

MICROCREDIT PROGRAM ADMINISTERED BY
GOVERNMENT AGENCIES IN BANGLADESH: AN
ASSESSMENT AND COMPARISON WITH NGOS PROGRAMS.

A Dissertation

by

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MA in Governance and Development Course
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*Dissertation submitted for fulfilling the partial requirements for the
Degree of MA in Governance and Development to
Center for Governance Studies, BRAC University, Dhaka.*

September 2006

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A B S T R A C T

This paper studied microcredit programs of the directorate of Social Service (DSS) and Directorate of Youth Development (DYD), the two major microcredit service provider in public sector in Bangladesh and compared them with NGOs programs specially with BRAC and Grameen Bank microcredit programs. This paper also presented a brief overview on PKSF, an apex funding organization, and its hardcore poor program. In this study, we found that DSS and DYD implemented MCPs have lot of problems in operational stage. It was seemed to us that the programs were not duly implemented and the outcomes that usually claimed are not supported by the field data. By and large their programs fail to reach the poor. Almost 40% and 34% of sample borrowers of DYD and DSS respectively were out of target group. Another very important weakness is lack of monitoring of the programs and effective accountability of the officials concern. On the other hand, NGOs are doing better in this sector because of their intensive monitoring, doorstep service, continuation of flow of microcredit, providing relevant training to the borrowers and the effective role of accountability of the authority concern. NGOs became able to prove microcredit as an effective tool to fight poverty. So, to accelerate the rate of poverty alleviation and to achieve the MDG-1, government should rethink and redesign its poverty alleviation and microcredit program. It was found that due to poor performance and absence of effective accountability compare to the NGOs and PKSF, the government departments MCPs are not efficient as NGOs programs. So, it will be better if government gradually withdraw from its direct credit lending programs for the poor and leave it for the NGOs for efficient implementation as well as better and quick result. government should concentrate mainly on regulatory functions and facilitate the MFIs for the betterment and to protect the interest of the primary stakeholders, and give more emphasis on promotional activities and infrastructure development as to create wide opportunity to access to the market especially for the poor.

ACKNOWLEDGEMENT

This note of acknowledgement deserves to be started with expressing my heartiest thanks and gratitude to the poor borrowers of microcredit from whom I collected the data. Certainly those 211 poor borrowers will never go through this paper but they are the ones who made immense contribution to it by providing data from their real life experiences with microcredit.

Words are not enough to express my heartfelt thanks and gratitude to my academic adviser Dr. Fakruddin Ahmed, without whose guidance and suggestions this paper would have never been possible. In spite of his tremendously busy schedule, he gave me time whenever I demanded. Whenever I have faced problems in writing this paper my supervisor came up with fruitful academic guidance and valuable suggestions. I had several lively and fruitful discussions with him on the topic. Not only academic guidance, Dr. Ahmed also provided mental support to me by making generous and encouraging comments on my efforts during my struggling days with the study. I am greatly grateful to my academic adviser.

My sincere and heartfelt gratitude to my teachers, especially to Dr. Akbar Ali Khan, Director, Center for Governance Studies, BRAC University who made his sincere and painstaking efforts to enrich my stock of knowledge and developed my way of reasoning by supplying relevant books, articles and journals. And also provided all-out supports to me to successfully complete the research.

Furthermore, I especially convey my heartiest gratitude to Dr. M.A Hakim, General Manager of PKSf, who extended his kind support by sharing valuable knowledge, experience and information and also for his all time inspiration to complete this thesis in a more organized manner.

This note of acknowledgement will remain incomplete if I do not express my thanks and gratitude to Mr. Yakub Hossain, Deputy Executive Director of VERC, Mr. SM Arifur Rahman, Upazilza Youth Development Officer, Mr. Md. Nasiruddin, Upazill Social Service Officer, Mr. Jahangir Hossain , Area Manager BRAC, Mr. Ajmol of VERC, Mr. Dipen of PKSf, Mr. Jamirul of EC BD, and Mr. Rajob Ali , manager of GB for their sincere help in carrying out the field survey.

Abdul Baki

List of Acronyms

BBS	Bangladesh Bureau of Statistics
BRAC	Bangladesh Rural Advancement Committee
BRDB	Bangladesh Rural Development Board
CBN	Cost of Basic Needs
CDF	Credit and Development Foundation
DCI	Direct Calorie Intake
DSS	Directorate of Social Service
DYD	Directorate of Youth Development
EC BD	Environment Council Bangladesh
FEI	Food Energy Intake
GB	Grameen Bank
GDP	Gross domestic Product
GO	Government Organization
HIES	Household Income and Expenditure Survey
IGA	Income Generating Activities
IGVGD	Income Generation for Vulnerable Group Development
MC	Microcredit
MCP	Micro Credit Program
MFI	Micro Finance Institute
MDG	Millennium Development Goal
NGO	Non-Government Organization
PKSF	Palli Karma Sahayak Foundation
PMS	Poverty Monitoring Survey
PRSP	Poverty Reduction Strategic Paper
PO	Partner Organization
VERC	Village Education and Resource Centre
VGd	Vulnerable Group Development
VO	Village Organization

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CHAPTER 1

INTRODUCTION

Bangladesh is the pioneer of microcredit and the home of the largest micro credit operation in the world. Since its advent in late 1970s, microcredit has been the focus of many development researches. Professor Mohammad Yunus advocates that Credit is a human right. Once this right is established, the entitlement of other rights for dignified life becomes easier. It empowers the poor to break the vicious cycle of poverty by creating self-employment and generating income.

Micro credit means small-scale transaction of credit and savings. As such, it is largely meant to meet the needs of small and medium scale producers and businesses. The poor especially women are the target of microcredit organizations in many countries including Bangladesh. Besides financial services, microcredit some times offers skill-based training, organizational support or consciousness raising training to empower the poor.

The mission of micro credit has been guided by four core themes (Nath 2005):

- Reaching the poorest.
- Empowering the women.
- Building self-sufficient institutions.
- Ensuring a positive and measurable impact on the lives of the clients and their families.

The objective of this paper is to examine how much the Micro Credit Program (MCP) of Directorate of Social Service (DSS) and Directorate of Youth Development (DYD) of

Bangladesh government reach the target people and its impact on the upliftment of their socioeconomic condition and also to find out the problems (if any) of getting credit and selection of beneficiaries.

This paper explores the relationship between microcredit and the reduction of poverty and vulnerability by focusing on DSS and DYD, the two major microcredit providers in the public sector of Bangladesh and compare with NGOs programs specially with BRAC, Grameen Bank's programs and also a brief overview on PKSF and its Hard-core poor program.

The study will address four main questions:

- ☒ Whom do micro credit programs reach?
- ☒ How does micro credit help the poor?
- ☒ What are the differences between GO and NGO programs?
- ☒ Should the government leave the microcredit programs to the NGOs?

The paper is organized as follows – Chapter 2 deals with concept and background, Chapter 3 provides literature review concentrating on the issues that will be explored in the subsequent sections, Chapter 4 describes the methodology of the study, chapter 5 an analysis of the poverty trends in Bangladesh and government interventions, chapter 6 provides the impact of micro credit on income and employment, chapter 7 deals with socioeconomic impact especially empowerment of women through microcredit. Chapter 8 identifies the problems specially problems in reaching the poorest and short analysis of hardcore poor program of PKSF and chapter 9 deals with the findings of the study and makes some policy suggestions. Chapter 10 is conclusion.

CHAPTER 2

CONCEPT AND BACKGROUND

2.1 Country Profile:

Bangladesh is a developing country in South Asia with a small landmass of about 147570 sq. kilometers, bordered by the Bay of Bengal to its south and by India in east, west and north except for only 193 km. bordered with Myanmar in the south eastern frontier. It is one of the most densely populated and developing countries in the world.

A high population growth rate in the last few decades has turned the already limited land supply a very scarce one. Despite the fact that about 63% of the total area is arable land, with a huge population of 137 million per capita land is only to 600 sq. meters. Moreover, with widespread illiteracy and limited job opportunities in the urban formal sector, the majority of the population lives in rural areas and depends directly or indirectly on agriculture, this causing poverty to be more intense. The manufacturing sector, which is still underdeveloped, employs only around 7% of the total labor force and contributes only 16.58% to GDP. Readymade garments (RMG) and the knitwear sector are the leading manufacturing sector and comprise more than 76% of export earnings. Other important export items are tea, shrimp, raw-jute and jute goods. Some other important statistics are given below:

Table 1: Some basic information on Bangladesh.

Item	Year	
GDP per capita (US\$)	2004	470
GDP growth rate	2004-05	5.38
Agriculture share to GDP	2004-05	21.91%
Industry share to GDP	2004-05	16.58%
Total population (Million)	2005	137
Population growth rate	2004	1.48
Density of population	2005	928/ sq. km.
Rate of poverty – (Food Energy Intake- FEI method)		
National	2004	42.1
Rural	2004	43.3
Urban	2004	37.9
Rate of poverty – (Direct Calorie Intake - DCI method)		
National	2004	40.9
Rural	2004	40.1
Urban	2004	43.6
Share of consumption of the poorest 20%	2000	9%
Life expectancy at birth	2002	64.9
Infant motility rate (1000 live birth)	2002	53.27
Literacy rate	2002	62.66

Source: Bangladesh Economic Survey 2005.

2.2 Micro credit: what it is and how it works?

Microcredit refer to the small size credit and saving services extended to a specific target group of poor and vulnerable people who do not have access to traditional commercial banking system. Poor people do not have asset - based collateral, which is required to get a loan from commercial banks. Moreover, due to some procedural complexities, such as filling up a lot of paper documents, poor and illiterate people do not find it convenient to borrow from conventional commercial banks. Also banks have simply been not interested in lending very small amounts to the poor. Comparatively easier and less time consuming procedures encourage them to borrow from informal moneylenders. Moneylenders usually charge intolerably high rates of interest, which limit the ability of the rural people from making any sustained gain in income. In order to break the 'vicious cycle of poverty', poor people need financial services on convenient and sustainable terms.

Realizing the need for appropriate financial service to the rural poor, Dr. Mohammad Yunus, then a professor of Economics in Chittagong University in Bangladesh started an experiment in 1976 in Jobra , a village near the university, to find out an effective way of delivering financial services to the poor. After some years of experiment, Dr. Yunus came up with the idea of collateral free credit of small amounts. To give it an institutional face Grameen Bank was established by a government ordinance as a specialized financial institution to serve the landless and assetless rural poor. Over last two decades, more than fifteen hundred organizations, commonly known as Microfinance Institutions (MFIs) emerged in Bangladesh, which cater for the poor following operational system to Grameen Bank.

The credit delivery system of micro finance institutions differs substantially from that of traditional commercial banks. Usually people go to the bank for banking services. But in case of MFIs, banking service is brought to the doorsteps of the poor people. At first, the MFI workers go to the rural poor people and mobilize them into separate groups. In Bangladesh, rural women found it convenient and comfortable to form group and take part in microfinance activities.

