go hand in hand in the char areas, in a way that is distinct from the general mainland rural Bangladesh. This is because investments in a core product and methodology experimentation that works, for the most part, in mainland rural Bangladesh was already undertaken by Grameen and other microfinance pioneers, such as BRAC and ASA. This is not the case for the char areas. Good microfinancing in the char areas would involve significant investment in building knowledge and capacity.

High chances of relocation and frequent seasonal migration are two important features of char dwellers' livelihood. Incomings into the household is usually much less regular than it is on the mainland and a large proportion of income come in lumps from seasonal migration. Livestock earning is the most regular among the common sources from which char dwellers derive their income. However, poor price, lack of timely and cost effective veterinary services, livestock fodder and safety problems during flood periods, etc. pose significant challenges to this important sector for the char dwellers. Opportunities to engage in activities that will smoothen the income flow is restricted by difficulties of market access and general decline in the adjoining mainland.

The need for financial intermediation that enables the char dwellers to smoothen consumption in the face of quite strong seasonality in income in a less expensive and more reliable way than what is currently available is thus very important. However, realizing the 'opportunities driven' use of financial services however will have to be preceded by significant improvements in the real sector of the char and adjoining mainland economy. Much of these investments are public good in nature and need to be coordinated with a good understanding of the sectoral interlinkages and bottlenecks. Financial services should be an integral component of such an exercise but not be leading it.

In the short term, microfinance in the char areas should be focussing on providing basic financial intermediation services for reducing vulnerability--- essentially being much stronger on developing the 'protection' dimension of microfinance through varied savings based instruments and emergency credit, rather than a 'promotional' one. The 'promotional' instruments need careful targeting as opportunities for multiple livelihoods that can secure regular instalments and create greater capacity to absorb larger loans over time, is much less likely for a vast majority of the char people.

The physical distance between the chars and the mainland and the consequent general lack of external agents (developmental or not) engagement with the chars will make the task of microfinancing quite challenging. A number of very vital mechanisms that ensure successful microfinancing are predicated on building relationship and a level of generalized trust in the community of operation. These relationships are the foundation behind 'knowing the clients and the ebbs and flows of their lives' to design good products and mechanisms that serve their financial service preferences. The providers will also be unable to use the types of relationship based informal mechanisms to solve a range of problems from locating clients to solving repayment problems. What lies at the heart of this mutual relationship dysfunctionality is the fact that most microfinance operations have not set up physical infrastructure (however modest) in the chars and thus remain to be seen as a socially disembedded intervention. They have also not invested in creating the social intermediation platform (building relationships, trust, reliability, a credit repayment culture, etc.) needed for good microfinancing. Any microfinancing strategy in the char areas would have to take

these issues very seriously and provide for conducive funding and partnership strategy that allows room for the partners to take them seriously as well.

The overall health of microfinance programmes working in the char areas is quite weak—it is almost a case of 'poor services in poor areas'. There are a number of reasons for this, such as:

- A strong perception that char dwellers are too poor to be good microfinance clients. This has created a culture of complacency in terms of loan default, management and control in the microfinance programmes working in the char areas. It almost seems that microfinance institutions working there are doing so out of sheer generosity.
- This has impeded examining the real issues and challenges of microfinancing in the char areas, such as:
 - Understanding the ways in which access to financial services can be useful to the char dwellers.
 - Exploring appropriate products and delivery mechanisms broadly in line with the livelihood dynamics of the char dwellers.
 - Investing in entering a 'new' market by understanding the market, building relationship, and signaling reliability and institutional permanence.
 - Developing the capacity of the microfinance programme staff at all levels in order to ensure transparent accounting, good internal control, and functional separateness from other programmes being undertaken by the institutions.

I Introduction

1.1 Objective:

The primary objective of the study is to understand **dimensions and dynamics of demand for financial services in the Chars**. The Char dwellers are some of the most vulnerable people in Bangladesh. Financial services are an essential component of their complex livelihood strategies. Their needs require both an innovative and appropriate set of financial services to reduce their vulnerability, and give them the chance to invest in profitable opportunities. The second objective of the study is to map the **current financial landscape** in the chars, in terms of types of financial services, and their performance. This includes all types of financial intermediation and institutions, both formal and informal (including NGOs).

1.2 Methodology

The table below outlines the broad areas/research questions and the tools we used to explore them.

Area/Questions	Methods Used
Mapping the financial landscape	
What types of arrangements and providers?	
What is the scale?	Qualitative tools, questionnaire survey,
Who has access to what and when?	secondary literature
What are the costs?	
How reliable and how good financial health?	CGAP MFI appraisal tools
How well managed?	
Understanding Livelihood	
Cash-flow pattern and seasonality	
Chars: How different?	Qualitative tools, questionnaire survey,
Assets: Land and non-land	secondary literature
Relocation	

The study is based on charland microfinance provision in two char predominant districts of Northern Bangladesh—Kurigram and Gaibandha. These are the two districts that DFID-B is likely to focus on under its Char Livelihood Project. A general inventory of microfinance providers in the char areas of Kurigram and Gaibandha district was first conducted and two upazillas --- Chilmari, in Kurigram and Shaghata in Gaibandha, were subsequently selected for the study. The selection was based on identifying char predominant and logistically practical upazillas. Given the time constraint, we then focussed on selecting an island char-mainland pair from each of the two upazillas. We included mainland clusters in our study sample as we were interested in exploring the differences in the research questions between chars and mainland. We selected a total of ten clusters (paras) for the study—five in each of the two char-mainland pair. In each of the char-mainland pair, three clusters were in the char and two in the mainland.

The qualitative part of the work focussed on all the households living in the sample clusters, while for the questionnaire survey, we sampled 20 households from each charland cluster

and 15 households from each mainland cluster, giving us a total of 90 households from each of the two study locations making a total sample size of 180 households. The sample households were selected based on participatory wealth ranking conducted in all the study clusters.

1.3 The Study Clusters

Of the three clusters covered under the study in Chilmari char area (Oshtomir Char), one was a Rangpur Dinajpur Rural Services (RDRS) core working area located within the RDRS char area office; one was its next door neighbour cluster and the third one was within two kilometres of RDRS char area office. The selected clusters are also very similar to other clusters in the same char area. Of the two mainland clusters in Chilmari upazilla, one was severely under threat of river erosion and the other was a temporary settlement of the victims of river erosion on the flood protection embankment on the right bank of the Brahmaputra.

Of the three charland clusters selected in the study char of Shaghata upazilla (Digholkandi), one is a Government sponsored cluster settlement of landless char dwellers, one is a settlement of similar landless households at the mercy of a couple of affluent families and the third one is a settlement of mostly small and marginal farm households. The two Shaghata mainland clusters are however less vulnerable to floods and river erosion and are very densely populated.

In general, the mainland cluster households are better connected to the existing marketing and road network and various other infrastructure facilities, such as schools, hospitals, district, and sub-district administration. However, the mainland of these areas themselves wears a fragile and declining look. Notwithstanding this, the result is relatively better mobility, diversified occupational pattern and better presence of MFIs. The charland dwellers on the other hand is more dependent on few livelihood options such as seasonal agricultural employment, livestock rearing and seasonally migrating out to other districts for work. These diversities are substantially addressed by selecting the ten clusters of settlements from the char and mainland areas of the two upazillas of the two districts.

1.4 The Structure of the Report

The next Chapter (II) outlines some of the major livelihood themes from an enterprise perspective of the char dwellers highlighting differences between chars and mainland and between the two chars. Chapter III focuses on exploring the financial landscape of the char areas and relating it to the livelihood themes from the previous Chapter with a view to delineating the financial service preferences. This part is a demand side examination, which is then supplemented by a detailed supply side examination of four major microfinance institutions working in the study char areas, in Chapter IV. In the final Chapter (Chapter V), we summarize the main arguments and observations from the previous Chapters and focus on the gaps of financial service preference and provision.

II The Char Dwellers and Their Livelihood: Chilmari and Shaghata

The Brahmaputra and Jamuna chars comprise substantial parts of the five districts on the west bank and another four districts on the east bank of the rivers. The districts particularly in the north-west, such as Kurigram and Gaibandha have several upazillas with more than half of the geographical area in chars and the substantial part of the other half vulnerable to river erosion.

The social and economic relationships and structure is to a great extent a product of the cycle of char formation and river erosion making people landless at one, giving them land at a later time and making them landless again. This process underpinned by fragility of resources and reversibility of fortunes makes kinship relations very important to the char dwellers and to a lesser extent to the adjoining mainland dwellers. This is of fundamental importance in understanding the livelihood dimensions and dynamics of the charland people and needs to be very well understood for any development interventions targeted at the char areas.

2.1 Relocating home

The predominant reality in the lives of char dwellers is being forced to relocate homes due to river action leading to erosion of land or the whole char being submerged. In our survey, we asked households how many times they had to relocate since the household was established. The median value for the number of moves for our char sample households was 7 while the corresponding figure for the mainland sample households was 1. The median value of number of relocations since households was established for Shaghata char sample households was slightly higher (7.5) than that of the Chilmari char sample households (7). While 42% of our mainland samples households experienced relocation, the corresponding figure for the char sample households was 98%¹. It is important to note that not all relocations are covariant in nature, i.e. in any given char, some households will typically relocate more frequently than others and some of these relocations are within the same char.

We collected detailed data on the last 5 moves for each household. The median value of the distance that HHs relocated to is 1 mile in both the chars. The causes of relocation and differences between the two study areas are given in Table 1. The most important reason for relocating is, as expected, related to river action; however, coercive pressures from outsiders, opportunities such as better access to markets, also figure as important reasons for relocation. The FGDs we conducted on this theme suggests that relocation tends to be higher for both very poor and well-off households. The reasons, however, are very different --- the very poor usually live on more vulnerable parts of the char and thus have to relocate more, while for the better off, relocation (barring those that are covariant in nature, such as river action driven), tend to be more opportunity driven.

¹ The 2 Chilmari char sample households which had not experienced any relocation are newly established.

Table 1: Reasons for Relocation

Reasons for relocation	CC Sample	CM Sample	SC Sample	SM Sample
River erosion or chard submerged	90%	94%	83%	90%
Family Dispute	<1%	0%	4%	3%
Forced to relocate	2%	0%	9%	0%
Others	8%	6%	5%	7%
Total	100%	100%	100%	100%
% of total sample HHs reporting relocation	100%	63%	100%	17%

Note: CC (Chilmari Char); CM (Chilmari mainland); SC (Shaghta Char); SM (Shaghta mainland)

2.2 Land: Homestead and Non-homestead

A large percentage of char dwellers, at any point in time, will not be living on their own land. In both of our sample char clusters, less than a quarter owned the homestead land they were living in at the time of the survey (Table 2). For the remaining, living either on government khas land or someone else's land from their kinship group is very common. This is not the case in the mainland where those without homestead land cannot rely on kinship support and have to settle on government khas land if they can manage access or rent. In the char areas, such support is predicated on balanced locational reciprocity; this equilibrium breaks down in the mainland as mainlanders in general would not want to move to the chars when their homestead land is river eroded. Instead, the strategy, for those who have the means, is to move to safer land. This process has implications for local area development.

Table 2: Homestead Land: Char vs. Mainland

	CC Sample	CM Sample	SC Sample	SM Sample
Own present homestead	23%	60%	22%	87%
For HHs not owning present homestead living in...				
Khas land	21%	75%	22%	0%
Someone else's land	75%	2%	78%	4%
Rent in land	0%	23%	0%	96%
For HHs not owning present homestead...				
% who never owned one	33%	94%	24%	93%
How long ago owned (median)	4 years	32 years	6 years	38 years

Landlessness in these areas can be temporary as land presently under water may emerge in a matter of years. As we see from Table 1, only 24% to 33% of those households who did not have their own homestead land at the time of survey never owned one, while the remaining majority, had their own homestead a few years back. Such relatively rapid turnover of land is the reason why people tend to guard their landowning titles very closely and there are relatively well-functioning informal survey and land settlement institutions that work in parallel to the government institutions. In our survey we asked households who had land under water at the time of the survey their reclaim expectation--- almost all (96%) responded a certain reclaim. However, the households who reported reclaim uncertainty were all aged female headed households without any adult male support.

Table 3: Non-homestead Land: Char vs. Mainland

	CC Sample 47%	CM Sample 60%	SC Sample 43%	SM Sample 75%
Own present				
For those owning.....				
Median size (in decimal)	200	120	124	264
Av. good quality (dola) land proportion/HH	.15	.09	.28	.43
Av. medium quality (taan) land proportion/HH	.17	.05	.16	.13
Av. poor quality (bali) land proportion/HH	.12	.09	.14	.07
Av. river land proportion/HH	.56	.77	.42	.37
For HHs not owning presently...				
% who never owned non homestead land	97%	97%	97%	94%
% of HHs who bought land since HH established	12%	13%	7%	9%
How many times (median value)	1	3	1	1
Average size/buying HH in decimals	59	45	46	84
Median year of buying	1996	1985	1995	1980
good quality (dola) land proportion	.15	0	0	.04
medium quality (taan) land proportion	.48	.43	.74	.96
poor quality (bali) land proportion	.37	.56	.26	0

The incidence of (non-homestead) landlessness is much more severe in the char areas than it is on the mainland as shown from our survey data in Table 3². However, the typical land portfolio held by landed households is poor in the char areas and this composition changes with river movements, sanding over a good quality land making it poor and silting over a sandy land and making it more productive. Such shifting and uncertain nature of land quality makes land price rather low in these chars in contrast to the southern coastal chars.

2.3 Seasonality of Employment in Agriculture

Table 4 shows crop calendar and seasonality of employment of agricultural wage labour, the predominant activity for most char dwellers. March-April is a good employing season for harvest of dry season crops like wheat, china, kaon, sweet potato, chili, onion, garlic and land preparation and sowing of jute. The extent of labour demand during this period will however depend on the level of crop diversity and this is not generally the case in the char areas. Late April to May is a slack employment season requiring labour for aus planting and boro harvest. These crops are not very important in the char area, but Boro HYV is an important crop in the main land area. Then there is an unemployment season of June and slack employment season July because Aus rice is not very important, neither in the chars nor in the main land settlements.

Agricultural labourers find employment from August to early September for transplanting amon rice. Although Amon is an important crop, it alone can not employ too many unemployed labour in the char area. This is however a good employment season in the mainland area. Then comes the most severe unemployment season: from mid September to

² We use the term non-homestead land rather than cultivable land as is common amongst existing literature to draw attention to the fact that land in these areas is subject to frequent changes in quality and use. Typically, the 'bali' and river land cannot be cultivated. However, these can be cultivable at some other point in time as the river course changes.

end-October, corresponding to the bangla calendar months Ashwin-Kartik. The month of November is slack employment season when planting and sowing of minor crops like chili, brinjal, ground nut and sweet potato which demand some labour. Then comes the peak employment season: December-January demanding labour for harvest of Amon rice and sowing land preparation for a variety of winter crops like wheat, china, kaon, ground nut, sweet potato, onion, garlic etc. February is Boro transplant season, but this activity requires limited number of labour in the char area but in large numbers in the mainland. Sugarcane is unimportant but a year round crop. It demands some labour during transplanting in December-January and harvesting about a year later in January-March.

Table 4: Crop calendar and seasonality of employment in agriculture

Crop	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Amon rice					===				===			
Aus rice	===			==								
Boro HYV rice		===									===	
Wheat	===									===		
China/kaon	===								===	==		===
Sweet potato	===							===	===		===	===
Ground nut								===	===			===
Jute	===			===	===							
Onion/garlic										===		===
Chilli								===			===	===
Brinjal								===			===	===
Lentil/khesari									===			===
Sugarcane									===	===	===	===

2.4 Seasonal Migration

Given the seasonality of demand for agricultural labour and the general lack of non-agricultural opportunities, it is natural that seasonal migration from the char areas would be predominant. The general pattern for adult physically able male char dweller is to move in and out of the char areas quite frequently. However, the duration of their seasonal migration, typically, does not last for more than one and a half to two months at a stretch. Our survey data shows that the incidence of seasonal migration is much higher for the charland dwellers (58% in Chilmari char sample and 67% in Gaibandha char sample) than it is for the mainland households (10% and 13% in Chilmari and Gaibandha mainland sample respectively).

A large number of workers are almost regularly going to Dhaka, Tangail, Gazipur, Narayanganj, Munshigonj, Chittagong, Comilla, Sylhet and as far as Khagrachari in the Chittagong Hilltracts. Some get employment in rickshaw pulling and construction work while many others work as agricultural wage labour. Many are also employed in the brick fields and rice mills but very few are employed in the organized sector like garment work and office work. From the main land clusters a good number of workers seasonally migrate to Bogra, Dhaka, Rajshahi, Chittagong, Cox's Bazar, Mymensing, Sherpur, Dinajpur, Gazipur and Narayanganj. Interestingly, a higher proportion of workers from the main land area

finds employment in the organized sectors, like garments and may work as artisans rather than helper. From the chars, very few women and girls go to the city to work in the Garment factories which is much higher from the main land area. Also main land dwellers have been successful to find some employment in two organized service sector, such as in the defense, police, teaching, commercial enterprises and in the NGOs while the char dwellers could not yet get access to these opportunities. A few mainland dwellers are also working outside of the country but working abroad is rare among the char dwellers.

Since, most seasonally migrating workers are agricultural labour, rickshaw drivers, construction labour, brick field workers etc., particularly from the char area we may concentrate on their pattern of traveling frequency back and forth between the study area and their working area. Most workers start one month to one and a half months in the working area and then return home in case of char area. Most of the time, they bring the major portion of their earnings with them upon return. In the approximately two months spent outside the char, they bring about 3000 to 4000 taka with them and once or twice remitting taka 500 or 1000. About three to four such trips per year is expected.

2.5 Occupational Pattern

Table 3 below, based on the PRA social mapping exercise shows the principal occupation of the household head or the main breadwinners of the households in our study clusters. About 86% household heads are cultivators or day labour by principal occupation in the Kurigram chars, the remaining 14% are rickshaw puller and over 10% are boat man and fishermen.

Table 5: Occupation Distribution of HH Head

Occupation	CC	CM	SC	SM
Agriculture	44(44.4)	17(12.9)	33(34.7)	58(49.2)
Day labour	38(38.4)	45(34.1)	31(32.6)	33(27.9)
Rickshaw driver	10(10)	6(4.5)	3(3.2)	7(5.9)
Boat driver	3(3)	1(.8)		
Fisher	4(4)	1(.8)	3(3.2)	
Carpenter/Mason/Artisan/Cycle maker		18(13.6)		(0.8)
Trader/Petty trader//Tailor		24(18.2)	5(5.3)	9(7.6)
Factory worker/Rice mill worker/Garment worker		4(3.0)		1(0.8)
Teacher/Service holder/Pensioner/NGO worker/Imam		12(9.1)	2(2.1)	5(4.2)
Housemaid		1(.8)	5(5.3)	1(0.8)
Unemployed/too old/Beggar/Charity receiver/Sick		3(2.3)	13(13.6)	3(2.5)
Total :	99(100)	132(100)	95(100)	118(100)

Kurigram mainland dwellers have the most diversified occupation and only about 13% are cultivators by principal source of income. The reason for such a low figure is that one of the two mainland clusters selected for this study is a BWDB embankment which is home to landless settlers and the victims of river erosion. These settlers, therefore, do not own agricultural land and very few are engaged in this occupation. Wage labouring is the single largest source of income for these households. It is however important to note that a significant proportion of Kurigram mainland dwellers are carpenters/mason/artisans (13%)

and traders/petty traders (18.2%). Another significant proportion is engaged in the salaried service sector (9.1%) and industrial wage employment, such as rice mill work, garment work (3%).

Occupation pattern of Gaibandha char dwellers is more or less similar to that of Kurigram char dwellers. One difference is that about 13% household heads in Gaibandha char area are engaged in non-agricultural and non-wage earning activities such as petty trading, salaried services and some work as housemaids. Also a significant proportion of household heads in Gaibandha char area are unemployed, too old to work, beg or are otherwise dependent on charity. Interestingly, the proportion of female headed household is higher in Gaibandha chars (12%) than in Kurigram chars (5%)³.

In the Gaibandha main land settlements, most household heads are cultivators and day labourers. Another significant proportion is engaged in trading (8%) and services (4%). The proportion of household heads who reported cultivation as principal source of income is higher in Gaibandha main land area because of land being less vulnerable to floods and other disasters and relatively better quality of agricultural land in this area. Also, better market linkage contributed to more diversified cropping pattern, hence more profitable and less hazardous cultivation.

In addition to homestead based work (livestock rearing being very important, see Section 2.5), women in the char areas are actively involved in non-homestead based work, such as harvesting groundnut, potato, sweet potato, *cheena*, *kaim*, wheat, chilli and other crops grown in the char areas. The wage rate is, however, very low and paid in kind, such as one kg of potato or groundnut, half kg of rice plus one or two meals for a day's labour. The cash equivalent of this would be approximately taka 20-25, while a male worker's wage rate is taka 30-40 plus two to three meals.

2.6 Livestock

Livestock are important assets for char dwellers. It is a predominant store of value and some livestock assets, such as cows, provide the household with a stream of income. In general, these assets are managed by women and women, also, tend to have far greater control over any income accruing from it. People who own livestock are also more likely to get land for share cropping and credit. Livestock is a greatly cared for asset for the char dwellers, as the case in box 1 reveals.