Group membership is limited to the poor people who own less than 50 decimals of land, do not belong to the same household, have similar economic resources and live in the same locality. Various studies found that the spatial and social cohesiveness developed among individuals of the same gender, the same village and similar economic conditions are important factors for the fruitful functioning of such groups (Khandker 1998). The number of members in a group varies from organization to organization. The five-member group is the central unit of Grameen Bank operations. Eight groups (40 members) make a 'center', which meets once a week for repayment of the loan and mobilization of savings and other activities. Similarly, BRAC, the largest NGO and microcredit provider in Bangladesh, has village organizations (VO) of 50-60 people from target households. For better delivery and repayment of credit, BRAC forms 'solidarity groups' of five to seven people within the village organizations so that group activities can be monitored more closely. Every group has a chairperson and treasurer who are chosen by the group members. Usually they are the people in the groups who have better literacy and arithmetic skills.

Group based microfinance operations are different from conventional asset-based collateral security. Here, peer pressure works as a substitute for the collateral. Other than disbursement of loans, all the important activities are performed at the weekly group meetings. After the formation of groups, members are asked to make a minimum weekly savings as well as a mandatory contribution to group savings. All these financial transactions including loan repayments take place in front of all the members and recorded in the individual's loan passbook. If a member is found to be well disciplined in terms of rules and regulations of savings, attendance etc. he/she can apply for a loan. At first, the loan proposal of an individual member is to be approved by respective group. After considering the economic viability of the proposed self-employment project, final approval is given by the local branch authority of the respective MFI. Loans are disbursed at the branch offices of MFIs.

Grameen Bank and BRAC follow a unique system of loan repayment. From the second week of disbursement, loan start to be repaid in weekly installments. Repayments are to be completed within one year from the date of disbursement. The system of weekly repayment in is very convenient for poor borrowers who, due to their abject poverty, cannot accumulate the whole amount of borrowed money and interest for repayment. Due to convenience and close monitoring by fellow group members and MFIs, the rate of loan recovery is impressively high. The recovery rate of Grameen Bank and BRAC are almost 98%. These rates are substantially higher than those of traditional commercial bank. It has proved that poor people are more credit disciplined than their rich counterparts in traditional commercial banks are. However, government run micro credit recovery rate is near about 82.48 % (Bangladesh Economic Review 2005).

One outstanding feature of micro finance is that they follow a preferential policy of lending to women. More than 90% of beneficiaries of MFIs in Bangladesh are women. During the last two decades micro finance activities experienced enormous expansion in terms of both area coverage and disbursed amount of loans.

In addition to financial services, MFIs also provide some non-financial services to the clients. These include skill-training, building awareness about health and hygiene, literacy etc. Grameen Bank formulated its famous 'sixteen decisions' that are chanted as slogans in the group meetings. These include decisions regarding discipline, unity, courage, hard work, bringing prosperity in life, living in the good houses, growing vegetables and seedlings, family planning, schooling for the children, using hygiene toilets, regular repayments of loans, not receiving and giving dowry in wedding, group cohesion and cooperation etc. other MFIs also have similar types of decisions or promises for their clients.

2.3 Group lending method: how does it work?

Group lending refers specially to arrangements by individual without collateral who get together and form groups with the aim of obtaining loans from a lender. The special feature is that the loans are made individually to group members, but all in the group face consequences if any member runs into serious repayment difficulties. The fundamental idea of group responsibility coupled with regular group meetings is common across approaches.

Weekly group meetings have some obvious and simple advantages for the lenders and the customers. Most immediately, they are tremendously convenient to the borrowers; the bank comes to them and any problem (a missing document, have a few taka shortfall) can be resolved on the spot. Meanwhile, transaction costs are reduced for the loan from both sides since the multiple savings and loan transactions of forty people can take place in a short block of time.

Transaction through groups also has more subtle advantages. In particular, the group responsibility clause of contracts can mitigate the moral hazard, adverse selection and enforcement problem that crippled previous attempts at lending to the poor by outside financial institutions. The contracts take advantage of the fact that group members themselves may have good information about fellow members and the contract gives the members incentives to use their information to the bank's advantage.

Richard Montgomery makes a critical examination of BRAC's group lending model. Montgomery (1996) argues that BRAC's implementation of group lending "can lead to forms of borrowers discipline which are unnecessarily exclusionary, and which can contradict the broader (social) aims of solidarity group lending". This is an important reminder. The discussion so far has focused on ways that group lending can improve the borrowers' lives, other than by assuming that improvements are made when group lending improves access to credit for individuals lacking collateral. Montgomery's main concern is that group lending can create peer pressure that works against the poorest and most vulnerable members of the community. In attempting to keep repayment rates up, Montgomery contends, loan officers put sometimes extreme pressure on borrowers to

repay, even when the borrowers faced difficulties beyond their control. He mentions stories of 'forced' acquisition of household utensils, livestock, and other assets of defaulting members.

So, providing insurance alongside credit may be a borrowers' way to cope with major risks. Without such insurance, there is a legitimate question as to whether micro finance (whether implemented via group lending or via other methods) can make some borrowers more vulnerable than they had been.

Hoff and Stiglitz(1990) observed that credit markets of developing countries suffer from enforcement problems which can better be solved by group lending approach by NGOs. Yaron (1994) and Stiglitz (1990) have observed that one key to success of NGOs is the introduction of a social mechanism that lowers transaction cost while supplying effective peer pressure for screening loan applicants. Collecting loans and thus the lowering delinquency rate leads to viable operation. The absence of these characteristics in government institutions call for adopting those elements in their lending strategy instead of intervention by government in the form of providing cheap and politicized credit to rural customers (World Bank Policy Paper 1994).

2.4 Are Women Better Customers?

There are at least three reasons that lending to women may have advantages for the MFIs and may enhance efficiency in a broader economic sense. The first has to do with poverty, the second with labor mobility and the third with risk. We address the poverty

related argument first. Women are poorer than man. According to the UNDP Human Development Report 1996, 70 percent of the world's poor, 900 million people, were women. Under the standard neoclassical assumptions about the production function, women should therefore be higher than for men. Endowing women with more capital can thus be growth – enhancing in principle.

The second argument hinges on labor mobility. Women tend to be less mobile than men and are more likely to work in or near the home. Bank managers can therefore monitor women at a lower cost. Moreover, less mobility facilitates delegated monitoring under group lending methodologies. Typically, peer borrowers who undertake investment activities at home – and stay at home most of the time – can more easily monitor each other. Similarly, lower mobility reduces the incidence of strategic default under the fear of social sanctions.

This brings us to the third argument in favor of a pro female bias. Because women are less mobile and more fearful about social sanctions, they tend to be more risk-averse than men and more conservative in their choice of investment projects. This makes it easier to secure debt repayments and create a reputation of reliability. Let us not forget: income in the hands of the women is better used for the welfare of the family.

2.5 Palli Karma-Sahayak Foundation (PKSF): Apex Funding Organization

Palli Karma-Sahayak Foundation (PKSF), since its establishment in May 1990 by the Government, has been working as an apex financing and capacity building organization

for eradicating poverty initially in the rural areas and subsequently in urban areas. The basic operational strategies of PKSf (Rural Employment Support Foundation) are the following:

- ❑ It does not directly lend money to the landless and the assetless people rather reaches its target groups through its Partner Organizations (POs); most of its POs are NGOs.
- ❑ It provides greater thrust to institutional development, both its own capacity as an apex organization as well as the capacities of POs;
- ❑ It favors no particular model; instead, innovations and different approaches based on experience are encouraged;
- ❑ It acts as an advocate for appropriate policies and regulations useful for the microcredit sector.

PKSF currently provides loanable funds to 243 POs- under its four mainstream credit programs: Rural Micro Credit; Urban Micro Credit; Micro Enterprise credit and Micro credit for the Hardcore Poor. It charges differential service charges for its two categories of POs: 7% for the big POs and 4.5% for the small and medium POs. It also operates a loan program for capacity enhancement of POs at a subsidized rate of 1% service. It provides customized training courses and has a well-developed training strategy including outsourcing to private and public sector institutes. On-site technical assistance

is also offered during the intensive schedule of field visits undertaken by PKSf personnel. As of June 2006, PKSf covered 7.78 million poor borrowers about 90% of who are women. PKSf's loan recovery rate is over 98%. Independent evaluation studies have shown that PKSf's micro credit program implemented through its POs has helped to alleviate poverty.

2.5.1 Program coverage of PKSf:

From 1990 PKSf provides loanable funds to a large number of local and national level of NGOs. Through its PO, PKSf's operational coverage is shown below:

Table 2 : Program coverage of PKSf through P.Os.

No. of POs	No. of Districts	No. of borrowers	Total disbursement (Tk)	Rate of recovery
(1)	(2)	(3)	(4)	(5)
243	64	7.78 million	221446.87 million	98%

Source : PKSf.

2.5.2 Some of the best practice lessons evident in the PKSf experience include:

- PKSf has been established and funded by the government, but it has been kept as an independent organization outside government bureaucracy. This has enabled PKSf to form its own policies and develop its own management practices suitable for its activities

- ❑ The outstanding quality of the Governing Body has contributed most in guiding the management and forming and revising policies whenever necessary.
- ❑ The policy of recruiting officials of above average quality has contributed greatly to the growth and performance of PKSf.
- ❑ PKSf has been successful in utilizing the capacities of local NGOs in quickly reaching the poor and developing the POs to deliver the financial services to the poor. Selection of the right POs was the most crucial factor for PKSf's success.
- ❑ PKSf has created a congenial "microcredit culture" in Bangladesh by introducing several standards, norms and guidelines for operation of microcredit programs. It has performed as a quasi-regulatory body.
- ❑ PKSf's pragmatic policies and practices have made it the world's largest and most successful autonomous apex funding agency (wholesale fund) for microcredit and PKSf model is now being replicated in different countries of the world.

2.6 Coverage under Micro Credit Programs

Micro credit programs (MCP) in Bangladesh are implemented by various formal financial institutions (nationalized commercial banks and specialized banks), specialized government organizations and semi-formal financial institutions. The growth in the MFI sector, in terms of the number of MFI as well as total membership, was phenomenal during the 1990s and continues till today. The total coverage of MCP in Bangladesh is approximately 16 million households.

There is debate, however, on the extent of overlap- one borrower taking loan from more than one MFI. The general consensus is that a national average would be that 15% of all borrowers are borrowing from more than one MFI. In that case the effective coverage is about 14.6 million households. Out of 14.6 million households covered by MCP, about 70% are below poverty line and so about 10.2 million poor households are covered by MCP. With an estimated households of 26 million, out of which about 48% are poor households, the total number of poor households is approximately 12.5 million. Therefore, there is still scope of extending the coverage of micro credit programs to an approximate 2.3 million households.

2.7 Brief about four studied MFIs.

- ❑ **Grameen Bank:** Though this bank was established in 1983 by an ordinance, it started its activities in 1976 as an experimental project. Later it expanded the operation by organizing the assetless people and providing them credit support for income generation and capital and asset building. An amount of Tk. 225175.9 million has been disbursed as credit by April 2005 to about 4.35 million members in 433 upazilas of 63 districts through 1,456 branches. The amount of recovery is Tk. 203816.0 million during this period. The bank's operation reached 51687 villages in the country. Grameen Bank members had saved more than Tk. 13793.1 million in their savings accounts. A total of Tk. 7789.7 million for housing loan has been disbursed up to June 2003. With these housing loans Grameen borrowers

have built 5,69,690 houses. Grameen model has been replicated in several countries in the globe (Bangladesh Economic Review 2005).