Ownership of cattle and goat varied quite substantially between the chars as is evident from Table 6. In general, not only the incidence of having livestock and poultry lower in the Shaghata char area compared to the Chilmarī char, the intensity measured by heads per owning household is also generally lower in Shaghata. The drastic variance between the two char areas is with respect milch cow and cow fattening. For milch cows, though the intensity of ownership is slightly higher in Shaghata, the incidence is significantly lower than it is in Chilmarī char. None of the sample households in the Shaghata char area reported any

³ This is also true for the mainland (Gaibandha mainland: 10% and Kurigram mainland: 6%).

involvement with cow fattening, quite a popular engagement in the Chilmari charland sample households. Our survey data shows that growing of kash and income from it is much more prevalent in the Chilmari chars than it is in Shaghata chars. As the land quality is relatively better in the Shaghata char area than it is in the Chilmari char area, almost no land is left fallow which means a lack of sufficient grazing land for livestock in Shaghata. These could have a bearing on the variance we observe in livestock holding between the two study char areas.

Table 6: Livestock Ownership

Asset	CC		SC	
	% having (Incidence)	Heads per owning HH (Intensity)	% having (Incidence)	Heads per owning HH (Intensity)
Milch cows	85%	1.6	36%	1.9
Cow fattening	30%	1.9		
Bullocks	18%	2	18%	1.4
Goat	58%	2.97	52%	2.5
% of HHs with none	8%		20%	

Share rearing is a contract akin to share cropping through which poorer households can own livestock. Though the general level and intensity of livestock holding is lower in the Shaghata char, the incidence of share rearing is higher—45% those who had livestock at the time of survey in our sample households in Shaghata were share rearing as opposed to 28% in Chilmari char area. This suggests that in Shaghata char area it is mostly the poorer households who are engaged in livestock rearing.

Box 1:

Kash Stealing: Saving your Cow is *Faraz*

Saving the life of cattle is very important to the char dwellers. People in the chars say, 'if there is flood, save your cattle. Feed them whatever is available like kash—if needed steal kash from neighbours. It's not a sin to steal kash for feeding your cows as life of a cow is more valuable than anything else. It is a *faraz*—a must'.

The following table summarizes the main features of the differences in the various livelihood aspects between the two study areas discussed in this Chapter.

Table 7: Summary

	CC	SC	Implications/Remarks
Relocating home	Slightly higher		Relocation, however, is usually within a short distance. Relocation is quite frequent but not all of such relocations are covariant in nature –often relocations are intra-char or to very nearby ones.
Land productivity		Higher.	More vibrant and diverse agriculture in SC ⇒ More local demand for agro labour.
Migration	Higher	Lower	Less fallow land in SC ⇒ grazing problem Less seasonal fluctuation of income in SC.
Occupational pattern	Less diversified. Mostly agro labour based	More diversified.	Adult male staying away more frequently in CC. More mainland type of occupation due to better access to the mainland in SC.
Livestock	More prevalent		Kash more prevalent in CC. More fallow land ⇒ good grazing land

III The Char Financial Landscape: A Demand Side Perspective

Relocation and frequent seasonal migration are two important features of char dwellers' livelihood. Incomings into the household is usually much less regular than it is on the mainland and a large proportion of income come in lumps from seasonal migration. Livestock earning is the most regular of all other common sources that char dwellers derive their income from. However, poor price, lack of timely and cost effective veterinary services, livestock fodder and safety problems during flood periods, etc. pose significant challenges to this important sector for the char-dwellers. Opportunities to engage in activities that will smoothen the income flow is restricted by difficulties of market access and general decline in the adjoining mainlands.

The need for financial intermediation that enables the char dwellers to smoothen consumption in the face of quite strong seasonalities in income, in a less expensive and more reliable way than what is currently available, is thus very important. However, in order to realise the full potential of opportunities driven financial services, significant improvements in the real sector of the char and adjoining mainland economy. Much of these investments in the real sector are a public good in nature and, therefore, need to be coordinated with a good understanding of the sectoral interlinkages and bottlenecks. Financial services should be an integral component of such an exercise but should not be leading it.

3.1 MFI Participation

Presence of reliable MFIs was extremely low in the study area, particularly in the char settlements. In Kurigram char area just one NGO-MFI was visible, RDRS. Social mapping revealed that about 30% of the households were being served by RDRS. Our survey data, however, indicates that a large section of the NGO-MFI members in the Chilmarī char area are ex-members and have not joined any other MFI in the area (Table 8). During our FGDs in Chilmarī study char, two more NGO-MFIs were mentioned: Samaj Kalyan Shangstha (SKS) and Manob Unnayan Shangstha (MUS). However, these were not yet considered reliable enough as yet for most to consider participating. In Chilmarī mainland settlement selected for the study, RDRS and Grameen Bank had some mention. However, MFI operations in Chilmarī mainland was reported to be suffering and almost inactive now due to severe threat of river erosion as many households were in the process of relocating their house in safer place further away from the river bank.

In the Shaghata study char area, though coverage was slightly higher, the general feeling among people was that the services were not very reliable. BRAC had two village organisations (VO), but both had a large number of inactive members. SKS was also operating two centres, which were in exactly the same household clusters where BRAC's VOs were located. As a matter of fact, a good number of SKS clients were BRAC members who joined SKS due to irregularities in the BRAC VOs. We observe this from Table 8 below. Though a far larger number of MFIs are operating the Shaghata study char, the overall coverage is not much higher than that of Chilmarī char. A significant proportion of members have been switching from one MFI to another.

MUS also works in the Shaghata char area but their members complained of MUS failing to offer any loans after several months of savings mobilization and group formation. Even in the Shaghata mainland settlement, BRAC was operating at a very low level serving only a few households. SKS had a greater outreach in the mainland.

Table 8: MFI Participation in the Study Chars

Area	Participation Status	% of HHs
Chilmari sample	Current and no past	13%
	Past and no current	17%
	Past and current	
	None	70%
Shaghata sample	Current	12%
	Past and no current	8%
	Past and current	15%
	None	65%

The poverty outreach of the NGO-MFIs suggests a proportional coverage rather than one that is particularly biased towards the poorer segment of the population (Figure 1). Though Shaghata MFI outreach appears to be more biased towards the poorer segment, this does not seem to be the case if one considers the distribution of the sample households according to poverty status⁴. Given the difficulties existing NGO-MFIs face in operating in the char areas and the relative weakness of their operations (detailed in the next Chapter), the primary focus for a microfinance strategy in the char areas should be increasing outreach and reliability of services.

Our survey data indicates that only a quarter of the current MFI members were repaying their instalments regularly, while 17% were irregular. The in-between category includes the modal tendency (58%) among char microfinance clients. Two predominant ways in which instalment shortfall is managed were reported—one, by borrowing, mostly interest free from others and two, by negotiating with the MFI staff. We found that almost all the better off members used more of the second strategy to manage repayment problems while for the poorer members the predominant strategy was the first one.

Table 9: Seasonality and Fixed Instalment Regime

	Peak season	Normal season	Lean season
% of households whose preferred instalment was less than what they were paying currently	13% (-3%)	42% (-14%)	86% (-36%)
% of households whose preferred instalment was more than what they were paying currently	48% (+32%)	17% (+9%)	3% (+2%)

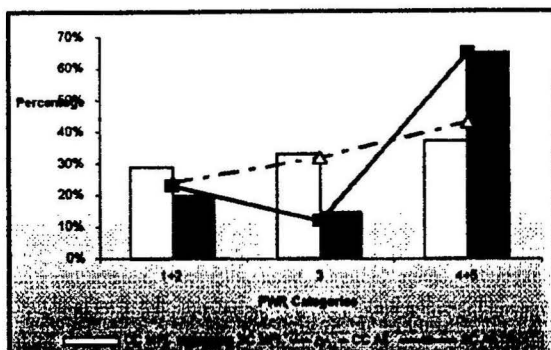
Note: Figures in brackets indicates % of current loan instalment

To get a sense of how seasonality in char dwellers livelihoods we discussed above interacts with the fixed instalment regime, in our survey we asked members to tell us by season whether the current instalment was more, less or equal to what they would prefer in that season. We see a clear expected pattern where the percentage of clients who would prefer a

⁴ We conducted a participatory wealth ranking exercise for all the study clusters. A description of all the wealth categories identified in this exercise is provided as annex A.

lower than their current instalment size increases as we move from peak to lean seasons (Table 9).

Figure 1: MFI Poverty Outreach



We asked the MFI clients, (1) if they could do what they used the current MFI loan for *without* the MFI loan and (2) if they could regularly save up the instalment amount *without* the MFI loan. For each of these questions, we created a scale ranking from 1 (very easily) to 4 (no). Interestingly, while all responded a definite 'no' to the second of the questions above, the response to the first question was not so unanimous--- 50% responded a definite 'no' while the remaining 50% were in between a definite 'yes' and a definite 'no'. This suggests that the vital function a microfinance loan is playing is to provide the households with a mechanism to save up small amounts which they would not be able to otherwise and not so much in enabling households to undertake activities that they would not be able to manage otherwise.

Conducting a detailed contingency valuation exercise for comparing the preferences and willingness to pay for various financial product features is a time consuming affair and beyond the scope of this work. However, we did ask MFI clients to rank between three broad product options---(1) as is; (2) as is but with extended gap between instalments; and (3) variable pay in-pay out regime with one year loan maturity term. We took particular care in explaining the last category both to the field workers of this study and the respondents given that it is a less conventional option in microfinance. We obtained the following results suggesting that for the better off, the extended period option is the most preferred as their cash flow is dominated by agriculture which has strong seasonal lumpiness that can be better managed with an extended period instalment regime (Table 10).

Table 10: Options and Choice

PWR categories	As Is	Extended Period	Flexible
PWR 1+2	2 nd choice	1 st choice	3 rd choice
PWR 3+4	3 rd choice	2 nd choice	1 st choice

There is however no reason as to why the flexible option cannot accommodate the underlying preference for a more lumpy but less regular repayment regime. Discussions with the better off segment of the MFI clients suggested that the main reason behind their preference for the extended period option rather than the flexible option is that they disliked the idea of MFI staff 'hassling' them very frequently, though they understood that did not have to save or repay on every occasion. For the poorer category of households, the flexible option was the most preferred. Most respondents however pointed out that the 'as is' option is practiced very differently than what is official. However, as poorer households had more frequent difficulties in keeping up with the regular, fixed instalment regime and had to seek help from neighbours or renegotiate with the staff, which was not a very pleasant experience, they least preferred the 'as is' option.

Almost 70% of the MFI respondents said that there were seasons during which they could pay more than what they were currently paying as loan instalment. However, this was mostly during peak season (about taka 60 on average), while during the normal and lean period seasons, they reported difficulty paying the required instalment. A similar question was asked regarding savings and almost 90% responded positively. Again, the figure has high degree of seasonality ranging from almost taka 7 during peak period to about 3 taka during the mid-season.

We got a mixed response to the question if the clients are allowed to withdraw savings in case of emergency. Most said 'no' and the advantages and disadvantages of not being able to withdraw clearly demonstrated the varied need of savings products. Almost all the respondents said that the advantage is in being able to build a usefully large lump sum and the disadvantage is in having to look elsewhere to manage emergencies when they have their own savings which they can not access. As a general point, the team felt that, at the least, more client level transparency was needed with respect to savings withdrawal policy of the MFIs operating in the char areas. This is more important for char area microfinance, as livelihood patterns tend to be much more covariant and seasonal. Moreover, the social space available for building financial intermediation networks is restricted due to geographical isolation of the chars.

3.2 Informal Finance

3.2.1 Personal financial intermediation: Forms of savings

- **Mushti chaal:** This is a traditional form of savings for most rural women in Bangladesh. Women put a handful of rice (mushti, meaning fistful) of rice every time they cook into a separate pot. When it accumulates to half to one kg, some women sell it. Most women, however, consume it within the household but convert the rice into cash indirectly and save the money. They do this by telling the husband or male bread winner that she had to purchase the rice or borrowed it from some neighbour to be paid back in cash. This savings serves many purposes and often is the only cash that women control the use of and is of great importance to the household economy.

About 30% of our respondents reported to be saving through mushti chaal. Most of the time, this was used for household consumption during bad times. Mushti chaal is also given

to maqtab (religious school) teacher or the mosque as school fees for children studying there. This is a collective arrangement and all in the community contributes. The part of the mushti chaal that women manage to convert into cash is often saved up in clay banks or, less conspicuously, in a secret place. During bad times or emergencies, this money is sometimes asked for by men.

Some women reported being able to buy assets such as poultry or goat with this savings. Another frequent reported use of mushti chaal savings is to deal with the little *abdaars* (demands) of the children and minor educational expenses such as buying stationary, etc. The multiple functions served by mushti chaal savings for managing the ebbs and flows of the household economy, a function that women take extremely seriously, was best depicted by one of our focus group participants, who said, '*mushti chaale-y gushti bachay*' --- mushti chaal saves the lineage.

- **Saving in clay bank and bamboo holes:** This form of savings is more long term than the mushti chaal and serves as an emergency fund. The very act of saving money in a clay bank or bamboo hole is to restrict access and make the psychological cost of withdrawal deliberately high by having to cut the bamboo pole or break the clay pot. Another important dimension of this type of savings 'account' is complete 'withdrawal'—money cannot be withdrawn partially and once withdrawn, it cannot back be put back into the *same* 'account'. This is not the case for mushti chaal savings, which is more like a current account. However, savings from mushti chaal, if accumulated to a good balance and the women sees no immediate need for its use, is converted into clay bank or bamboo hole savings.

Savings accumulated in these devices are used for larger lump sum needs, such as illness or to avail some opportunities like taking mortgage a piece of land or financing a trip to Dhaka as we see from the cases below (Box 2).

Box 2: Some cases of bamboo hole and clay bank savings from the study chars

A boatman from Mudaffat village (Chilmari study char) managed to save taka 5,500 in the clay bank over a year. He used the money to cultivate high yielding irrigated rice during the last boro season.

Abdul Kuddus from Dighalkandi village (Shaghata study char) saved in the hole of a bamboo pole of his thatched house. After a few months of saving, there was a period when he had no work over a few consecutive days. He had no money to go to the bazaar to buy food. He pulled the bamboo pole and took out the money he had been saving in it— he had taka 300 which saved him from having to go to the neighbours to borrow.

Sukur Ali from Oshtomir char village (Chilmari study char) saved taka 900 over a year from his migration earnings in a clay bank. He had always wanted to buy a new transistor radio cum cassette player. He financed this largely through the clay bank savings and the remaining amount he managed by holding back one week's boat rowing income.

Abdul Barek (Patil Bari, Shaghata study char) took out an accumulated savings of taka 175 from his bamboo hole savings which he saved over five months. When a family member fell ill and he had no money to buy medicine, he decided to use his bamboo hole savings.

3.2.2 Collective arrangement based mechanisms: Informal Samities

Personal financial intermediation is obviously not enough to deal with the range of financial service needs that emerges in any one's life. For one, borrowing against future income is not possible through personal financial arrangements and more often than not, this becomes a vital financial service need. However, to be able to borrow, some one has to save and this requires collective arrangement that pools people together which can then intermediate fund between savings and borrowing needs. However, people sometimes come together just to save as well. The reasons for this could be the need for a disciplining device that collective arrangements offer in ways that a personal financial intermediation mechanism does not. Moreover, people want to use collective savings arrangements to undertake larger ventures that otherwise would not be possible individually. Such arrangements of course gives rise to collective action problems of management and coordination; and most such arrangements fail due to weaknesses in addressing the collective action problems. We present a few cases on these collective arrangements from our study areas in annex B.

3.2.3 Informal Credit

Collecting reliable information on informal borrowing is not easy. We make use of information collected through the qualitative FGDs and the survey in this section. Except the Chilmari mainland sample area, the incidence of informal borrowing is quite high⁵. We also find that 60%-65% all informal loans taken by households tend to be interest free (again ignoring the Chilmari mainland exception). The median value for interest free loans ranges from 500-600 taka. The average frequency of borrowing and total loan value taken by households in the last one year suggests that the Chilmari sample is quite different from the Shaghata char area--- both are much higher in the Shaghata char area. This difference tallies well with our discussion in Chapter II which showed that the Shaghata char has more mainland-like features which would affect the demand for informal loans.

Table 11: Informal Borrowings: Results from survey data

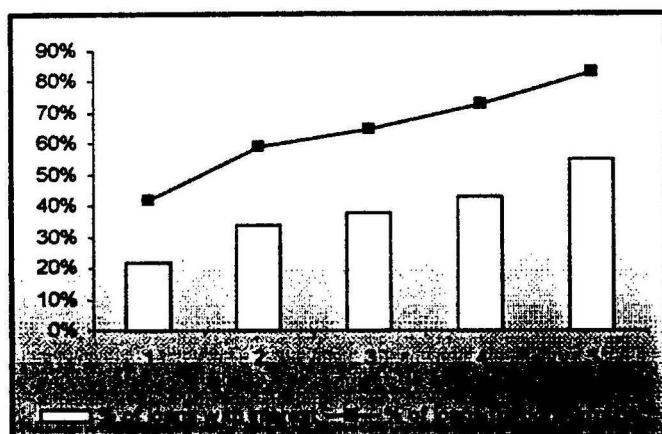
	CC Sample	CM Sample	SC Sample	SM Sample
% of HHs reporting borrowing from IS in the last 1 year	87%	30%	88%	100%
% of interest free loans	64%	93%	65%	59%
Median value for each interest free loans	500	550	585	600
Median value for each with interest loans	625	1000	1000	1000
# of loans in the last 1 yr./ borrowing HH	1.6	1.4	1.98	2.5
Tot loan val. in the last 1 yr/borrowing HH	Tk. 1581	Tk. 4727	Tk. 3045	Tk. 3003

Most informal loans (71% of the cases) were taken for consumption purposes. The poorer households' borrowings from informal sources tend to show a higher percentage of with interest and loans for consumption. This is true both for the chars and the mainland and across the two regions. Most (76%) of the IFS borrowings were taken from sources from

⁵ The two Chilmari mainland sample clusters selected for the study consisted of one that was severely under the threat of river erosion and the other was a temporary settlement of the victims of river erosion. This could be one reason, beside obvious field worker inabilities, that could explain why we got such a low incidence of informal borrowing there.

whom the borrowers regularly borrow. The most predominant source of borrowing was from individuals (65%), though borrowing from shop keepers is also quite prevalent (32%) both for the chars and the mainland sample households. Borrowing from local shopkeepers can be either in cash or kind and prearranged by the male member of the household before migrating out for work.

Figure 2: Informal loans and PWR Groups



Both the incidence and frequency of informal borrowing suggests a u-shape pattern across the various wealth ranking groups. However, the median loan value per household and median loan value per informal loan shows a declining trend across the wealth ranking groups. This suggests that the poorer households borrow relatively small sums quite frequently.

Table 12: Informal loan variables and PWR groups

	PWR Groups				
	1	2	3	4	5
% of HHs borrowing from IS	76%	70%	85%	83%	75%
Number of loans/HH	2.15	1.88	1.9	1.8	2.05
Median loan value/HH	4500	2000	1562	1800	1600
Median loan value/loan	1500	1000	800	900	600

The case studies below (Box 3) show the different types of informal loan contracts that exist in our study chars. The study team, based on their experiences of various informal loan contracts that exist in other rural areas of Bangladesh, felt that, in general, the range of informal loan contracts is somewhat restricted in the char areas. This is probably related to the lower agricultural productivity in these areas.

Land mortgage was reported to be very infrequent as most land was not very productive and productivity can change quite rapidly with river action. Each bigha (one third of an acre) land is mortgaged for taka 3000 to 4000 while the price of land per bigha was taka 10000 in the char area.

Very often farmers borrow taka 150 to taka 200 to be paid in kind. For borrowing 150 to 200 taka, 40 kg of paddy is paid after harvest. Loan can be paid by kaon (coarse grain): 40 kg

kaon is paid for 100 taka borrowed. The price of paddy and kaon during the harvest season is taka 250 and 150 per kg, respectively.

Box 3: Various informal loan contracts

Rahamat Ali of Chilmari (Mudafath) char area borrowed taka 300 for two months. He used that money partly for irrigating his one bigha paddy cultivation and partly to finance his trip to Narayanganj for work when planting of irrigated paddy was complete. After two months he repaid the loan with 20% monthly interest (principal amount 300 and interest taka 120).

Sukur Ali of Chilmari char area borrowed taka 200 at 20% monthly interest. He gave taka 100 to wife to buy rice for a few weeks and spent taka 100 for a trip to Gazipur near Dhaka for work. After one month he came back to the village and repaid the loan with interest (taka 240 paid against taka 200 principal amount).

Joidar Ali of Mudafath borrowed 120 kg paddy from a well-off farmer. It was October November and no work was available. He had to borrow paddy as cash loan was not available. The loan was needed to keep his family serving until December when paddy harvest work in Tangail district is available. He repaid the paddy loan (taka 1200 for 120 kg paddy) by cash payment. However, price of paddy charged was higher than market price. Price of paddy during Oct-Nov was taka 300 per 40 kg while he had to pay taka 400 per 40 kg about 4 months later.

The informal sector money lenders are not rich. Very often they belong to "C" category households rather than "A" and "B" category households. Actually the "B" category households are often borrowers. Also, very often, the lenders are women, housewife of "C" category households. They save from household expenditure, invest in poultry, goat and cattle rearing and also lend usually to the "B" and "D" category households.