- ❑ **Bangladesh Rural Advancement Committee (BRAC):** Established mainly for relief and rehabilitation activities in 1972, BRAC is, at present, operating in a range of areas such as credit disbursement, non-formal education for both children and adults, primary health care, legal counselling on women rights and so on. Up to December 2004, a total amount of Tk. 133211.7 million has been disbursed as microcredit to about 3.99 million beneficiaries (female 99 percent) in 460 upazilas of 64 districts, and the recovery rate is 99.27 percent. The amount of savings of the beneficiary groups is Tk. 5294 million up to December 2002 (Bangladesh Economic Review 2005).

- ❑ **Department of Youth Development:** The youths are potentially the most productive force in Bangladesh. They constitute 36% of the total civilian labor force. Recognizing the fact that a disciplined and, organized, trained and educated youth community can make significant contribution to the development process, the government has taken up various programs for their socio- economic uplift. The Ministry of Youth and Sports and the Department of Youth Development are entrusted with the responsibility of providing unified direction and coordination to the youth development process.

The main objective of the youth development program is to organize and mobilize the youth community for enabling them to participate effectively in national development. Some of the specific objectives are as follows: increase the participation of females in youth development, alleviate poverty through increased self-employment opportunities among the youth community, equip the youth with working skill and suitable training in technical, vocational and professional fields and organize youth groups and motivate them to assist in community development through voluntary youth organizations. The major programs of the government for youth development include: - rural youth development, skill development training, self-employment program and community development program. The youth development program is now being expanded through increased training and credit facilities.

The Directorate of Youth Development (DYD) trained 24,31,738 young men and women from FY 1991-92 to December 2004 under different programs. Of the total trained youth 13,23,679 have got self-employed. Since the inception of the credit program of the DYD till December 2004 Tk. 5699.3 million has been disbursed to 6,40,240 beneficiaries as credit. The rate of recovery is 84.49% (Bangladesh Economic Review 2005).

□ **Department of Social Service:** Since poverty alleviation is a major goal of the Government, thrust is being given on socio-economic development of the underprivileged groups. The main emphasis here is on adoption of integrated and comprehensive approach taking the family as the basic unit for social services programs with emphasis on family and group development rather than individual development.

The government has been implementing the following programs in the Social Welfare sector:

- (a) Urban and rural community development program.
- (b) Development services for the physically and the mentally disabled.
- (c) Development services for children.
- (d) Welfare services for the juvenile and the distressed women.
- (e) Welfare services for the aged and the infirm.
- (f) Rehabilitation program for the addicts.
- (g) Social welfare services for the beggars.

The Directorate of Social Service disbursed total Tk. 6020.4 million as microcredit till December 2004 and recovered Tk. 5474.8 million. The rate of recovery is 90.95% (Bangladesh Economic Review 2005).

CHAPTER 3

LITERATURE REVIEW

3.1 Micro – Credit, poverty and vulnerability in Bangladesh: What does the literature say?

Money begets money. Adam Smith (1937) said, “Money makes money. When you have got a little, it is often easy to get more. The great difficulty is to get that little”. It is very difficult for the poor to get small working capital from formal banking system for various reasons. A collateral free working capital loan is the requirement at the doorsteps of the poor at the right time to help them facilitate and start feasible intended income generating activities (IGAs). It is with this background that, microfinance is seen as one of the significant approaches to poverty alleviation.

The evidence on the impact of microcredit can be assessed from two interrelated angles. Firstly: whom does the credit reach? And Secondly: how does it affect the welfare of different groups of individuals and households? This section will briefly look at “targeting issues” before moving onto the evidence on household welfare; the focus will be on the households who received microcredit from these two government departments (DSS and DYD) although the evidence from BRAC and GB microcredit programs will also be discussed in passing.

The microcredit programs are target – oriented. Though the micro finance institutions cater to the need for financial services, it is not open to all. Any one irrespective of his or

her position in income or asset strata cannot avail of the financial services provided by micro finance institutes. There is a defined group of target people who are eligible to get credit and other financial services. Generally, target group is defined as the households that own less than 50 decimals of arable land. Grameen Bank adopts one more criterion that a target household's assets (both land and non-land) must not exceed the value of an acre of land in the area of operation. BRAC, another leading micro finance institution, emphasizes that in addition to the landholding ceiling of not more than 50 decimals of land, at least one family member of the participating household should be selling labor to the local wage market, prior to program participation (Pitt and Khandkar, 1995). The DSS and DYD also follow the more or less same criteria. At present both the departments offering various types of microcredit for different types of target groups.

In practice, the land criterion is the one that is more closely adhered to in the field. Several studies show that between 15-30% of BRAC members are from non – target households measured in terms of land (Mustafa et al 1996, Montgomery et al 1996, Zaman 1998, Khandkar 1998). On the other hand, there is also evidence that there are a large proportion of extremely poor – households in DSS and DYD groups (Khandkar 1998). Moreover non-land indicators of extreme poverty (member of income earners, illiteracy, female headedness, disable house hold head) also point to the governments departments target, a significant number of extremely poor households.

The poverty reduction impact of microcredit in Bangladesh is not controversial; the question is what extent it is achieved. . Data collected by the World Bank in 1992 have been used to show widely varying results depending on the methodology chosen to asses

impact. Khandkar (1998) estimates that for every hundred taka lent to a women, household consumption increases by 18 taka; interestingly the figure is 11 taka if the same amount was lent to a man. Morduch (1998) finds no evidence in consumption (and therefore reduction in poverty). However, he does find that micro credit contributes to reducing household vulnerability, since consumption vulnerability is 47% lower for eligible Grameen households, 54% lower for eligible BRAC households and 51% lower for eligible BRDB households compared to a control group. The consumption smoothing is driven by income smoothing as evidenced by the significantly lower labor supply variability experienced by microcredit members compared to the control group. The importance of this result cannot be over emphasized given the fact that seasonal deficit play a key part in the poverty process in Bangladesh .

Essentially Morduch's results indicate that program participants do not benefit in terms of greater consumption levels, but they participate because they benefit from risk reduction. There are other works in Bangladesh supporting the hypothesis that micro credit impact is more significant for vulnerability than income poverty. Montgomery et al (1996), Mustafa et al (1996) all have same opinion.

There appears to be a growing consensus that moderately poor micro credit borrowers benefit more than extremely poor borrowers in terms of a reduction in income (consumption) poverty. The basic premise is that the poorest have a number of constraints (fewer income sources, worse health and education etc.), which prevent them from investing the loan in a high – return activity. This could be due to the higher risk associated with a high – return activity or because of a long gestation period for the returns to accrue (Wood and Sharif 1997).

A pervasive social contract which restricts the female sphere within a typical Bangladeshi household, 'female empowerment' can be viewed in terms of a woman's interactions outside the homestead and the acquisition of skills, knowledge and confidence involvement in major decisions, participation in public protest and political campaigning, relative freedom from family domination and political and legal awareness that such interactions can bring. The impact of credit on female empowerment is controversial in literature. One camp believes that credit programs positively contribute to female empowerment and a variety of empirical results are used to argue this case. A second, more skeptical, viewpoint believes that credit program do little to alter gender relations in favor of females but in fact may contribute to reinforcing existing gender imbalances.

The empowering effect of microcredit is based on the issue of women's control over loan and ultimately the income derived from it. . It was found that about 63% of the cases had very limited or no control over loan, indicating a fairly significant pattern of loss of direct control over credit. In view of the fact that the decision making over the actual loan is likely to be shared by the borrower, her family members and the credit providers depending on the end – use of the loan. Hashemi et al (1996) conclude that whilst women who control their loans have the most chance of being empowered, even women who surrender all of their households are likely to be more empowered than non-members.

CHAPTER 4

METHODOLOGY OF THE STUDY

4.1 Methodology

The study is based on a cross sectional comparison of various groups of households. Data were collected by a questionnaire survey from three upazilas (sub-district) of two different districts where Government, PKSF and NGOs micro credit programs run simultaneously. In this thesis secondary sources of data available on different published literature, census reports and other online statistical database, were also used. The upazilas were purposively selected as very closed to capital city (Savar, Dhaka and Tongibari, Monshigonj) where infrastructure and other civic facilities are high, and another is in a peripheral district (Kamolgonj, Moulvibazar) where infrastructure facilities are very poor.

4.2 Primary data:

A questionnaire survey was conducted by direct interview method among the borrowers of micro credit. The borrowers of the micro credit from both GO and NGOs programs were interviewed during the data collection in the field. The period of the survey was July-August 2006. The survey was conducted by the researcher and two other recent university graduates. If otherwise not stated, the source of all tables used in this paper is the said questionnaire survey. Information was collected on working hours (employment), food consumption, economic condition, health and hygiene, sanitation, school enrollment, women empowerment especially on control over credit, participation

in family's decision-making process, problems of getting credit, group meeting and the behavior of the staffs of MFIs and above all the satisfaction of the borrowers. Since the very concept of 'empowerment of women' itself is subjective in nature, the analysis of the impact of microcredit on it, was mainly based on borrowers' own perception. Total 211 borrowers were interviewed. Of them, male are 38 and female borrowers are 173. Among them 120 borrowers are the members of the government administers MCP and rest 91 are the members of NGOs program.

4.3 Secondary data:

Secondary sources of data mainly collected from different government publications and reports, articles, seminar papers, research journals, working papers, and database available on the Internet.

4.4 Limitations of the data:

One limitation of the study is that due to time and resource constraint, time series data could not be obtained. And due to same constraints, among the government's programs, we examined only two departments' (DSS and DYD) programs from selected two upazilas. Regarding PKSf's HCP program, we have collected primary data only from Tongibari upazila. As mentioned earlier the study is based on cross – section data. Moreover, since the rural households do not have documented income statement, we had to rely on memory recall method.

CHAPTER 5

A BRIEF OVERVIEW ON POVERTY IN BANGLADESH AND GOVERNMENT INTERVENTION

5.0 Although the severity of poverty in Bangladesh has declined over the past three decades, its pervasiveness and depth are still the single most issue of concern. Given the existing resource constraints, this indeed is a formidable challenge. In order to achieve the MDGs, the government has therefore attached top-most priority to poverty reduction and formulated PRSP (Unlocking the Potential: National Strategy for Accelerated Poverty Reduction) as a national strategy for economic growth, poverty reduction and social development. To meet the challenge of reducing poverty, Government has adopted a fundamental strategy of seeking collaboration from NGOs and private sectors.

5.1 Measurement Incidence of Poverty in Bangladesh:

Officially head-count ratio based on Direct Calorie Intake (DCI) and Cost of Basic Needs (CBN) methods have been utilized to measure the incidence of poverty. Bangladesh Bureau of Statistics (BBS) measures poverty by using Household Income and Expenditure Survey (HIES) every four years. Besides this survey, BBS also monitors the annual poverty trends since 1994 by Poverty Monitoring Survey (PMS) using both Food Energy Intake (FEI) and Direct Calorie Intake (DCI) method. According to the last

published PMS report, conducted in March 2004, the poverty trends both in urban and rural area decreased. In that survey, according to CBN method, the poverty line was determined for the rural area at the monthly expenditure of Tk. 594.60 for a person and Tk. 905.90 for urban area. The poverty trends are shown in the table below:

Table 3: Comparison of poverty trends between FEI and DCI method.

Region	FEI method		DCI method	
	Head Count Ratio (%)		Head Count Ratio (%)	
	1997	2004	1999	2004
National	44.7	42.1	46.2	40.9
Urban	43.3	37.9	49.9	43.6
Rural	44.9	43.3	45.6	40.1

Source: BBS, Poverty Monitoring Survey 2004.