MFI clients are as active in the informal credit market as non-MFI clients. However, our survey data suggests that though the incidence and frequency of borrowing from the informal sources among the MFI and non-MFI households is pretty similar in Chilmari char, the mean loan value per loan for MFI households is significantly lower than that of non-MFI households. This relationship does not hold up for our Shaghata char sample households where the various informal loan variables do not seem to differ across MFI and non-MFI households. This effect is most probably related to the fact that despite Shaghata chars being much more economically vibrant than Chilmari chars, the average value of loan size offered by MFIs is pretty similar. This would imply a greater credit gap for MFI clients in Shaghata chars compared to the MFI clients in Chilmari chars.

Table 13: MFI clients and their informal borrowings

	Chilmari Sample		Shaghata Sample	
	MFI	Non-MFI	MFI	Non-MFI
% of HHs reporting borrowing from the IS in the last 1 year	59%	50%	90%	90%
# of loans in the last 1 yr./ borrowing HH	1.6	1.5	2.19	2.09
Mean loan value per loan	587	1071 (***)	1701	1380
Mean loan value/HH in last 1 year	975	2206 (***)	3019	3034

Note: *** indicates significance at 1% level

3.3 The commercial banks in the chars

There are some Commercial Banks that operate in the mainland area that, however, do not provide financial services to the poor. The char population's prospects for financial services are worse, as they stay far from the mainland and are considered very risky. However, there was a branch of agricultural bank near Manushmara char in Chilmari, which was closed two years back due to communication problem that arose when the river course shifted.

Interviews with managers of several commercial bank branch managers clearly revealed that they considered working in the char areas extremely risky due to natural vulnerability and lack of economic opportunities. It was difficult for them to set up branch offices in the chars and communication problems between the mainland and the chars would not attract any commercial bank staff to live there. They thought NGO-MFIs are better suited to serve the char dwellers with financial services but also emphasized that, in general, even the NGO-MFIs shy away from serving the char area. Commercial bank manager's expressed a preference for better known NGO-MFIs, in providing financial services in the char areas as they felt that these MFIs had better systems in place compared to the smaller local ones.

Informal financial sources dominate the financial landscape in the char areas in ways that it does not in other mainland areas of rural Bangladesh. Microfinance in the char areas has not even scratched the surface of the first and most basic microfinance challenge – outreach. However, the challenges of expanding outreach and focussing on innovative products and delivery mechanisms, goes hand in hand in the char areas, in a way that it does not in the general mainland rural Bangladesh. This is because investments in a core product and methodology experimentation that largely works in mainland rural Bangladesh was already undertaken by Grameen and other microfinance pioneers, such as BRAC and ASA. This is not the case for the char areas. Good microfinancing in the char areas would involve significant investment in building knowledge and capacity.

IV. The state of Microfinance Institutions in the Chars

4.1 An Inventory of Microfinance Providers in Gaibandha and Kurigram

According to the inventory update made by the study team, at least 25 operators are providing microfinance in the char and char adjacent mainland in the districts of Kurigram and Gaibandha⁶. Table 14 gives some upazilla wise information on these MFI providers. The information is based on data we collected from the MFIs operating in the char upazillas of Kurigram and Gaibandha. The table clearly shows that most of the MFIs working in the char areas are very local (working in no more than one upazilla) and their char outreach tend to be pretty small⁷.

Table 14: Microfinance Institution Inventory: Kurigram and Gaibandha

Char upazillas	Kurigram	Gaibandha
	Rajibpur, Roumari, Ulipur, Chilmari, Kurigram sadar	Shaghata, Fulchari, Sundarganj
No. of MFIs reported to have clients in the chars	12	17
Total clients served	18,838	20,620
% of MFIs who have char MFI clients only in one upazilla of the district	58%	82%
No. of MFIs with char clients...		
>5000	1	None
4000-5000	0	1
3000-<4000	0	1
2000-<3000	2	2
1000-<2000	1	3
<1000	8	10

We asked the MFIs operating in these char upazillas and who had char clients to tell us about the differences between char and mainland clients (Table 15). The table lists the responses categorized thematically. Responses in the third theme – “perception of char peoples’ characteristics with respect to loan installment repayment” – are very interesting. In this theme, microfinance institutions allude to challenges they face in making use of informal, social-sanction based mechanisms predominant in the mainland to manage repayment problems. This is an important point that needs some elaboration.

⁶ Annex C provides an updated inventory of microfinance programmes working in the char areas and adjacent mainland areas of Kurigram and Gaibandha district.

⁷ Though the national NGO-MFIs, such as Grameen Bank, ASA, BRAC, or Proshika do not ‘officially’ do microfinance in the char areas, we found that all of them have char microfinance clients in their branches located near the chars. Grameen had 4,700 char microfinance clients in two of the char upazillas in Gaibandha district and 2,239 char clients in two char upazillas of Kurigram district. BRAC had a total char microfinance clientele of 4,775 in six char upazillas of Gaibandha and Kurigram district. Proshika also had a similar size char membership of 4,455. ASA, however seemed to be the most ‘consistent’ between the official policy and practice—they had only 87 char clients. We got two main responses on why—‘half of this area is char—so we can’t avoid chars’ and ‘these clients were in the mainland before— they moved to the chars due to river bank erosion’.

Microfinancing in the char areas are challenging due to the physical distance between the chars and the mainland and the consequent lack of external agents' (developmental or not) engagement with char-dwellers. A number of very vital mechanisms that ensure successful microfinancing are predicated on building relationships and a level of generalized trust within the community. These relationships are the foundation behind 'knowing the clients and the ebbs and flows of their lives' to design good products and mechanisms that serve their financial service preferences. The providers are unable to utilise these types of relationship-based informal mechanisms to solve a range of problems from locating clients to solving repayment problems.

What lies at the heart of this mutual relationship dysfunctionality is the fact that most microfinance operations have not set up physical infrastructure (however modest) in the chars and, thus, continue to be seen as a socially disembedded intervention. Further, they have not invested in creating the social intermediation platforms (building relationships, trust, reliability, a credit repayment culture, etc.) needed for good microfinancing. Any microfinancing strategy in the char areas would have to take these issues very seriously and provide conducive funding and partnership strategies that address client needs.

The microfinance institutions interviewed for this study, as discussed above, had a lot to say on the differences between the char and mainland characteristics pertaining to microfinance. However, it was surprising to note that when we asked how microfinance operations should be adapted or modified to accommodate the differences between the char and the mainland, most responded 'nothing needs to be changed'. The change responses we got were (in terms of importance):

- 'need to set up office in chars'
- 'need short term seasonal loans'
- 'need emergency loans'

A few local MFIs however did mention the need for 'flexibility' in repayment. However, their loan products were not designed to be flexible, but they were flexible in applying the rule of fixed repayment schedule for their char clients. This creates real constraints in developing adequate financial management systems and hampers sustainability plans.

Table 15: Differences between char and mainland MF clients: MFIs Responses

Thematic categories	Remarks made by MFIs about the differences between char and mainland MF clients....
Relocation, seasonal migration, vulnerability to river action	People in the chars do not live permanently. Char people are always moving or away as migrants. They are not stable. Char areas get flooded frequently and can get submerged without notice. It is very risky to work there.
Lack of work opportunities, limited investment opportunities, etc.	There are different types of work opportunities in the mainland—not so in the chars The areas of loan investment are very limited in the chars. People in the chars do not have access to markets to sell their produce. Lack of work opportunities. Difficult to commute. Much dependence on agriculture. The people in chars do not work much—they are content too easily and lazy. Char people often take loans and move to another char. That does not happen in the mainland.
Perception of char peoples' characteristics with respect to loan installment repayment	People in the chars are very straightforward and much more united. It is difficult to control them. Char people use any little excuse (such as slight storm, etc.) to delay repaying instalment. It is much more difficult to get loan instalments in the chars—it is much more difficult to manage. In the chars there are times when you do not even get partial loan instalment. Often clients can not be located on the instalment day in the chars. In the mainland we can locate them. Often we find lock on the door on the day of the instalment.
Exceptional, minority views	The people in the chars are simple and honest. They do not borrow from several NGOs. We are local—we understand the lives of the char people. Others do not understand that. They are afraid of the char dwellers.

4.2 State of Microfinance Institutions in the Chars: Illustration with a Few Cases

We include four NGO-MFIs—RDRS, SKS, BRAC and GUK. RDRS was operating in our Chilmari study area while BRAC, GUK and SKS were operating in our Shaghata study area. But that is not the only reason behind selecting these NGO-MFIs. We wanted to capture a range of providers—with BRAC, one of the big four national NGO-MFIs in Bangladesh, at one extreme and GUK and SKS at the other extreme—both working mainly in one district, Gaibandha. RDRS's Char Development Programme, though the focus here is only on Kurigram district, is much larger (it is among the big ten NGO-MFIs in Bangladesh) and, further, is a nationally and internationally reputed organisation.

There are also differences among these providers in terms of the motivations behind working in the char areas. For example: RDRS has a dedicated, multi-component char programme, including microfinance and, on the other hand, BRAC microfinance entered char areas when a number of their mainland members moved there. There is another significant reason for BRAC's involvement in the char areas — their Income Generation for

Vulnerable Group Development (IGVGD) programme. Under this programme BRAC covers all the unions in the upazillas where they have the IGVGD programme, which includes the char areas. BRAC, therefore, does not have a separate char focussed programme like RDRS and their programme approach and delivery mechanisms are homogenous for all areas. For SKS and GUK, the motivation comes mostly from their local ownership. We expect that a review of such a range of providers would give us a good perspective on the general health of NGO-MFIs working in the char areas.

RDRS is the single largest microfinance provider in the Kurigram char areas while GUK and SKS are also quite major microfinance players in the Gaibandha char region. We also include BRAC in our institutional analysis as it is an interesting case of a large, national microfinance provider working in some chars in Gaibandha through its outposts. Due to unclear information and weak MIS of GUK and SKS, it was not possible to undertake full appraisal of these two institutions. An appraisal was not, however, the only objective of the study and a full-blown appraisal was not possible due to time constraints. The information collected has not been verified at all levels, as the existing financial information system of most of the institutions are very complicated, non-transparent and integrated with all other non-microfinance program components.

This mini-appraisal exercise is not meant to be detailed; however, it covers some of the major aspects of the microfinance institutions to assess their general health, with particular reference to their operations in the char areas to help DFID-B in implementing its Financial Service Strategy under the Char Livelihood Project. The appraisals are done based on the information provided by the institutions themselves which were gathered during the study.