Table 4: Trend of hard-core poverty according to DCI method.

Hard-core poverty (≤ 1805 kilo calorie per day, %)	Region	1999	2004
	National	24.9	18.7
	Urban	27.3	20.8
	Rural	24.5	18.2

Source: BBS, Poverty Monitoring Survey 2004.

The trend of both poverty and hardcore poverty of Bangladesh is declining. But the rate of declining is not satisfactory; it is only 1% per year. If we want to achieve the MDG-1 within stipulated time we must need to accelerate this rate to at least 2% per year.

5.2 Review of the Programs for Poverty Alleviation:

Economic growth with concomitant human development is absolutely essential for poverty alleviation. In order to ensure poverty reduction and sustainable development, it is necessary to enhance per capita income along with employment generation and to adopt programs that augment savings. This would result in establishing an economic base of their own and continued investment in different social sectors (education, nutrition, health housing etc.), which would eventually uplift their standard of living as well as human welfare. Employment generation in non-farm sectors in rural areas as well as urban areas calls for developing economic infrastructure including industry, business and other service sectors. Side by side, curbing price inflation, (especially of food items), will help enhance the real income of the poor. A number of programs both at government and non-government levels are under implementation for the employment and income generation and the upliftment of the poor. These programs continue to contribute to enhance the entitlement of the poor and at the same time, their empowerment and awareness building. At the government level various ministries and agencies like the Ministry of Agriculture, Women and Children Affairs, Fisheries and livestock, Youth and Sports, Social welfare, Food and Disaster Management, Bangladesh Rural Development Board (BRDB), Local Government Engineering Department , Bangladesh Small and Cottage Industries have their own programs. Besides Food for Works programs, VGD Program, construction and maintenance of rural infrastructure etc. are also generating employment. On the other hand, education extension programs like food for education, special stipend and financial assistance, free primary education are also directly reducing the burden of educational expenses. Social awareness on social welfare issues, women

empowerment and children rights are increasingly evident which is providing impetus to the poor to live a better living.

Since late 1970s large sums of money have been pumped, mainly into the rural economy. Government is directly contributing more than 25 % of total micro credit disbursed so far. Apart from this, government is also financing through apex body - PKSF involved in the microfinance. If the government money involved in disbursement from PKSF is included, government share in total microcredit will increase.

As regards the commitment, Bangladesh government continued to explore the expansion of microcredit facilities with multi-disciplinary activities in rural areas of the country. Microcredit program in government sector appears to be expensive with limited growth opportunity and marketing facilities.

CHAPTER 6

IMPACT OF MICRO CREDIT ON INCOME AND EMPLOYMENT

6.0 Income deprivation is certainly one of the most obvious manifestations of poverty. Low income usually means low consumption and low investment, which in turn leads to low productivity. Low productivity means low income again. The condition of rural poor people is so severe that due to income deficiency, they are underfed and undernourished. At such lower level of income, their consumption is not mere consumption. The main objective behind the provision of credit to the rural poor people is to raise their income level. Profitable investment of the borrowed fund is expected to raise the income level of the poor people. In this study, it was extremely difficult to examine whether microcredit is actually contributing to increase in income of the borrowers. It could be possible if benchmark data of the borrowers at the time of joining the credit programs were available. In that case, current situation could be compared with benchmark situation. Due to absence of that benchmark data, I had to depend only on the perceptions of the borrowers regarding their economic activities and progress.

6.1 Comparison among the borrowers:

To understand the impact of micro credit on household income and other social aspects, first we should make a comparison among program participants with differentiated by sex (table 5) and number of years as a member of MCP (table 6).

Table 5 : Distribution of sample borrowers by sex.

Name of organization	No. of Borrowers	
	Male	Female
DSS	02	60
DYD	36	22
BRAC	0	23
GB	0	21
PKSF's PO (VERC)	0	23
PKSF's PO (EC BD)	0	24
Total	38	173

During field survey we examined 211 microcredit borrowers. Among them 120 were from government run programs and rest 91 from NGO programs.

Table 6: Distribution of sample borrowers by years of membership in MFIs

Name of organization	No. of years as member of MCP (in years)				Total
	1-2	3-4	5-6	6+	
DSS	21	28	06	07	62
DYD	19	25	07	07	58
BRAC	04	13	06	-	23
GB	06	09	03	03	21
PKSF's PO (VERC)	02	07	09	05	23
PKSF's PO (EC BD)	24	-	-	-	24
Total					211

This study found that the NGOs are very consistent in the flow of micro credit to the borrowers, which is one of the important characteristics of the success of the MCP. We found very few members of DSS and DYD who continue with MCP more than four years. Unavailability of credit fund is the main reason of it. In the table, PKSf's P.O - EC BD members are ultra poor who became the members of the program only two years ago. The borrowers' perception was that those who are members of the ultra poor program for more than four years are in a position to graduate to regular MCP. So, continuation or uninterrupted flow of micro credit is very important for poor borrowers.

6.2 Impact of micro credit on Employment:

Most of the borrowers especially the women borrowers earlier engaged themselves with the domestic works. After joining the MCP, they were able to engage themselves at least a part of their working hours everyday in income generating activities. Ultimately the microcredit created the opportunity to increase the income generating activities of the poor borrowers. During the field survey, the borrowers were asked whether their working hour in income generating activities increased or decreased after getting micro credit. The data are presented in the table below

Table 7: Impact of microcredit on productive labor hour.

Name of organization	Change in productive labor hour / day			
	2 hours	3 hours	4 hours	4+ hours
DSS	11(17.74)	38(61.29)	13(20.97)	-
DYD	15(25.86)	35(60.34)	08(12.07)	-
BRAC	02(8.70)	15(65.21)	04(17.39)	02(8.70)
GB	01(4.76)	09(42.86)	08(38.09)	03(14.29)
PKSF's PO(VERC)	01(4.35)	06(26.09)	13(56.52)	03(13.04)
PKSF's PO(EC BD)	21(87.5)	03(12.5)	-	-

Note: Figures in parenthesis indicate percentage.

MFIs follow a policy of preferential lending to women. In rural areas women are mostly engaged in domestic activities. They have plenty of scope to increase their hours of employment in productive activities. By employing more hours of labor, one can raise marginal productivity of capital and income of the household. Thus, provision of credit to the poor, especially to women, is likely to raise the family income of the poor households. Table 7 shows that all the micro credit programs increased productive working hours. In government's programs, 80% of the borrowers' labor hour increased by more than three hours. It is more than 90% for BRAC and Grameen borrowers.

6.3 Impact on Food consumption:

A question was asked as to whether the borrowers' food consumption increased due to micro credit. The data are presented in the table:

Table 8: Impact of microcredit on food consumption.

Name of organization	Change in food consumption		
	Increased	Decreased	Not changed
DSS	33(53.23)	-	29(46.77)
DYD	37(67.24)	-	19(32.76)
BRAC	19(82.61)	-	04(17.39)
GB	18(85.17)	-	03(14.29)
PKSF's PO(VERC)	21(91.3)	-	02(8.7)
PKSF's PO (EC BD)	24 (100)	-	-

Note: Figures in parenthesis indicate percentage.

The table shows that the micro credit induced changed in food consumption. We found that 53.23% of DSS and 67.24% of DYD borrowers reported that their food consumption increased after joining the credit program. This rate is substantially high in case of BRAC and GB and these are 82.61% and 85.17% respectively. This rate is also high for PKSF's POs.

6.4 Borrowers subjective judgment about changing economic conditions:

During field survey a question was asked about the borrowers' own perception on micro credit- induced change in economic condition. The data are shown in the table 9.

Table 9: borrowers perception microcredit-induced change in economic condition.

Name of organizations	Impact on economic condition				
	Little increased	Moderately increased	Substantially increased	Decreased	Not changed
DSS	19(30.65)	09(14.53)	-	-	34(54.84)
DYD	22(37.93)	15(25.86)	-	-	21(36.21)
BRAC	10(43.48)	10(43.48)	01(4.05)	-	02(6.69)
GB	11(52.38)	05(23.81)	02(9.52)	-	03(14.29)
PKSF's PO (VERC)	04(17.39)	12(52.17)	04(17.39)	-	03(13.05)
PKSF's PO (EC BD)	24 (100)	-	-	-	-

Note: Figures in parenthesis indicate percentage.

The data shows that in the case of DSS and DYD's program, a good number of borrowers think that microcredit could not change their economic condition. This figure is 54.84% and 36.21% for DSS and DYD respectively. On the other hand it is only 6.69% and 14.29% for BRAC and Grameen Bank respectively. If we compare the table 6 with table 9, we found that among the participant borrowers, 20.91% of DSS and 24.14% of DYD borrowers are continuing with MCP for more than five years. Table 9 shows that 14.53% of DSS borrowers and 25.86% of DYD borrowers reported that their economic conditions moderately increased. This figure is substantially high for NGOs. This has

happened because of long term effective relationship between borrowers and concern NGOs which is not always found in government run program. So continuation of flow of microcredit is very important for poverty reduction. We found those who continue for five or more years, they are achieving better result regarding poverty reduction. Lack of monitoring (which is shown in table 14) and lack of effective and relevant training for entrepreneurial skill and also lack of continuity of credit of Government departments causes such very low effect of micro credit on household income.

6.5 The cost of borrowing of poor borrowers: Comparing NGOs with GO (DSS & DYD):

Among the issues of NGOs operated MCPs in Bangladesh, rate of interest is widely discussed. The critics say that NGOs are charging high interest from the poor borrowers in comparison to the GO's or commercial banks' MCPs and as a result these borrowers are becoming poorer. An NGO credit program can never be sustainable if it fails to cover the full cost of its operations, particularly the following:

- ✦ Cost of fund (k).
- ✦ Operating cost (tc).
- ✦ Loan loss (ll).
- ✦ Capitalization rate (p).
- ✦ Investment income rate (ir).

All the cost elements are generally expressed in terms of average loans outstanding. Cost of fund is the cost of borrowing and mobilizing savings from members. Operating cost is

the transaction cost net of cost of fund, loan loss and cost of capital (depreciation). Loan loss is the amount of loan to be written off or set a side as loss and investment income rate is the rate of the income generated from other sources expressed as percentage as average loans outstanding. Rate of investment income is deducted from some of other components. Annual effective lending interest must cover all these elements. Net cost must be recovered from the assets net of loan loss. Therefore, annual effective lending interest rate is $= (k + tc + ll + p + ir) / (1 - ll)$ (Khalily 2005).

Because of doorstep service and intensive monitoring and collecting installment payments - transaction cost of lending is quite high, although cost of fund and default cost is relatively low. Consequently, nominal interest rate is high. Currently the poor households in MFIs on average pay around 15% on flat method. But one thing should be kept in mind that in addition, poor members receive multiple services from MFIs: skill development training at no cost, social awareness training at no cost, forced savings for future contingencies and investment, and access to credit. MFIs not only offer credit but also social intervention for welfare maximization of the households. In terms of access, MFIs offer opportunities to the poor households. But this lending interest rate may reduce further if MFIs operate more efficiently in a competitive market framework.