4.2.1 RDRS and their Char Development Programme (CDP)

General Information

The RDRS microfinance program expanded rapidly after 1995 and, in terms of volume and coverage now stands among the top ten-microfinance programs in Bangladesh. As of Dec 2001, RDRS was working in 29 upazillas of north-western districts of Bangladesh, namely Panchagarh, Thakurgaon, Nilphamari, Kurigram, Lalmonirhat and Dinajpur. It was providing its microfinance services to 278,289 members organized in 16,602 RDRS primary and secondary groups⁸. The total active clientele at the end of Dec 2001 was 247,629 with an outstanding portfolio of Tk. 556,143,098. The savings outstanding as of Dec 2001 was 142,817,361, which is 25.6% of the total portfolio outstanding. The microfinance operation is managed through 36 branches (upazilla office) coordinated by eight projects units. The total staff of microfinance operation is 799, which is headed by a Director, Microfinance and Health, and supported by Microfinance Coordinator at Rangpur level, Program Manager at Project Unit level, Manager at Branch level and Microfinance organizer at grassroots level.

Recently, the microfinance program has been functionally separated from its other programmes and more emphasis has been given to further improve the program at all levels. It is to be noted that RDRS microfinance was facing a great deal of difficulties in the field and portfolio management (negative trends in performance and high portfolio at risk) due to

⁸ Primary groups are non-federated and secondary groups are federated groups.

weak management and capacity, poor information system, inappropriate field strategies, linking the program with handouts, misappropriation in the field level and wrong application of federation concept i.e. wrong handling of federation, wrong and corrupted committees and leadership, politicized federation, hand out (grant and relief culture) to federation, lack representative of poorest and poorer segment in the federated committee etc.

However, RDRS is now working hard to recuperate from the situation and give a positive shape of its program. The trend of last five year's operation shows some positive movement of its operational performance and efficiency, though they have long way to go to reach its desired state. The portfolio at risk ratio of overall RDRS loan operation was 38.55% in 1999 and 66% in 2000. This ratio has improved little bit in 2001, which was 48%. Conversely, this picture for any microfinance program is a disaster scenario.

The overall development approach of RDRS mainly concentrates on community development through establishing community owned union level federation evolved from solidarity men and women groups. These federations provide credit and savings services to the secondary group members. Recently, RDRS provides loan directly to the individual of the group and it also provides loan to the federation to re-lend money to its own members. The federations also have their own internal fund, which is managed by an elected executive committee of the federation.

Around 15-25 poor households of either sex can form a group and after 12 week during when the members saves 10 taka/weekly as compulsory savings, they are eligible to receive a loan of up to Tk 4000 (USD 70) for the first time. The total loan amount with 15% service charge is repayable in 50 equal installments within 12 months. The repayment starts after 15 days of disbursement.

Among the institutions working in the char area, RDRS is the only institution which has a comprehensive program and separate department to work in the char area and development of Kurigram District, called Char Development Program (CDP). RDRS started CDP in 1994 with a same approach like mainland operations. The microfinance approach, mechanisms and financial products are absolutely the same as its normal microfinance program for the mainland. Currently, CDP is working in 8 upazillas of Kurigram district and serving 18,363 members of 1195 groups (514 secondary group and 681 primary groups) as of Dec 2001. Total active clients stand at 10,412 with an outstanding portfolio of Tk. 33,895,967 at the end of Dec 2001. The savings outstanding, as of Dec 2001 was Tk. 8,686,060, which is 25.6% of the total portfolio outstanding. Like RDRS, CDP microfinance also is going through some operational trauma and recuperative operation is under way.

At present, RDRS/CDP provides two main types of financial products: credit and small savings (see Box 4). The products are the same as what RDRS offers in its mainland microfinance. RDRS has not done any adaptation to meet the needs and contextual requirement of the char area. However, they used to offer some disaster and survival loans in the char but stopped those products after the restructuring of their microfinance program.

Box 4: RDRS financial service offerings for the chars

- Saving is compulsory and fixed to 10 taka/weekly for every member. There is only one saving product and no other voluntary savings offered.
- Three types of Loan:
 - Normal loan: For any income generating activity, which the borrower chooses – the interest rate is 15% flat at annual basis and the loan is normally for one year – all mechanisms are same as mentioned above
 - Seasonal loan: for productive purposes, primarily for agricultural, with a seasonal earning profile – the interest rate is 15% flat annually – repayment not necessarily in 50 weeks, usually balloon repayment within the seasonal duration and timeframe
 - Housing loan – for disadvantaged homeless group members – the interest rate is 8% declining annually

Financial and Operational Performance of CDP

The overall **portfolio composition** consisted of 93% 'normal loans' (income generating credit), 6% of Seasonal loans and for 1% of Housing loan. With 15% interest rates per annum, normal loan and seasonal loan lending are considered by RDRS as more profitable than the housing loan, which had a 8% declining balance interest rate.

The administrative and operational efficiency ratio indicates a declining trend over the years, which is driven largely by the fact that average loan sizes is low while the administrative costs and operational costs are comparatively higher, which lowers the efficiency. The administrative cost of the project was very high. Appropriate budgeting, financial planning and efficient cost management were absent in the project. We found some unusual expenditure in the financial statement, which could be avoided to attain, programme efficiency and better project performance. Lack of planning in outreach and product design did not allow the project be as efficient as it could have been.

As per the accepted international best practices, the level for administrative efficiency should be 15-25%. But for operational efficiency, there is no best practice number, but it cannot be efficient if the cost of lending money is more than the money that is lent. In the CDP case, the administrative and operational efficiency ratios were very close in figures due to less interest and fees payment. If it had paid off the interest on savings, the operational efficiency ratio would have been much higher.

Efficiency Ratio of CDP program		Dec-99	Dec-00	Dec-01
1.	Administrative Efficiency (administrative costs excluding financial costs as % of avg. net portfolio)	18.1%	37.7%	31.5%
2.	Operational Efficiency (total operational costs as % of avg. net portfolio)	19.1%	39.4%	33.2%
3.	Administrative Cost per active loan (US\$)	N/A	\$14	\$16
4.	Personnel costs as % of total administrative costs	15%	15%	14%
5.	Number line staff as a % of total staff (end of period)	15.4%	15.4%	14.3%
6.	Number of active loans per staff member (end of period)	176	183	149
7.	Number of active loans per loan officer (end of period)	260	271	237
8.	Outstanding portfolio per loan officer (end of period)	USD 9,947	USD 10,283	USD 15,255
9.	Number of loans per branch office (end of period)	1429	1490	1302

Observations on current status of operational efficiency are given below:

- ◆ Frequent dropout of group members.
- ◆ Program planning, target & achievement plan, supervision & control over mechanisms in team offices are not up to the mark.
- ◆ Overdue position is unhealthy and should be a cause of worry (portfolio at risk as of 31 Dec 2001 is 38%, which is the sign of major concern for any financial institution)
- ◆ Group member attendance in the "Samity" meeting is significantly poor.
- ◆ Recording in the resolution book of "Samity" is incomplete.
- ◆ Lack of proper supervision and follow-through activity by program staff.
- ◆ Trend of collection is not satisfactory, Delinquency rate is high most of the areas.

We carefully calculated and analysed profitability ratios as these ratios could tell about the financial performance of CDP. We emphasised on the trend rather than on individual year's performance to get a better picture of the institution. Any donation was excluded from income figured to get the real picture of CDP's financial performance. If we analyse the AROA and AROE, we can clearly see the programme performance was very inconsistent and continued with bad performance. The high administrative and operational expenses in all the years were responsible for low AROA and AROE. AROA and AROE could get in better shape if CDP could invest more and ensure more return on their loan operations.

Profitability Ratios of CDP

Item	Dec-99	Dec-00	Dec-01
1. Return on Assets	-7.8%	-14.8%	-11.9%
2. Adjusted Return on Assets	-12.5%	-21.6%	-17.5%
3. Adjusted Return on Equity	-42.0%	-33.3%	-26.6%
4. Operational Self- Sufficiency (excluding cost of funds)	33.4%	33.5%	38.5%
5. Operational Self- Sufficiency (including cost of funds)	31.6%	32.1%	36.6%
6. Financial Self- Sufficiency	22.3%	24.5%	28.1%

If we look at the project's operating and financial self-sufficiency ratio over the period of time, it is near disastrous and clearly shows evidences of very poor field management. The programme needs to earn enough income to cover all the adjusting expenses i.e. inflation, in-kind donation and cost of fund adjustment. To increase its income, it needs to increase its loan portfolio and outreach, and also needs to ensure proper repayment of the loan, reduce its portfolio at risk and increase interest income.

4.2.2 SKS – Shamaj Kalyan Shanstha

General Information

In 1987, SKS evolved as an institution to provide development support to the poor people in Gaibandha district. As a credit service provider, they came to the market during mid-90s with an objective of providing quality financial services to the poor people live in the char and char adjacent mainland area. SKS's microfinance approach and program design is primarily dominated by the Grameen Model, in which small credit was made available to people in rural communities. As of Dec 2001, 333 groups of 6573 clients was organized both in Char and mainland area by SKS through which it mobilized savings of taka 50,93,436 and provided a total loan outstanding was Tk 38,850,000.

SKS runs its microfinance program through two different departments. Rural Development Project (RDP) microfinance program is for mainland area and PKSf is their partner for this program. Whereas, River Basin project (RBP) provides microfinance services to the char dwellers and this is mostly donor-supported. In RBP, total number of 102 groups was mobilized by SKS and the number of members was 1,956 as of 31 Dec 2001. While undertaking the appraisal of this institution, we concentrated mostly on RBP, as it has direct microfinance program in the char area. Currently, RBP is working in two upazillas and in 20 different village/char area with 23 staff. The total savings balance as of Dec 2001 was 11,55,321 and total loan outstanding Tk. 19,13,176 in 1,992 accounts.

The financial product features of RBP and RDP are quite similar except for RBP, SKS has introduced some special loan products related to disaster and emergency. The saving product feature has no differences other than the amount of weekly compulsory savings for RBP (Tk 5) is lower than RDP (Tk10). The loan products for RBP are given in Box 5:

Box 5: SKS financial products

1. Housing loan: loan term – 2 years, interest rate is 10% flat. This loan is repayable in 46 weekly installments and the repayment starts after one year of disbursement.
2. Consumption loan: loan term- 1 year, interest rate is 15% flat and repayable in equal amount in weekly installments.
3. Small trade loan: same as above
4. Agricultural loan: loan term- multiple (3 months/6 months/12 months), interest rate is 15% flat and repayable in balloon payment or in installment but the loan has to be paid within the decided loan term.
5. Disaster loan: all loans are non-interest bearing and repayment frequency is flexible
 - Housing loan: 3 years loan term
 - Health loan: usually for one year but repayment starts after remedial of sickness
 - Winter cloth loan: 1 year loan term

For all loans, client must have at least savings of 25% of the loan amount.

The performance of SKS/RBP is both financially and operationally very weak. Though they have reported different kind of product options, in reality their existence is very low and clients had a very fragmented knowledge of them. Human resources capacity of RBP staff in microfinance comparatively lower than the standard microfinance program.

Item	Dec-97	Dec-98	Dec-99	Dec-00	Dec-01
Administrative Efficiency (administrative costs excluding financial costs as % of avg. net portfolio)	50.6%	158.9%	98.8%	73.8%	76.9%
Operational Efficiency (total operational costs as % of avg. net portfolio)	50.6%	158.9%	98.8%	73.9%	88.6%
Administrative Cost per active loan (US\$)	n/a	43	33	22	15
Personnel costs as % of total administrative costs	87%	91%	75%	76%	70%
Number line staff as a % of total staff (end of period)	20.0%	21.4%	22.2%	22.7%	20.8%
Number of active loans per staff member (end of period)	13	20	31	50	83
Number of active loans per loan officer (end of period)	33	46	69	109	166
Outstanding portfolio per loan officer (end of period)	1,376	917	2,793	2,764	2,797
Number of loans per branch office (end of period)	130	139	278	547	996

All the figures in performance and efficiency trend analysis suggest that SKS's performance is very inconsistent and the microfinance component is not that strong. Though not reported by SKS, the initial audit during the appraisal by the study team revealed that they have very high portfolio at risk (ranges 30-35%), which was not reported properly. The

accounting system of SKS is very confusing, and microfinance is not separated from the parent account, creating high level of complication in gathering information.

Item	Dec-97	Dec-98	Dec-99	Dec-00	Dec-01
1. Number of active loans	130	278	555	1,093	1,992
2. Total outstanding loan balance (US\$)	5,504	5,504	22,344	27,638	33,564
3. Average loan balance (2/1)	42.34	19.79	40.25	25.28	16.84
4. Administrative efficiency	50.6%	158.9%	98.8%	73.8%	76.9%
5. Portfolio yield	3.6%	24.2%	9.9%	23.5%	42.3%
6. Operational self-sufficiency	7.1%	15.3%	10.0%	31.8%	54.8%
7. Return on assets	-31.9%	-122.0%	-83.5%	-49.5%	-34.0%
8. Adjusted return on assets	-26.9%	-64.3%	-64.1%	-49.0%	-39.8%

4.2.3 BRAC

In the char area, BRAC does not have any separate program. We focused on a BRAC outpost, which works in our Shaghata char area⁹. The main products BRAC's microfinance program is described in Box 6.

Box 6: BRAC's financial products

General Loan

- Interest rate is 15% flat.
- Loan term is 23 biweekly instalments over 50 weeks.
- The amount equal to 2 % of the first loan must be accumulated in savings in order to receive the first loan, or subsequent loans, savings must be 5% of the second loan, 10% of the third loan, 15 % of the fourth loan and 20% of all subsequent loans.
- Loan sizes range from 1,000 to 10,000 taka although loans of more than 10,000 taka can be made with special approval.

Mandatory Savings

- The amount equal to 2 % of the first loan must be accumulated in savings for the first loan, 5% of second loan, 10% of the third loan, 15 percent of the fourth loan and 20% of all subsequent loans.
- Interest earned on all savings is 6%.
- Four taka must be deposited at each biweekly group meeting.
- Refunds are made under the following circumstances after 5 years: Expulsion, retirement, when a member relinquishes his/her membership, and on an emergency basis.

The performance of the Shaghata outpost from where BRAC was operating in our study char location is quite poor and does not represent the overall performance of overall BRAC's microfinance program. The main reason for such performance is the corruption of some staff in the initial period, which created a negative image about BRAC in the working area of Shaghata. However, BRAC has recently taken initiatives to solve the above two

⁹ Since 1993 in order to reach remoter areas and improve the quality of outreach, BRAC decided to create the concept of 'outposts'. These typically operate under the purview of an area office but increasingly many outposts are assuming independent status. As of march 2002, there are 676 outposts all over Bangladesh.

issues. One of the reasons behind the setting up of outposts is to ensure a closer monitoring and supervision of the clients and the operational procedures in areas where the membership pool under an area office is too spread out.

As of Dec 2001, BRAC's Shaghra outpost had 125 groups with 5,185 members in total. The loan outstanding was Tk. 5,136,369 to 2667 members. The total savings balance as of Dec 2001 was Tk. 2,105,402. The portfolio at risk is calculated at 44% as of 2001, which is 7% more than in the year 2000 (37%). This ratio shows how bad the program is running in this area. BRAC local staff are now working on this issue to recuperate from this situation and improve its portfolio at a standard level by streamlining standard BRAC microfinance procedures which were violated earlier.

4.2.4 GUK (Gono Unnayan Kendra)

In 1984, GUK evolved as an institution to provide development support to the poor people in Gaibandha district. Like SKS, as a credit service provider, they came to the market during mid-90s with an objective of providing quality financial services to the poor people who live in the char and char adjacent mainland area.

GUK's microfinance approach and program design is primarily dominated by the Grameen Model, in which small credit is made available to people in rural communities. However, unlike Grameen approach, they have a vision to eventually transform their small group into union level federation. As of Dec 2001, 561 groups of 13, 247 clients was organized both in char and mainland area by GUK through which it mobilized savings of 904,286 taka and delivered total loan outstanding of Tk 14,470,141 to 4007 borrowers. GUK is currently operating in 4 char branch through 105 staff including staff from the head office also. The financial products offered by GUK, is given in Box 7.

The overall **portfolio composition** consists of 54% of non agri loans (income generating credit), 33% of Agricultural loans and 13% of Consumption loan as of Dec 2001. For all loans, client must have at least savings of 25% of the loan amount.

The performance of GUK both financially and operationally is very weak. Though they have reported different kind of product options, in reality their existence is very low. Human resources capacity of GUK's staff in microfinance is probably the lowest among all the institutions assessed here.

Box 7: GUK's financial products

The savings product is very straightforward like SKS. A member has to save Tk 5 every week at compulsory basis.

The loan products for GUK in the char area are:

1. Non agri loan: loan term – 1 year, interest rate is 12% flat. This loan is repayable in 50 weekly installments and this loan is for income generating purpose. The total clients taken this loan as of Dec 2001 was 2282 (accounts: 4003)
2. Agricultural loan: loan term- 6 months, interest rate is 6% flat and repayable in balloon payment or in installment but the loan has to be paid within the loan term.
3. Consumption loan: loan term- 1 year, interest rate is 0% and repayable in equal amount in weekly installments.

Item	Dec-97	Dec-98	Dec-99	Dec-00	Dec-01
1. Administrative Efficiency (administrative costs excluding financial costs as % of avg. net portfolio)	49.6%	115.9%	118.8%	109.8%	98.9%
2. Operational Efficiency (total operational costs as % of avg. net portfolio)	55.6%	158.9%	123.8%	132.9%	130.6%
4. Number of active loans	1751	1923	3879	5947	7031
5. Portfolio yield	1.7%	17.2%	13.9%	21.3%	33.3%
6. Operational self-sufficiency	8.1%	14.9%	16.0%	29.6%	36.8%
7. Return on assets	-31.2%	-89.0%	-81.5%	-91.5%	-54.0%
8. Adjusted return on assets	-39.9%	-97.3%	-86.1%	-96.0%	-59.8%

All the figures of performance and efficiency trend analysis suggest that GUK's performance is very inconsistent and the component is not that strong. GUK has very high portfolio at risk (40.48%), which is a big concern for GUK microfinance operation. The accounting system of GUK also is very complicated and confusing, and microfinance is not separated from the parent account, creates high level of complication in gathering information.

4.3 Summary Analysis

The result for the analysis shows that all institutions are facing difficulties in delinquency management. The portfolio at risk for all institutions (As of Dec 2001, RDRS: 38%, SKS: 35%, BRAC (outpost): 44% and GUK: 40.48%) covered in the study suggest an alarming picture in their loan and field operation. It has also implication on the existing product feature (rigid and fixed) and delivery mechanisms (mostly Grameen methodology). Though SKS and GUK claim to follow community managed model, the study team did not find any strong component in the microfinance program to support such claim. The communities organized for this purpose were generally weak and the idea did not seem to be one of developing these in any systematic way. Due to continuous bad performance in the loan operation and delinquency management, the loan investment growth did not increase as one would expect.

Due to the high portfolio at risk, the income generated by the institutions went down significantly and affected overall financial performance. This created relatively high expenditure in administration and operation which combined with lack of income lead to a huge gap between income and expenditure. This resulted in weak efficiency performance for all the four institutions. The trend of operational and administrative efficiency for all four institution suggest that it is improving every year except SKS, but the rate of improvement is frustratingly slow. The figures are also getting better due to increase in loan outstanding over time.

The efficiency in terms of client – credit officer ratio also suggest that outreach of the institutions are not enough to reach economic of scale to ensure profitable and efficient operation. As all institution following group method are expected to serve at least 300-400 active clients through one credit officer. However, RDRS, SKS and GUK were found to be under serving (237, 166 and 107 active clients/credit officers). Increasing this figure in a cost effective way is a big challenge that may require considerable innovations in delivery methodology, such as recruiting local staff. However, adequate attention will also have to be paid in addressing the internal control challenges. A camp network for a branch may be one way.

The results of profitability analysis for all four institutions are very weak though they are improving very slowly. The reasons are very simple and straightforward. The key reason is high delinquency rate and loan losses. All programs are poorly managed.

There is also a strong perception among the providers that char dwellers are too poor to be good microfinance clients. This has created a culture of complacency in terms of loan default, management and control in the microfinance programmes working in the char areas. It almost seems that microfinance institutions working there are doing so out of sheer generosity. This has impeded examining the real issues and challenges of microfinancing in the char areas, such as:

- Understanding the ways in which access to financial services can be useful to the char dwellers.
- Exploring appropriate products and delivery mechanisms broadly in line with the livelihood dynamics of the char dwellers.
- Investing in entering a 'new' market by understanding the market, building relationship, and signaling reliability and institutional permanence.
- Developing the capacity of the microfinance programme staff at all levels in order to ensure transparent accounting, good internal control, and functional separateness from other programmes being undertaken by the institutions.

V. Conclusion

High chances of relocation and frequent seasonal migration are two important features of char dwellers' livelihood. Incomings into the household is usually much less regular than it is on the mainland and a large proportion of income come in lumps from seasonal migration. Livestock earning is the most regular among the common sources from which char dwellers derive their income. However, poor price, lack of timely and cost effective veterinary services, livestock fodder and safety problems during flood periods, etc. pose significant challenges to this important sector for the char dwellers. Opportunities to engage in activities that will smoothen the income flow is restricted by difficulties of market access and general decline in the adjoining mainland.