There are two broad methods of charging interest rates are in practice in Bangladesh. They are (a) declining balance method, and (b) flat method. Under declining method, interest rate is re-calculated on the balance of principal and interest. In such case, effective annual interest rate depends upon number and size of installment. Average lending effective interest rate may be equal to and lower than nominal interest rate. On

the other hand, in case of flat method, effective annual interest rate will be higher than the nominal interest rate. However, if there are other conditions like deduction as compensatory balance from principal loan before disbursement, then the effective interest rate will be further higher. With the exception of GB, no MFI including government departments use declining balance method. All of them apply flat method in calculating interest. Based on statistics report by CDF, fourteen different interest rates are in effect. They vary from eight percent to twenty five percent. Around 80% of the MFIs charge 15%, and 10% of the MFIs charge over 15% and rest 10% MFIs charge below 15%. The government departments generally charge below 12% (Khalily, 2005).

6.6 In the study it is found that the borrowers have to go to the credit providers' office to process the application and others official formalities. Though the NGOs are providing doorstep service for the poor but the borrowers have to come to the concerned NGO office finally to receive their money. In this study it was found that all the NGOs' borrowers came to the office for only one day but in case of DSS and DYD credit programs, the borrowers had to come to the office more than once. More than 80% borrowers of both DSS and DYD reported that they had to go to the offices for 3 or more days. If we consider that the labor costs sacrificed by these borrowers, the cost of getting micro credit would be obviously high than that of NGOs programs.

6.7 Now, I would like to compare the transaction costs of credit of poor borrowers from GO and NGOs programs. Following is a brief description of transaction costs of credit of a borrower for a loan of Taka 5000 from both sectors.

In order to get loan from DSS and DYD a poor borrower need to submit an application. For this he has to undertake at least three trips to meet the concern officers or staffs (as this study). For obtaining citizenship certificate and recommendation, he/she has to go for at least two days to meet the Union Council Chairman and Secretary. Thereafter, he/she has to find a loan guarantor. In many cases, he/she cannot do it without making some payment. In addition, he/she has to bear the cost of non-judicial stamp, revenue stamp and related transportation. In total he spends approximately Tk. 180 (labor loss 3 days, $Tk.60 \times 3 = Tk.180$), Citizenship certificate Tk. 50, Non- judicial stamp and revenue stamp Tk. 200, transportation Tk. 100 (For three days), unseen cost (including bokshis) Tk. 100, NGOs interest rate 15% (Flat rate) and DSS or DYD's interest rate 10% and 5% respectively.

Under such circumstances poor borrowers prefer NGO credit. NGO loan application is very simple and loan arrangement is transparent and faster. Moreover, NGOs bring services to the doorstep of the borrowers. Which reduces borrowers' transportation costs and opportunity cost of time to significant extent. The table 10 shows the comparison of costs of borrowing from an NGO and a Government Department.

Table 10: The cost of borrowing: Comparison between GO and NGO (for Tk 5000).

Cost of items	Costs of amount (in Tk.)	
	NGO	GO
Opportunity cost of borrower's time spent (i.e., lost of income or wages for getting loan)	Nil	180
Transportation costs	06	100
Certificate collection costs	Nil	50
Paper costs (including computer compose / typing of stamps)	05	50
Non-judicial stamp and revenue stamp costs	04	200
Unseen cost (bokshis)	Nil	100
Interest (on average) on loan	1200 ¹	900 ²
Costs of keeping savings with NGO by borrower (on average, 10% of loan amount)	85 ³	Nil
Total borrowing costs	1300	1580

If we consider above costs, we see that the cost of borrowing from DSS and DYD is higher than that of NGOs. So the effective interest of DSS or DYD will be higher than that of NGOs.

¹ NGOs usually charge 15% flat rate interest and follow a weekly recovery approach, so effective interest rate is approximately 24%.

² DSS charges 10% flat rate interest and also follow a weekly recovery approach, so effective interest rate is approximately 18%.

³ NGOs keep with them, on average, 10% of principal amount as savings from borrowers (returnable on demand) and pay 7% interest on savings. Because NGOs invest it at an interest rate of 24%, Taka (120-35) = 85 is the cost of borrowers for keeping savings with an NGO.

CHAPTER 7

IMPACT ON WOMEN EMPOWERMENT

7.1 Women's Empowerment and Development: An Evolving Discourse

Empowerment is central to the issues of equality, liberation and justice, with the concept of power being fundamental to its understanding. The concept of empowerment is used in many ways and in a wide range of contexts, and is applied by organizations of differing world views and political persuasions. There has been increasing global recognition of the vital importance of empowerment in developing responses to underdevelopment and the increasing poverty (Craig and Mayo, 1995). Commonly, empowerment is described as 'a process whereby women become able to organize themselves to increase their own self-reliance, to assert their independent right to make choices and to control resources which will assist in challenging and eliminating their own subordination' (Rowlands, 1997).

It is important to deconstruct the concept of empowerment by examining the varying perspectives of development practitioners and academicians. This will highlight the inter-related dimensions of empowerment and the mechanisms that development practice advocates for its promotion.

Different writers have conceptualized empowerment differently. However, for all of them the goal of the empowerment process is to address issues relating to women's subordination, inequality and inequity. Furthermore, women's empowerment is seen as entailing a shift from positions of powerlessness towards strategic social, economic and political participation. This implies taking on power both at the individual and social levels (Kabeer, 1994, 1999; Friedmann, 1992).

All the conceptualizations of empowerment emphasize four main dimensions: individual or personal, economic, collective/social group and political. Most see the empowerment process as addressing a combination of these dimensions and affecting different domains: household, community, national and international. These views of empowerment are grounded within different concepts of power, the root concept within which empowerment is located, leading to different mechanisms for social change and transformation. They can broadly be organized along a continuum, with personal and political empowerment forming the two ends.

7.2 Micro-Finance Programs and Women's Empowerment: The Bangladesh Experience

The analysis of the impact of Micro-finance Programs (MFPs) on women's empowerment is based on several research studies from Bangladesh. These studies suggests that it is simplistic to assume that merely providing women with their own financial resources will directly lead to a virtuous cycle of personal, social and political empowerment. In other words, it rejects the 'magic bullet' belief that economic

empowerment, through single strategic intervention will lead to a reversal in gender relationships. However, the analysis indicates that MFPs operating from either the minimalist or the integrated approaches create empowerment-promoting conditions for women by providing opportunities for strengthening the personal, social, economic and political dimensions. Furthermore, MFPs operating from the integrated framework create conditions that have wider social and political effects, having a positive impact on women's status.

As mentioned earlier, personal empowerment is core to the entire empowerment process. Evidence suggests that the social aspects of credit programs and the manner in which these aspects are organized contribute to personal empowerment of women by strengthening 'power-within.' The group-based weekly credit meetings, an aspect common to most MFPs, draw women out of their homes and give them an opportunity to be part of larger social processes. In many cases, this is the only significant group outside the family to which the woman has ever belonged, allowing them to develop a sense of identity. In fact, research studies have noted cases where women have pointed out that the group meetings have enabled them to get over long-standing feelings of intimidation and fear of the outside world (Kabeer, 1998; Amin *et al.*, 1998; Hashemi *et al.*, 1996).

These group-based meetings also promote social empowerment by providing an opportunity for instilling a greater sense of awareness of social, political issues and to promote personal empowerment. By providing opportunities for frequent interaction with program staff and other members of the social network, such meetings expose women to new ideas and values. This increases their self-confidence and makes them more assertive of their rights than women who have not had similar exposure (Hashemi *et al.*, 1996;

Goetz and Sen Gupta, 1996; Ackerly, 1995). More specifically, it has been noted that when women members play leadership roles, as group leaders and/or centre leaders, they experience an increased sense of self-confidence and self-worth (Ackerly, 1995).

MFPs, especially those operating from an integrated perspective and as part of larger programs, occasionally involve training programs and related activities. These provide women with opportunities to travel outside the village and expand their knowledge of the world outside the household and immediate community. The increased mobility leads to a greater sense of self-confidence, and is empowering in its own right, especially so in the case of Bangladesh, where the socio-cultural norms do not permit women to move beyond the homestead (Kabeer, 1998; Montgomery *et al.*, 1996). In this sense, MFPs can become a mechanism for promoting the inclusion of women into broader social processes.

Economic contributions by women made possible through credit access, results in an increase in the security and welfare of the entire household. Such contributions can change the lives of women and their families, and raise the overall standard of living of the household. Evidence suggests that over time this results in more resources being spent on women's clothing and the household's health needs.

This is more marked in cases where women retain some control over their loans (Kabeer, 1998; Pitt and Khandker, 1995). Some of these studies have argued that increased spending on themselves is an indication of women's enhanced status within the household. It also reflects an empowered state of being for the woman, as it brings forth a sense of self-worth and self-esteem through a perceived self-interest. Sen (1990)

describes this as a change in women's self-perception, an aspect that is the slowest and hardest to change, as it involves a process of internal confrontation with issues dealing with their subordinate position within the household. Earning an independent income through credit access has shown to lead to an increase in women's ability to exercise 'voice' in the household decision-making process. This is important as it is a reflection of enhanced power at the household level resulting in greater choice in household resource allocation, especially for those who were previously disenfranchised (Kabeer, 1998:47).

Some critics have explored the issue of women's empowerment from the perspective of loan control (Goetz and Sen Gupta, 1996; Montgomery *et al.*, 1996; Ackerly, 1995). They have pointed out that credit access does not always result in women retaining full control over their credit. In other words, women may not always be managers of the funded enterprise, as loans may get appropriated or transferred to husbands or other male members in the family (Goetz and Sen Gupta, 1996; Montgomery *et al.*, 1996, Ackerly, 1995). This implies that loans to women need not alter their subordinate position within the household since there is little change in the management of income. In fact, Montgomery *et al.* (1996:173) points out that such loans may actually strengthen rather than weaken male dominance within the household.

In the context of prevailing gender relations in Bangladesh, assessing women's increasing empowerment needs to be located within the notion of 'centrality.' It is more appropriate to view the empowerment process of women borrowers as a move from marginalisation within household decision-making and exclusion within the community, to a position of greater centrality, inclusion and voice, rather than to limiting it to issues of loan control and other similar uni-dimensional indicators.

7.3 Women's control over credit and participation in taking decisions at family level:

In the survey the participants were asked whether they could take decisions independently regarding credit use, which they borrowed from the MFIs. Another question was asked about their role in major family decisions. Another question was: whether their condition improved after joining the micro credit programs. The data are shown in the table below.

Table 11: Impact on social aspects.

Name of Organization	No. of female borrowers	Can borrowers take decisions independently regarding use of credit			Participation in major family decisions				Was the condition improved after joining MCP	
		Y	N	P	VL	Sat	Sub	NR	Y	N
DSS	60	15 (25)	01 (1.67)	44 (73.33)	06 (10.36)	41 (70.69)	11 (18.97)	-	60 (100)	-
DYD	22	05 (22.72)	03 (13.64)	14 (63.64)	06 (27.26)	13 (59.10)	03 (13.64)	-	22 (100)	-
BRAC	23	12 (52.17)	01 (4.35)	10 (43.48)	-	17 (77.27)	05 (22.73)	-	23 (100)	-
GB	21	07 (33.33)	-	14 (66.67)	-	14 (73.68)	05 (26.32)	-	21 (100)	-
PKSF's PO (VERC)	23	03 (13.04)	-	20 (86.96)	-	11 (47.83)	12 (52.17)	-	23 (100)	-
PKSF's PO (EC BD)	24	-	-	24 (100)	-	24 (100)	-	-	-	-

Note: Figures in parenthesis indicate percentage.

Here, Y = Yes, N= No, P= Partial, VL= Very little, Sat= Satisfactory, Sub= Substantial, NR= No role.

The table shows that only 25% of DSS borrowers had absolute control over the use of loan. For DYD, this rate is 22.72%. On the other hand, it is significantly high in case of BRAC borrowers – the rate is 52.71%. All the borrowers told that their position in the family level has been improved after joining the micro credit programs. The data shows that more than 70% of the borrower's role in family's major decision-making process is satisfactory.

7.4 Training and Non-economic services:

BRAC provides its members with skill based training on poultry, cattle fattening, vegetable gardening, bamboo and cane works and other income generating activities. GB also emphasis on in the innovative entrepreneurial capabilities of the poor. GB learnt from experience that 'non-economic' services are also important for alleviating poverty. As a result, GB workers carry out continued motivational activities on education, health and hygiene, family planning, immunization etc. in the group meeting. The group meeting created an opportunity to exchange views, information and share experiences among the rural poor women who were absolutely confined in the domestic works earlier. Micro credit program opened a new horizon for them to know about the various social and development issues of her society. These are also same for borrowers of PKSf's POs. The process under which they have to go i.e. training and group meetings made them aware about various social and legal rights. And it was found that their participation in family decision making process were satisfactory and their husbands discussed important family and social issues with them. This study found that all the school going

children of the borrowers were dully enrolled in the school. This is a very encouraging change in grassroot level. But in case of DSS and DYD, the picture is very disappointing. Though there are provision of training in the government circulars and manual, but the training program of these two departments are very frustrating. A good number of borrowers reported that they did not get any training at all. Those, who got training, it was not so fruitful, did not help the borrowers. It seemed that the officials of these departments took the whole program very casually.

CHAPTER 8

PROBLEMS OF GOVERNMENT'S MCP AND REACHING THE TARGET PEOPLE

8.1 Land –based targeting – How far succeeded?

The on going MCPs are target oriented. Though MFIs cater to the need for financial services, it is not open to all. There is a defined group of target people who are eligible to get credit and other financial services. Generally, target group is defined as the households that own less than 50 decimals of arable land or are landless. Grameen Bank, the pioneer MFI, adopts one more criterion that a target household's assets (both land and non-land) must not exceed the value of an acre of land in the area of its operation.

It seems reasonable to consider landholding as a criterion for identifying the poor. In a land scarce country like Bangladesh, land is not just an asset. It is much more than economic asset. For the rural people it is the most important source of income and consumption. Land is a symbol of power and social prestige and honor in the rural area. Moreover, it is the most secured form of asset holding. After meeting the basic needs of food, cloths and shelter, a rural household desperately opts for buying for a piece of land. So the ownership of the land can be logically an indicator of the economic conditions of the rural households.

Though land-based targeting criteria are easy to implement, it is not totally without problems. In a village with well-paved roads and railway communications and electricity and thus equipped with better economic opportunities, a household owning less than 50

decimals of land may live well above the poverty line. Moreover, a piece of land of commercial importance may make a household quite solvent. For example, one or two shops on a small piece of land near busy road, may earn much more than what acres of land far away from a road can do. In that case, such a household should not be regarded the target poor even if its landholding is within the ceiling of 50 decimals. On the other hand, in a village of poor economic opportunity a household having a large number of family members may still be very poor even if it owns more than 50 decimals of land. Several studies examined the success of land-based targeting approach in reaching the poor. The present study also attempts to test the effectiveness of land-based criterion of targeting. Table below provides information about the land ownership of the surveyed households.

Table 12: Percentage of Non-target households in MCP.

Name of organization	50 decimals or less	More than 50 decimals	Total households
DSS	41 (66.13)	21(33.87)	62
DYD	35 (60.34)	23(39.66)	58
BRAC	22(95.65)	01(4.35)	23
GB	20(95.23)	01(4.77)	21
PKSF's PO (VERC)	19 (82.61)	04 (17.39)	23
PKSF's PO (EC BD)	24 (100)	-	24

Note: Figures in parenthesis indicate percentage.

The table shows that a good number of non-target people enjoying micro credit program of the government sector. In this study, the percentage of non- target participants is

33.87% and 39.66% for DSS and DYD respectively and VERC, one of the PO of PKSf – also an NGO, the rate of non-target people is 17.39%. On the other, in the NGO programs the rate is very insignificant and it is below 5% in both cases. For hardcore program, EC BD's target 100% as per set criteria (less than 10 decimals of land).

8.2 Problems faced by the borrowers getting micro credit:

During field survey, the borrowers were asked to state that what types of problems they faced in getting micro credit. They were also asked whether they were satisfied with the officials' behaviors. The data are shown in the table below:

Table 13: Problems in getting microcredit.

Name of organization	Problems faced by the borrowers			Satisfaction with the officials' dealings		
	Non-cooperation	Complexity of the rules	Political identity	Satisfied	Little satisfaction	Not satisfied
DSS	23(37.09)	18(29.03)	09(14.51)	11(17.74)	46(74.19)	06(9.67)
DYD	18(31.03)	27(46.55)	06(10.34)	12(20.68)	39(67.24)	07(12.06)
BRAC	-	-	-	23(100)	-	-
GB	-	-	-	21(100)	-	-
PKSF's PO (VERC)	-	-	-	23 (100)	-	-
PKSF's PO (EC BD)	-	-	-	24(100)	-	-

Note: Figures in parenthesis indicate percentage.

The study found that the NGOs' borrowers did not face any problem in getting credit. On the other hand, the government sector borrowers mentioned three problems that are very significant. These problems are – non-cooperation of the officials, complexity of procedures and applicant's political identity. Besides this, only 20% borrowers were fully satisfied with the service delivery of the offices. These problems exemplify the poor governance of the government systems.

8.3 Group meeting and monitoring:

Grameen Bank's weekly group meetings have some obvious and simple advantages for the lenders and the customers. Most significantly the bank comes to them and any problem can be resolved on the spot especially problems related to the borrowers on going projects. Meanwhile, transaction costs are greatly reduced from both sides since the multiple savings and loan transactions of forty people can take place in a short block of time. This is same all most for all NGOs. There is also the same provision in Government departments' programs but reality is different. The pictures are shown in table 14:

Table 14: Group meetings and monitoring of the programs.

Name of organization	Regular group meeting held			Officials present in the meeting			Monitoring & advice from the officials		
	Yes	No	Irregular	Yes	No	Irregular	Yes	No	Irregular
DSS	33 (53.23)	07 (11.29)	22 (35.48)	17 (27.41)	19 (30.65)	26 (41.94)	08 (12.90)	11 (17.74)	43 (69.35)
DYD	31 (53.45)	03 (5.17)	24 (41.38)	23 (39.66)	04 (6.90)	31 (53.45)	06 (10.34)	04 (6.90)	48 (82.76)
BRAC	23 (100)	-	-	23 (100)	-	-	23 (100)	-	-
GB	21 (100)	-	-	21 (100)	-	-	21 (100)	-	-
PKSF's PO (VERC)	23 (100)	-	-	23 (100)	-	-	23 (100)	-	-
PKSF's PO (EC BD)	24 (100)	-	-	24 (100)	-	-	24 (100)	-	-

Note: Figures in parenthesis indicate percentage.

One of the main characteristics of MCP is that it is a highly supervised program. But the data shows that in the DSS and DYD's programs, group meetings of the borrowers were not held regularly and the officials are very reluctant to attend the group meeting. Only 12.90% of DSS borrowers and 18.34% of DYD borrowers said that the officials and the concerned staffs regularly monitor the programs. Though 53% of their borrowers reported that group meetings held regularly but only 27.41% and 39.66% of DSS and DYD borrowers reported that the concerned staff was present in-group meetings. So, the monitoring and supervision from the officials of the government's programs are very poor. But the NGOs programs are almost 100% supervised program.

8.4 Reasons behind Mis-targeting:

In order to make credit economically viable there is continuous pressure from MFI authority on the field officials to increase the number of borrowers without compromising recovery rate. As a result, officials at the field level sometimes ignore the demarcation line between the target and non-target groups. To reap of economies of scale in terms of per unit cost of lending, MFIs include members beyond the target households in groups, which are smaller than regular size. Sometimes competition among various MFIs in the same area also provoked the field workers to include members who are not eligible under land-based target group. These are the supply side causes of mis-targeting. On the demand side, there are some households that own just more than 50 decimals of land but are not sufficiently rich to get credit from the collateral-based traditional banking system. They actually need credit. Before the advent of micro finance, they had to borrow from informal moneylenders with excessively high interest. In order to avoid usurious high interest rate of informal money market they resort to MFIs. Since it is not likely that their participation in the program increases the default risk, neither the MFI officials nor the fellow group members oppose them in joining MCPs.

8.5 Why conventional MCP fails to reach the poorest:

It would be a deviation from the truth if it is said that all those households were excluded from micro finance due to supply side (MFIs) reasons only. Any household (the demand side) in the target group is free to decide on participating in a program or not. So both the supply side and the demand side factors are working here. Supply side reasons for excluding the hard-core poor from MCP include –

- 1) Conventional micro credit requires strict and timely repayments of weekly installments. Group members and program officials are very careful to screen out potentially risky clients.
- 2) There are a few 'magical' ventures that can generate income to pay weekly installment just after two weeks from the date of credit disbursement. Only those who have fairly regular alternative source income can manage to follow the strict rule of weekly payments.
- 3) The hard-core people have a very high propensity to consume. As a result, group members and MFI staff worry that hard-core people may use borrowed credit for consumption rather than on productive activities and thus may lead to loan default.
- 4) Many landless poor are excluded on the ground that they do not have a permanent address and have a tendency to change their dwellings frequently. They are assumed to be of high default risk.
- 5) Since they are not economically active, handicapped people are also excluded from MCPs though they are often in the poorest group.

On the other hand, from the demand side the reasons are:

- 1) Poor people sometimes may not consider themselves credit-worthy and may lack entrepreneurial confidence to join the program and maintain repayment discipline.

- 2) Micro credit activity may involve high opportunity cost for families with little children. Group activities and self-employment ventures may disturb mother's important duties of childcare and house making.
- 3) Sometimes household decisions are determined by non-economic factors like religion and social customs. Some poor people may not participate in MCP on the ground that interest transaction is prohibited in the Islam (religion).
- 4) In some areas, husbands do not want their wives to mix and interact with outsider or male officials.
- 5) There is a negative impression about debt among a group of poor people. They think that borrowing is not a good in the long run and it would ruin their future generation. This negative attitude towards borrowing is possibly due to usurious rate of interest of informal moneylenders.

Due to reasons stated above there appears to be a growing consensus among the researchers that from MCPs moderately poor households benefit more than extremely poor ones do. But a poverty reduction instrument cannot be successful if it fails to serve the poorest of the poor who need it most. So mechanism must be devised to include those unfortunate down trodden people. The issue of inclusion must be taken up with proper attention and care.