The need for financial intermediation that enables the char dwellers to smoothen consumption in the face of quite strong seasonality in income in a less expensive and more reliable way than what is currently available is thus very important. However, realizing the 'opportunities driven' use of financial services however will have to be preceded by significant improvements in the real sector of the char and adjoining mainland economy. Much of these investments are public good in nature and need to be coordinated with a good understanding of the sectoral interlinkages and bottlenecks. Financial services should be an integral component of such an exercise but not be leading it.

In the short term, microfinance in the char areas should be focussing on providing basic financial intermediation services for reducing vulnerability--- essentially being much stronger on developing the 'protection' dimension of microfinance through varied savings based instruments and emergency credit, rather than a 'promotional' one. The 'promotional' instruments need careful targeting as opportunities for multiple livelihoods that can secure regular instalments and create greater capacity to absorb larger loans over time, is much less likely for a vast majority of the char people. Annex C is a list of some important char specificities and their implications for microfinancing in the chars.

The physical distance between the chars and the mainland and the consequent general lack of external agents (developmental or not) engagement with the chars will make the task of microfinancing quite challenging. A number of vital mechanisms that ensure successful microfinancing are predicated on building relationship and a level of generalized trust in the community of operation. These relationships are the foundation behind good product design. What lies at the heart of this mutual relationship dysfunctionality is the fact that most microfinance operations have not set up physical infrastructure (however modest) in the chars and thus remain to be seen as a socially disembedded intervention. They have also not invested in creating the social intermediation platform (building relationships, trust, reliability, a credit repayment culture, etc.) needed for good microfinancing. Any microfinancing strategy in the char areas would have to take these issues very seriously.

Annex B:

Collective arrangements for financial intermediation: A few cases

Shaghata bazaar has a samity called, 'Bank samity'. A total of 27 members including some from our study village in the mainland (none from the Shaghata study char area though), deposit five taka per member daily. They keep the savings with one member who has a shop at the bazaar and has a good reputation in the area. The members are all who have quite regular inflows of cash, such as small traders, mason and rickshaw van drivers. They decided not to lend the money saved as loan default is very prevalent in the area and they do not feel confident enough to be able to realize any loan given. This samity is quite new (only a few months old) and they have not yet decided how to use the savings or how long for they wish to keep the arrangement going.

The second case here is an example of people coming together to save to invest on a larger project than what would be possible individually. Twenty one members of the village Datar Char (Chilmari study char village) established a savings samity about 4 years ago. They save taka 5 per member per week. They invested the accumulated savings in a stock business of paddy, kaon and groundnut—they stock when prices are low and sell when prices rise. The samity was well managed and doing well. But, some of the members migrated to another char and they decided to divide the fund and terminate the samity, as it would be difficult for them to participate from such a distance. Often, a lot of the problems in such arrangements emerge relating to such divisions. In this case, it was settled amicably. The remaining members are now considering starting another one and searching for good and reliable members.

Such collective arrangements often fail due to failure in managing the collective action problems pertaining to selection, moral hazard, free riding, sharing of dividends, etc. In Uttar Ramna heri bandh (Chilmari mainland area), a total of 43 members formed an ASCA. Members saved at regular intervals and in fixed amounts. The samity was formed in 1989. It accumulated substantial amounts in cash and kind and gave loans to both members and non-members at 10% monthly interest. It is alleged that the samity president failed to recover many of the outstanding loans and that a substantial part of the recovered amount was misappropriated. At the end, after quite a lot of acrimonious incidents, the members shared among them about 2.4 ton of paddy, which was bought by the samity for selling later at a higher price. The incident has left a bitter taste in the minds of the villagers and they were very wary of such collective arrangements.

Fifteen young men of south chinir parol (Shaghata mainland) established a youth club operating from a paddy husking mill of two from the same village. They deposit taka 10 per member per week about a year ago. The club is heavily engaged in money lending at 10% monthly interest. The club will distribute accumulated savings and profit among the members by the end of the fifth year. Interestingly, members are not allowed to take any loan. They have set this rule to avoid a situation that members take a loan and stop saving and leaving the club. Instead they lend to non members. When asked about loan default they replied that since the club members are all young men, borrowers repay the loan in time and with interest. They have not experienced any default.

Annex C: Char livelihood and microfinancing

Livelihood Pattern	Implications for products and delivery mechanisms arrangement	Remarks
Frequent relocation and less densely populated cluster	Fixed geographical point based branch banking need to be reconsidered	A camp network will have to be set up in the chars for each fixed point branch, which may be located in the adjacent mainland. However, issues of managing internal control will have to be seriously thought of. Use of palm pilot or smart card technologies may be looked into.
	The relocation triggers and patterns need to be better understood.	Appropriate MIS needs to be developed to track such mobility
	Understanding the seasonality of opportunities and migration pattern is very important. This may be different in different char areas as we found in our survey.	Setting up of information network within the microfinance operators in the char area
Seasonality of opportunities and Seasonal Migration	Fixed and rigid repayment system of loan may not be appropriate for most.	Per staff client load may be less. Cost effective ways of managing this 'loss' in efficiency will have to be considered. Recruiting local char dwellers from the community may be considered.
		Loan interest should be in declining balance and explained well to the users. This will allow the users to choose an appropriate repayment schedule given the seasonality of their livelihood.
		Small emergency loan untied with any savings or loans
		Growth slow for the institution – micro loans leads to slow progression towards sustainability
		Importance of a range of savings products developed through a good understanding of existing savings practices and what they say about the financial service needs of the clients.

Annex C: Char livelihood and microfinancing (Cont..)

Livelihood Pattern	Implications for products and delivery mechanisms arrangement	Remarks
Distress driven livelihood diversification	Focus should be on consumption smoothing	Importance of a range of savings products developed through a good understanding of existing savings practices and what they say about the financial service needs of the clients.
Lack of reliability on outside institution		Community participation in the product and mechanism development process, such as through PPD
Strong bonding social capital and weak bridging social capital	Importance of social intermediation and signalling reliability, permanence, and embedded institutions	Institution set up in the chars Transparent and downward accountability Building community monitoring system

১. বিষয়ঃ খাদ্য ও পুষ্টি

প্রশ্নঃ

- ১) পরিবারে আমরা অর্থাৎ নারী ও পুরুষ কে কখন (আগে/সময়মত বা দেরীতে) খাই?
- ২) কে কেমন (ভাল বা মন্দ/পুষ্টিকর বা অপুষ্টিকর) খাবার খাই?
- ৩) নারী ও পুরুষ কে কতটুকু (কম বা পরিমান মত/বেশী) খাই?
- ৪) কেন আমাদের নিজ নিজ পরিবারে নারী বা পুরুষকে ((ছেলে বা মেয়েকে) আগে/সময়মত বা দেরীতে, ভাল বা মন্দ এবং কম বা বেশী খাবার দেই?
- ৫) মেয়ে বা নারীদের দেরীতে খাওয়া, মন্দ/ অপুষ্টিকর খাবার খাওয়া এবং কম খাওয়ার কারণে কি কি ক্ষতি হয় বা হতে পারে?
- ৬) ছেলে ও মেয়ে বা নারী ও পুরুষরা সময়মত খেলে, পুষ্টিকর খাবার খেলে এবং পরিমান মত/বেশী খাবার খেলে কি কি লাভ হয় বা হতে পারে?
- ৭) তাহলে, মেয়ে বা নারীদেরকে দেরীতে, অপুষ্টিকর এবং কম খাওয়ানো ঠিক কিনা?
- ৮) ঠিক যদি না হয় তাহলে, আমাদের পরিবারে ও সমাজে খাবারের ক্ষেত্রে কি কি পদক্ষেপ গ্রহণ করা উচিত?

মূলবার্তাঃ

- নারী ও পুরুষ, মেয়ে ও ছেলে উভয়েরই সময়মত খাওয়া প্রয়োজন।
- নারী ও পুরুষ, মেয়ে ও ছেলে সকলকেই প্রয়োজনমত ও চাহিদামত খাওয়া দরকার।
- সুস্থ্য থাকার জন্য নারী ও পুরুষ, মেয়ে ও ছেলে সকলকে অবশ্যই পুষ্টিকর খাবার গ্রহণ করতে হবে।

২. বিষয়ঃ শিক্ষা

প্রশ্নঃ

- ১) আমাদের নিজ নিজ পরিবারে ও সমাজে ছেলে ও মেয়ের মধ্যে কাকে বেশী লেখাপড়া শেখাই/করাই?
- ২) কার লেখাপড়ার বেশী খোঁজ-খবর নেই?
- ৩) কার লেখাপড়ার বেশী যত্ন নেই?
- ৪) কাকে লেখাপড়ার জন্য বেশী উৎসাহ দেই?
- ৫) ছেলেকে লেখাপড়া করাই, কেন ছেলেদের লেখাপড়ার বেশী খোঁজ-খবর নেই, বেশী যত্ন নেই এবং বেশী উৎসাহ দেই?
- ৬) মেয়েদেরকে কেন লেখাপড়া করাই না বা কম করাই, কেন মেয়েদের লেখাপড়ার খোঁজ-খবর নেই না বা কম নেই, কেন মেয়েদেরকে লেখাপড়ায় উৎসাহ দেই না বা কম দেই?
- ৭) মেয়েদেরকে লেখাপড়ায় উৎসাহ না দেওয়া, মেয়েদের লেখাপড়ার খোঁজ-খবর না নেওয়া এবং মেয়েদেরকে লেখাপড়া না করানোর ফলে কি কি ক্ষতি হতে পারে?
- ৮) মেয়েদেরকে সুন্দরভাবে লেখাপড়া শেখানোর ভাল ফল বা লাভসমূহ কি কি?
- ৯) তাহলে, ছেলেদের পাশাপাশি মেয়েকে লেখা পড়া না করানো কি ঠিক ?
- ১০) যদি ঠিক না হয় তাহলে, ছেলেদের পাশাপাশি মেয়েকে ভালভাবে লেখাপড়া শেখানোর উপায়সমূহ কি হতে পারে?

মূলবার্তাঃ

- ✓ শুধু ছেলেকে নয় মানুষ হিসাবে ছেলে ও মেয়ে উভয়কেই পড়াশোনার সমান সুযোগ দিতে হবে।
- ✓ মেয়ে ও ছেলে উভয়কেই কমপক্ষে ৫ম শ্রেণীপর্যন্ত পড়ানো উচিত, বেশী পড়ালে আরো ভালো।
- ✓ শিক্ষারসুযোগ পেলে মেয়ে বা নারীরাও হতে পারে পরিবার, সমাজ ও দেশের সুনাগরিক ও সম্পদ।

The major change in the economic life of the BRAC VO members has been the creation of large scale employment opportunities for women bringing fundamental changes in the lives of women. Women are involved in productive activities. This involvement of women shifting the traditional role. Now they are contributing in their families for better food and clothing, safe drinking water, sanitation and education of their children.

~~Micra female is impacting upon the behavior of a particular terms of gender relations.~~

GST