8.6 Specially devised programs for hard-core poor: The poor are not homogeneous group. Almost 25% of the total population lives under 1805 kilocalorie, which is generally known as 'Nutritional Starvation'. Most of them are ultra or hardcore

poor; spend more than 80% of their income on food. Often even 100% of their income is not enough to get two square meals of coarse rice and lentils i.e. they suffer from chronic food deficits. The majority of these are illiterate, own no agricultural land and survive in a situation of endemic insecurity often leading to land evictions expropriation of assets and physical violence.

In the context of deprivation from the land and non-land wealth of the society and exclusion from institutional banking and micro credit system, hard-core poor has become the most vulnerable section of population. Their need for financial services is the greatest not only for moving out of poverty but also for survival. But the traditional microcredit system did not reach the hard-core poor fearing that the transaction cost would be high and that may make institutional sustainability difficult. In the short run, there is a possibility of trade off between institutional sustainability and poverty alleviation of the hard-core poor. In these circumstances, innovative approaches are very important. To respond to such situation of hard-core poor several MFIs, have come forward with innovative approaches. Among these IGVD and TUP programs of BRAC, Struggling (Beggar) Members Program (SMP) of Grameen Bank, DSK and CTS programs of Plan Bangladesh and Ultra poor program of PKSF are prominent. BRAC has started Targeting Ultra Poor (TUP) program where no microcredit is given but a mechanism has been developed to create asset for them to bring the hard-core poor into mainstream microfinance.

8.7 A brief overview on PKSf's hard-core poor programs:

1. The Palli Karma Shahayak Foundation (PKSF) with assistance from the International Development Association (IDA) formulated a pilot project namely: Financial Service for the Poorest (FSP) to further expand its scope to support the Government to achieving the objectives of poverty reduction through the provision of microcredits including other financial services to the poorest. The project provided along with related other financial services for the hardcore ultra poor who are generally by-passed by the formal microcredit system in vogue.

2. The project envisaged to testing the hypothesis that "microcredit if it is delivered appropriately, could improve the welfare of hardcore poor." The project was designed to help the ultra hardcore poor through on lending microcredit for creating self-employment in income generating activities with capacity building measures and access to need based social services. The project engaged 19 POs for serving as focal points to provide resources to 57000 beneficiaries in three years beginning from July 2002 (actually started from October 2002) and completed in June 2005. Each PO planned to cover 3000 households in three years. The target population is the extremely poor people whose daily income is less than TK. 60 (\$ 1 per capita per day) and or own only 03 decimal or less lands.

3. The project has three broad components, viz.

- a) Training and capacity building of the beneficiaries.
- b) Microcredit for improving the income and assets and living condition of the beneficiaries.

c) Institutional strengthening of the PKSf.

The training for capacity building including awareness raising, mobilization of savings, skill development for self-employment and wage employment for various income generating activities.

4. The pilot HCP program found that the ultra hard core is bankable. PKSf has proved that the poorest have not lost their potential to fight poverty rather they are interested to pursue various income generating activities using their skills and acquiring new skills as needed. During pilot, every household utilized on average microcredit of Tk. 2800 and potential need for microcredit to the tune of Tk. 5000 annually. The FSP as a pilot project has paved the foundation of expanding outreach of microcredit to the ultra hard core poor and also establishing enabling environment.

5. After successfully completed the pilot project of FSP, PKSf came forward with a huge ultra poor credit program. Some important features of this program include:

- ☒ The program is focused on the monga-affected areas.
- ☒ The program area covers the disadvantaged and marginal geographical areas such as the charlands and haors.
- ☒ The program beneficiaries include not only the economically disadvantaged, but also the socially excluded ultra poor such as the sweepers, cobblers and sex workers.
- ☒ The ultra poor are supported with consumption loan, if necessary.

- ☑ The program provides skill development and awareness building training to the ultra poor so that they can utilize the loan efficiently.
- ☑ A hard-core poor may get 4000/= as credit at 8% – 10% interest rate (Flat rate). In this program, the repayment procedure is flexible as their convenience. The recovery rate in this program is 100%.

6. Disbursement under Ultra poor program: PKSf's Ultra Poor Credit Program has been intensified. As a result, disbursement to the ultra poor increased substantially Tk. 1050 million was disbursed in FY 2005-2006, 61 percent higher than that of FY 2004-2005. PKSf program covers about 0.5 million ultra poor, which is about 50 percent of the total ultra poor covered under the microcredit program in the country. The table shows the annual increase in total disbursement of PKSf's program.

Table 15: Amount of disbursement in PKSf's HCP program.

Financial Year	Amount of disbursement (In million Tk.)
2001-02	002
2002-3	008
2003-04	038
2004-05	654
2005-06	1050

Source: PKSf News letter, Vol xiv, No. 11, July 2006

7. This project is being implemented in 19 upazilas of 17 districts. The overage of the program is shown below:

- ☑ Total Organizations (POs) : 75
- ☑ Total Member : 5,33,073
- ☑ Total Borrower : 6,47,119

☑ Current Borrower	: 4,55,061
☑ Total Allocation (PKSF'S)	: 229.70 crore.
☑ Total Disbursement (PKSF'S)	: 153.43 crore.
☑ Current outstanding (PKSF'S)	: 123.60 crore.
☑ Total Disbursement by POs	: 265.11 crore
☑ Current outstanding of POs	: 113.97 crore
☑ Total Savings	: 25.31 crore
☑ Recovery Rate	: 99.73% (May,2006)

8. The participants of the hard-core poor project of PKSF are shown in the table below:

Table16: Percentage of participants' occupation of PKSF's HCP program.

Sl. No.	Participant's occupation	%
01.	Beggar	1.19
02.	Day laborer	52.18
03.	Ex-Sex Worker	0.14
04.	Parents of child labours	6.32
05.	Widow	7.65
06.	Indigenous	1.94
07.	Abandoned	4.96
08.	Domestic help	6.06
09.	Divorced	3.44
10.	Others	15.32
Total		100

Source: PKSF.

We see that the bottom part of the poor and socially excluded classes were included in the HCP program. PKSf's HCP program shows a ray of hope in their life.

9. During field survey, we have visited the hardcore poor program at Tongibari upazila of Monshigonj district, implemented by EC Bangladesh, a PO of PKSf. EC Bangladesh operated this program in 3 unions of that upazila for last two years. The operational data are shown in the table below:

Table 17: Coverage of HCP program in Tongibari upazila.

Name of Branch	No. of Union	No. of current borrowers	No of cumulative borrowers	Total loan disbursement (Tk)	Outstanding (Tk)	Total savings accumulated (Tk)
(1)	(4)	(5)	(6)	(7)	(8)	(9)
Digirpar	03	1422	1655	75,38000	41,45991	5,52069

Source: PKSf.

During field visit we surveyed 24 borrowers of HCP programs. Before joining this program, most of them have no specific job. A good number of borrowers worked as domestic help in others' house and their husbands also had not regular jobs. Need based training with microcredit and monitoring gave them new hope of life. Now their children are going to school and they are gradually becoming aware about different family and social aspects of life. Microcredit creates a new inspiration and opens new horizon to the poorest borrowers.

**Socially Excluded Panua
is now a Microcredit member Borrower**

Panua Basphor, 53, an aged sweeper and mother of three sons and two daughters, faces severe poverty on a daily basis. She represents one of the many hardcore poor who are not only economically disadvantaged, but also socially marginalized. Panua was neglected even by humanitarian organizations. Her children's access to school was denied.

After her husband's death in 1993, Panua's family fell into an extremely distressing situation. She had no income at all. Due to low caste, she failed to manage any work even as domestic maid. They had to depend on begging. Once a field manager of Gram Bikash Kendra, a PKSf partner organization, came to know her story and met her. After discussion, the field manager enlisted Panua as one of the members of a group. Gradually she learned the rules and norms of the group and started to attend the weekly meetings. Gram Bikash Kendra gave her HCP loan Tk. 4000 for first time for goat rearing. She bought three goats and gave Tk. 1000 to her elder son for fire wood business. She got training from that NGO. After successfully paying all installments, she got second loan of Tk. 6000 for the same purpose. Now her sons are working with fire wood business and she and her daughters are busy with goat rearing. Now she is owner of eight goats and she is looking for new and large size of loans for new business. PKSf's HCP program gave her mental and financial strength to combat poverty and improve the economic condition of her family.

10. Observations on this project are -

- a) The effective trainings to HCP borrowers build up their confidence level that makes them credit worthy and create opportunity for self-employment.
- b) Flexible rules of microcredit attract more the ultra poor rather than the traditional rigid repayment procedure of micro credit.

CHAPTER 9

FINDINGS OF THE STUDY POLICY IMPLICATIONS

9.1 The main characteristics of Microcredit Programs are;

- ☐ It is a collateral free loan.
- ☐ It is a highly supervised program.
- ☐ There is a guarantee of uninterrupted (Repeated) flow of loan.
- ☐ It is a target – oriented program.

We tried to examine the present MCPs of DSS and DYD from the above-mentioned points of view. Of course the on-going micro credit programs are definitely collateral free programs. But we cannot say that the other characteristics of MCP are fully and efficiently observed in the programs. Regarding these three factors Government programs have serious problems and limitations.

9.2 The success of microcredit lies in its intensive supervision and monitoring method. The weekly recovery approach i.e., weekly supervision and monitoring of credit has brought great success to NGO credit programs. It ensures effective use of loan money by poor borrowers and continued efforts for additional earning by borrowers, family members, thereby ensuring a continuous high rate of recovery of NGO credit. Also from this weekly monitoring the borrowers can learn about many development issues such as

the benefits of small family, health care, education, sanitation, environment etc. and can increase her/his awareness about legal/human rights, arsenic problems etc.

Though a good number of Government ministries and departments are engaged with microcredit programs but microcredit operation is not their main focus. The field officers and staff of the departments, who are mainly responsible for the MCP, have to perform lot of other official duties. The lowest level unit of these offices is upazila unit, are mainly responsible to operate the MCP effectively. Besides these, inadequate manpower and logistic support are also barriers of the effective MCPs. Surprisingly it was found that there was no updated information about the borrowers and there program activities. There is no duty charter or target for officers or staffs regarding the microcredit. The officials are not well trained and skilled on modern technology. I found in one upazila that the motorcycle, which was supplied by the Government for the Upazila Social Service Officer, was kept idle in office because the government does not give any fund to operate and maintain it properly.

In the credit manual and circulars, it is mentioned clearly which level of officer will monitor and visit for how many days in a month or fortnight. If we examine the inspection book of the center or of the office concern, we can find that every thing is going on as per rules. But the reality is different. On the contrary, the duty charters and the target of each level of personnel are fixed by the authority in case of NGOs programs. There is no scope to go beyond these set rules and targets. If any fault or negligence is found in discharging the duties, NGO staff faces a serious consequence – may be salary is

stopped or increment is held up or even may lose job. The accountability of NGO staff is highly ensured. But the reverse picture is found in Government's programs. Absence of effective accountability makes the Government's programs absolutely a paper-based program.

In the present study, only 13 % and 18% of DSS and DYD borrowers reported that the officials monitored the programs and more than 70% reported that they got assistance or advice from the staffs only irregularly. One very important thing to address is that a good number of members of DSS and DYD said that they had to face non-cooperation from the official concerns and another very alarming point is that political identity of the borrowers also creates barrier in getting credit. This simply means that the local offices are grabbed by the politically vested interest groups who directly or indirectly interfere in the selection procedures of the deserving poor. This is simply not present in NGOs program.

9.3 The third characteristic of MCP is uninterrupted flow of loans or certainty of getting further loans. After successfully completed all installments, the poor borrowers should have access to next and larger size of loan. If the flow of loan be stopped, the efforts of the poor will be frustrated and the process of graduation may be stopped simultaneously. In the government programs, it is not always assured that the potential borrowers will get a loan again because of lack of adequate fund. It is not the concern of field officers; it is the matter of government policies and availability of funds. Due to this sort of uncertainty, the field level offices have no future action plans for MCP. Everything is

done very casually, so the efficiency and effectiveness of the government run programs and sustainability of the borrowers are remain questionable.

If the government fails to give continuous support to the borrowers by providing loans and fails to establish effective accountability of the officials concern, government should have second thought whether the MCP will continue with direct lending method or not.

9.4 MCP is a target – oriented program. It was observed that target-oriented microcredit could not reach all the target households. Conventionally, MFIs follow the targeting criterion on the basis of land ownership. Since this criterion is easy to implement and justified in the socio-economic condition of Bangladesh, we do not recommend giving it up. We found that non-target households managed to receive the benefits of the MCP. In this study, we found the percentage of non-target population is 33.87% and 39.66% of DSS and DYD respectively. On the other hand, this rate is below 5% for both BRAC and GB. In comparison with NGOs, the percentage of non-target people is substantially higher in the government sector's programs. In case of DSS and DYD programs, we found that most of the borrowers come from moderate pore and vulnerable non-poor households. Borrowers from extreme – poor households participates in programs but very few in number and the destitute households are outside the reach of the microcredit programs of DSS and DYD. The inclusion of high number of non-target people makes the claimed success of the government's programs questionable.

It is true that microcredit interventions for poverty alleviation and income generation are not without challenges and constraints. The government microcredit service providers still lack adequate capacities and skills, including the required institutional and human

resources. These causes microcredit programs in government sector appear to be expensive, cost ineffective and huge wastage of public money and resources. So, performance of microcredit is not unambiguously a success story. There are lot of limitations and failures of the programs, though there was an increase in employment mainly due to increased participation of women in income generating activities, micro finance could not generate much employment beyond family members. With all progress and problems under consideration, the understanding of the present study is that though microcredit could not prove itself as the panacea for poverty alleviation, still it can be regarded as a major step towards a better living for million of toiling mass. With this view in mind, it is recommended that microcredit operation should be continued and expanded to help the rural poor in their struggle against poverty and hunger.

In this study we found that microcredit programs of NGOs and PKSF , the apex funding agency in microcredit program, are performing better than the government departments.

Based on the findings of the study, this chapter puts forward some *policy suggestions* to make microcredit more effective and fruitful as an instrument for poverty eradication.

1. Microcredit programs are facing some challenges that need immediate attention. Individual institutions dealing with finance, cannot go on working without accountability. It is high time that we need accountability of microcredit institutions. So far microcredit has developed without a formal regulatory framework. Time has come to think about a regulatory framework and a set of financial and accountability norms for microcredit institutions. With this view, Government recently enacted a new law to form a regulatory

commission to regulate the activities of MFIs. We believe that an independent regulatory commission would be able to protect the interest of all stakeholders and make it user-friendly.

2. Due to poor performance and absence of effective accountability compare to the NGOS and PKSF, the government departments MCP are not efficient as NGO programs. And most of the cases, a huge amount of microcredit goes to the non-target households, which ultimately exclude the bottom part of the poor. If we want to reduce poverty at an accelerated rate government should take immediate steps to stop this sort of wastage of resources. However, the NGOs are doing better in this arra, so, government should leave the direct credit lending programs gradually and concentrate on regulatory functions and facilitate the MFIs' activities.

3. Government has to design an appropriate policy for faster poverty reduction in Bangladesh. This policy should include the anti-poverty strategy consisting of the following core components:

- ☐ Pro-poor economic policy aimed at increasing income and employment opportunity of the poor.
- ☐ Human development targeted for enhancing the capabilities of the poor by providing them with more education, better health and other necessary services.
- ☐ Focus on gender-sensitive development with a view to closing gender gaps between men and women.
- ☐ Provision and expansion of safety nets to the poor.

- ❑ Expansion of participatory governance aimed at empowering the poor and reforms the service agencies and institutions.

4. The delivery of the small size loan at the doorstep of the borrowers at the quickest possible time involved, causes high cost. It is necessary to keep an eye on the cost of the credit to the poor borrowers. Micro-finance institutions should try to improve their management skills for cost effectiveness and minimize their overhead cost.

5. Strengthening capacity of apex bodies to support savings mobilizations and micro enterprise development, especially to enable micro enterprise to link with market outlets and provide technical resources.

6. Provide capacity building support to enable MFIs to achieve sustainability.

7. Support networking of MFIs within and outside the country to share information, experience and expertise.

8. The government should devise a special mechanism for the poor borrowers for easy access to the market with their products. Because most of the areas, still they have to rely on someone else for marketing their products, which reduces their profitability.

9. The government should take massive program for infrastructure development especially in the rural areas, which ultimately create the opportunities of employment and

increase the wage level of the rural people. This leads to increase in overall economic activities of that area which ultimately benefits the poor and microcredit borrowers in income earnings and widens the market access.

10. MFIs should give emphasis on ultra poor and linking micro finance with safety net programs especially for the bottom part of the poor.

11. The policy of preferential treatment to women in MCPs is to be reconsidered. Due to limited mobility, women have preference for certain women nature activities. Provision of loans only to women would lead to a concentration of investment on those activities only. In such case, MFIs may face the problem of demand deficiency. A more balanced gender distribution of borrowers is recommended with the expectation that it would lead to a better diversification of self-employment activities, which in turn would ease out the demand constraint operating in rural economy.

12. MFIs may devise some incentive mechanisms to make credit program more effective. For example, at the end of the year, best performing group that did not default any loan installment may be rewarded.

CHAPTER 10

CONCLUSION

The present study has been carried out with a view to taking an objective look at much-talked-about micro credit programs that have been going on in Bangladesh for last two decades and on. The study attempted to examine how far micro credit specially DSS and DYD's MCPs has been successful in attacking poverty. With that end in view the study tried to evaluate the impact of micro credit on household income, employment and some social aspects of poverty – stricken member households. Borrowing households of DSS and DYD were found not to be able to make substantial gain in income. Employment effect of micro credit seemed to be confined with in members of the borrowing households, especially women.

However, those are just some limitations. The whole episode of micro credit is not a total failure one. Micro credit has been proved to be an effective way of providing financial services to landless- assetless poor people who had previously been denied the access to asset based collateral-oriented conventional commercial banking system. It belied the myth that the poor people are not credit worthy. The present study found that more than half of the borrowers could increase their employment opportunities that were previously confined to the domestic works. Increased participation of women in the active labor market is expected to go a long way to reduce their vulnerability and also create a great awareness on various social aspects like schooling, health and hygiene, sanitation etc. In fact, micro credit seems to have made a silent revolution in this field.

Some modification of the on-going MCPs can improve situation further. Linking micro credit with safety net programs may enable the bottom poor to join the conventional MCPs and thus give those unfortunate people a chance to fight against poverty and hunger. Non-poor households should be excluded from MCPs in order to make the resources available exclusively for the poor. For this, in addition to, land-based criterion, some other easy- to- implement criteria can be utilized. For example, ownership of a television, separate guesthouse etc. can be used as a demarcation line between poor and non-poor. Without compromising the rate of loan recovery, increased and uninterrupted flow of credit to the borrowers is expected to raise income and employment at higher rate. Wider access of men in microcredit is likely to lead to a diversification of self-employment activities.

However, it should be borne in mind that without a broad-based growth strategy and adequate infrastructure, only micro credit couldn't annihilate the monster of poverty. So we need MF plus programs for the poor for attacking poverty. Though, Dr. Mohammad Yunus optimistically says, " One day our grand children will go to museums to see what poverty was like." Microcredit cannot be a panacea to the long outstanding problem of poverty. But it has all potentialities to work as an effective 'entry-point' to the long cherished dream of a poverty free world.

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MA in Governance and Development

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Micro credit program administers by government agencies in
Bangladesh: An assessment and comparison with NGOs programs.

(A Masters thesis research. All information are
confidential and use only for academic purposes.)

Part – A : Personal information of microcredit receiver.

01. Name t

02. Father/ Husband's name

03. Marital status :

Married	Unmarried	Widowed	Abandoned
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04. Village : Union: Upazilla: District:

05. Age :

06. Occupation :

07. Educational qualification :

08. Assets :

Homestead	Arable land	No. of Hut	No. of Semi paka house	No. of Paka house	No. of cattle
Decimal	Decimal				

09. Any son/daughter works abroad? Y / N.

Part – B : Economic impact of microcredit .

10. Loan received from how many organizations? 1 / 2/ 3/ , For Year/s.

11. Amount of loan :

No	Name of MFI	Amount of loan (Tk.)	Purpose

12. Total amount of loan :

13. For what purposes?

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14. Did you use the credit as which purpose you borrowed it? Y / N .

15. if not, what percentage of credit used for right purpose? % .

16. Do you pay installments regularly? Y / N .

17. To get the next loan, is it mandatory to pay all installments? Y / N .

18. Can a defaulter get next loan ? How ?

19. What are the causes to be a defaulter ?

☐☐

20. Did you get any training ? Y / N .

21. If yes, what type of training ?

22. Do you think the training helped you? Y / N.

23. Before joining microcredit program, how many hours you spent in income generating activities in a day? hour/s.

24. Could microcredit increase your labor hour in income generating activities?

Y (..... hour/s) / N .

25. Has your food consumption increased due to microcredit?

Increased	Decreased	Unchanged
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26. Do you think your overall economic condition changed by microcredit? Y / N .

27. The degree of change :

Substantial	Moderate	Very little	Unchanged
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28. Do you think that the amount of microcredit is satisfactory? Y / N.

Part-C :Social impact of microcredit.

29.Can you take decision independently regarding
use of loan?

Y	N	Partially
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30. Does your husband discuss family issues with you?

Y	N	Sometimes	Very little
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31. Regarding question no. 30, the previous (before joining the program) condition was
good / bad .

32. What is your role in important family decisions ?

No role	Very little	Satisfactory	Substantial
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33. Level of knowledge about education, health, sanitation, saline .

No role	Very little	Satisfactory	Substantial
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34. No. children :

35. No. of school aged children : ; Do they go to school: Y / N.

36. What are the causes of not going to school?

37. Can you take decision independently regarding casting your vote?

Y	N	Through discussions
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Part-D : Evaluation of MFIs functions.

38. How many days you had to go to office for getting loan: day/ None.

39. What problems you have faced to get the loan?

Non-cooperation of staffs	Complexity of rules	Bribe	Middleman	Political identity	Others
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40. Does the group meeting held regularly?

Y	Irregularly	N	No provision
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41. Are the officials/ staffs present in the group meeting?

Y	N	Irregularly
---	---	-------------

42. Do the officials give any advice or any assistance as per requirements?

Y	N	Irregularly
---	---	-------------

43. Do they monitor the programs?

Y	N	Irregularly
---	---	-------------

44. Are you satisfied with their service?

Y	N	To some extent
---	---	----------------

45. From your own view, which service is better?

Government organizations	NGO	No comment
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46. What are the reasons?

☐☐☐

47. Any comment (if any):

Date:

Signature of data collector